

A person wearing a yellow long-sleeved shirt and dark shorts stands on a dirt path on a grassy hillside, holding a smartphone up to take a photo of a vast valley. The valley features a large, bright blue lake, a winding river, and a small town nestled in the distance. The background is dominated by rolling green mountains under a clear blue sky with some light clouds. The scene is captured from a high angle, looking down the path towards the person.

2023 Global Basel 3 Reforms survey



Building a better
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Creating a brighter future for financial services

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Executive Summary

The Basel 3 Reforms: Where are we?

A lot has happened since the last EY Global Basel 3 Reforms survey.¹ We last checked in on global banks' readiness for the changes at the beginning of 2021. At that point, the world was in the middle of a pandemic. Many governments had put in place support mechanisms for borrowers and were encouraging lenders to continue making credit available. Since then, economic and political stability has been slow to return. The outbreak of war in Europe has caused energy prices to spike and inflation to rise. Early 2023 has seen bank runs and failures in the US and the distressed rescue of a large Swiss bank.

In some ways, the overall health of the global banking sector seems robust. Yet conditions remain volatile, and some firms exhibit vulnerabilities. Integrated management of capital, balance sheets and liquidity under expected and stress conditions has become a critical capability for firms, and a key focus for regulators.

In these circumstances, how will global regulators establish banks' optimal capital levels? Requiring banks to hold too much capital risks curtailing lending and exacerbating recessionary risks. But too little capital compromises banks' health and makes them vulnerable to shocks.

These tensions are reflected in global regulators' differing approaches to the finalization of the Basel updates. We have seen proposals from the EU (in 2021) and the UK (in 2022) that differ somewhat from the Basel Committee's original global template. The US is likely to release its proposals shortly, which may add to the inconsistency.

With less than two years until the 1 January 2025 go-live in key jurisdictions, where are banks on their journeys? Our latest global survey seeks to shine a light on global banks' preparations, how they are delivering the changes and the challenges they face in doing so.

These are the key themes that emerge:

1. The Basel 3 Reforms don't mean the same thing for everyone

We find different interpretations of scope and varying attitudes to delivery focus (i.e., emphasis on minimum compliance versus business benefits). In addition, readiness varies considerably - there are banks at every phase of delivery, from mobilization to go-live. This translates into a large range of reported delivery costs - from a few million to over US\$400m (including the Fundamental Review of the Trading Book (FRTB)).

2. Delivering the changes is complex and expensive, and is getting even more so

Implementing the Basel 3 Reforms is a broad and complicated endeavor, and our survey shows it is also getting more expensive - particularly for larger firms - as we approach go-live. Key areas of spending are data and technology, including both vendor and in-house solutions. Firms cite data and technology as the top two delivery challenges.

3. Capital impacts are not evenly distributed, and mitigation is complicated

Banks report vastly different capital impacts, with examples of both capital increases and decreases in every risk category. But concern remains about the comprehensiveness of banks' understanding of, and ability to reduce, capital impacts. Fewer than one-third report having a robust ability to estimate capital

impacts, and only a similar proportion of respondents have capital mitigation already underway.

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The Basel 3 Reforms remain one of the most significant regulatory changes banks face across the globe. The volatile economic and political environment continues to put pressure on banks' capital positions. Combined, these factors will provide ongoing challenge to banks' capital management.



Jan Bellens
EY Global Sector Leader,
Banking & Capital Markets

¹ ey-global-basel-3-reforms-survey-2021.pdf

At a glance



50%

of banks identify data as their number 1 or number 2 challenge.

0%

report having a primary Basel 3 Reforms sponsor in a business function.

25%

of banks are spending over US\$100m to deliver FRTB. FRTB costs have increased or stayed the same for 75% of respondents.

60%

see a capital impact from the standardized floor. But just 18% of banks know how they are going to allocate those capital impacts.

48%

of current average spending is on data and technology. Key technologies relevant to the Basel 3 Reforms are automation and cloud computing.

