Note from the Secretariat

6 December 2016

BS/16/116 (rev)

Finalising post-crisis reforms: compromise package for GHOS

This note outlines the main features of the compromise package which, subject to the views of Committee members, would be submitted for endorsement by Governors and Heads of Supervision (GHOS) at their meeting on 8 January 2017.

Based on the Committee's discussion of the remaining Basel III reforms, a compromise package is proposed that consists of an **aggregate RWA output floor of 75%[1]** and revisions to the baseline proposals as described below:

Standardised approach for credit risk

- The whole loan and loan-splitting approaches would be permitted for residential real estate exposures, at the choice of the national supervisor (ie the proposed linear approach would be removed).
- The definition of residential income producing real estate exposures will be aligned with the IRB definition (ie the national discretion to apply a maximum number of housing limits will apply to the standardised approach as well).

Revisions to the IRB framework

- The 1.06 scaling factor will be removed.
- The F-IRB fixed LGD for unsecured corporate exposures will be reduced from 45% to 40%. The fixed LGD for unsecured bank exposures will remain at 45%.
- The LGD input floor for residential mortgages will be set at 5% (instead of 10%), applied at the exposure level.
- The use of the A-IRB approach will be permitted for specialised lending, pending the Committee's revisions to the slotting approach in 2017 (ie the intention would be to use the revised slotting approach for specialised lending in due course).

Revisions to the operational risk framework

- At national discretion, supervisors may set the "Internal Loss Multiplier" component equal to one. In such circumstances, capital requirements for operational risk would be based on the Business Indicator Component, which is essentially the same as the existing set of standardised approaches. Banks would still be subject to the loss disclosure requirements.
- The minimum three-year requirement for excluding non-repeatable losses will not apply to divested activities. In such circumstances, supervisors will have the discretion to set a minimum period. The standard text will mention three years as an example of such a possible minimum period, but this will not be a hard requirement.

Leverage ratio

- A 50% scaling factor G-SIB leverage ratio surcharge buffer. The Committee will review the existing automatic distribution restrictions related to buffers in the risk-weighted and leverage ratio framework in 2017.
- The proposed national discretion to temporarily exempt central bank reserves would apply.
- The client clearing review will be shortened to two years (ie it will be finalised by January 2019).

[1] The Committee will review the treatment of provisioning for the purposes of calculating the output floor following its more general review of the regulatory treatment of provisions.

Transitional arrangements

Table 1 outlines the proposed transitional arrangements which would be presented to the Committee.

Table 1: Options for transitional arrangements

Reform	Implementation date
Revisions to standardised approach for credit risk	1 January 2021
Revisions to IRB framework	1 January 2021
Revisions to CVA framework	1 January 2019 (to be consistent with the revised market risk framework implementation date)
Revisions to operational risk framework	1 January 2021
Leverage ratio	• Existing exposure definition[2]: 1 January 2018 • Revised exposure definition[3]: 1 January 2021 • G-SIB surcharge: 1 January 2020
Capital floor	• 1 January 2021: 55% floor • 1 January 2022: 60% floor • 1 January 2023: 65% floor • 1 January 2024: 70% floor • 1 January 2025: 75% floor

2 Based on the January 2014 definition of the leverage ratio exposure measure. Jurisdictions are free to apply the revised definition of the exposure measure at an earlier date than 1 January 2021.

3 Based on the revised leverage ratio exposure measure.