Survey methodology and participants



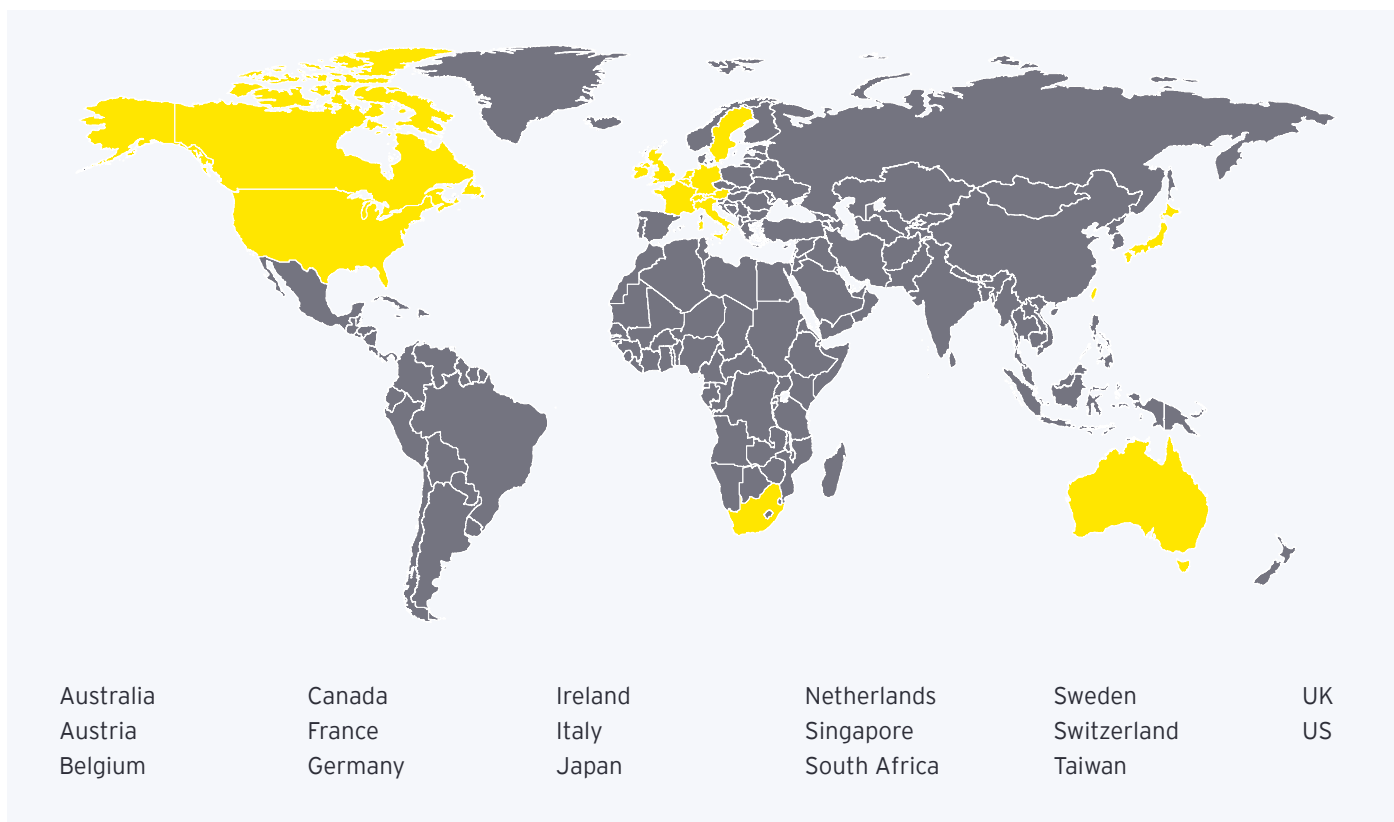
This survey assesses preparations of the world's biggest banks

This is the fourth global Basel 3 Reforms survey that EY teams have conducted since 2018 to assess banks' readiness. It includes new question areas on technology and FRTB. The survey was conducted between January and March 2023 and is based on a comprehensive questionnaire completed by senior bank management.

To get a global view of progress on the Basel 3 Reforms, EY teams polled the world's top 200 banks. We received survey responses from 45 firms headquartered in 17

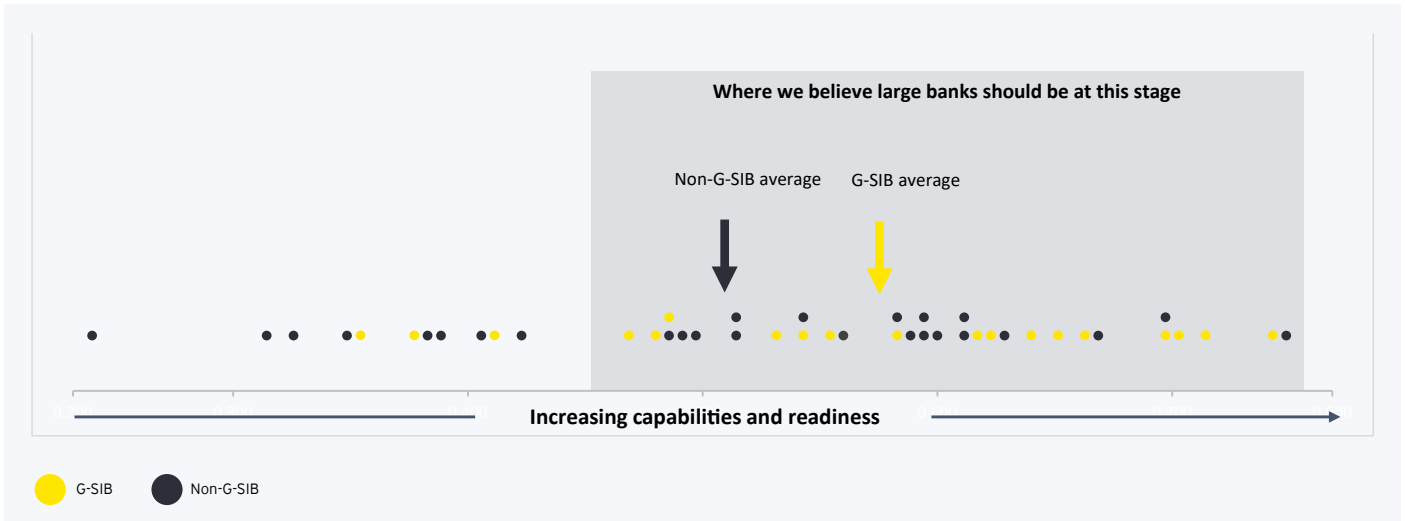
jurisdictions, representing the world's major financial centers. Respondents range from the largest banks with global operations to significant regional and domestic lenders. Of the participants:

- ▶ 42% are G-SIBs (globally systemically important banks)
- ▶ 56% are headquartered in EMEIA, 29% in the Americas and 16% in Asia Pacific



Overall readiness





There are huge differences in firms' levels of preparedness for the Basel 3 Reform changes. As in prior years, we have calculated a single "readiness" indicator, based on a composite of the survey responses. It shows where each firm is relative to others by aggregating responses to all relevant questions. A higher score indicates that a bank has a greater capability and is better prepared.

The results, and our experience, show that differences in readiness arise from:

- ▶ Firms' size and complexity - with larger, more complex firms taking longer to deliver change and therefore needing to be ready earlier. This is borne out by an average 57% score for G-SIBs versus 51% for non-G-SIBs.

- ▶ The regulatory environment and differences in regulators' expectations and priorities in different jurisdictions. For example, readiness for banks headquartered in EMEIA and the Americas, both at 52%, is lower than the 64% for those headquartered in Asia-Pacific, perhaps a reflection of earlier deadlines in some Asia-Pacific jurisdictions.

With less than two years to go until the regulatory deadline, the chart above indicates where EY teams believe large banks need to be at this stage to manage delivery risks as we approach go-live. A substantial minority of firms, including some G-SIBs, are not yet within that range, suggesting that the path to success may not be smooth and straightforward for everyone.

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US regulators may revisit the tailoring framework that was adopted in 2019 in light of the recent market events. Banks that would have previously expected little or no impact from the Basel 3 Reforms due to their size and business profile could see increases in required capital and need significant enhancements to their data, systems, and processes for producing regulatory capital.

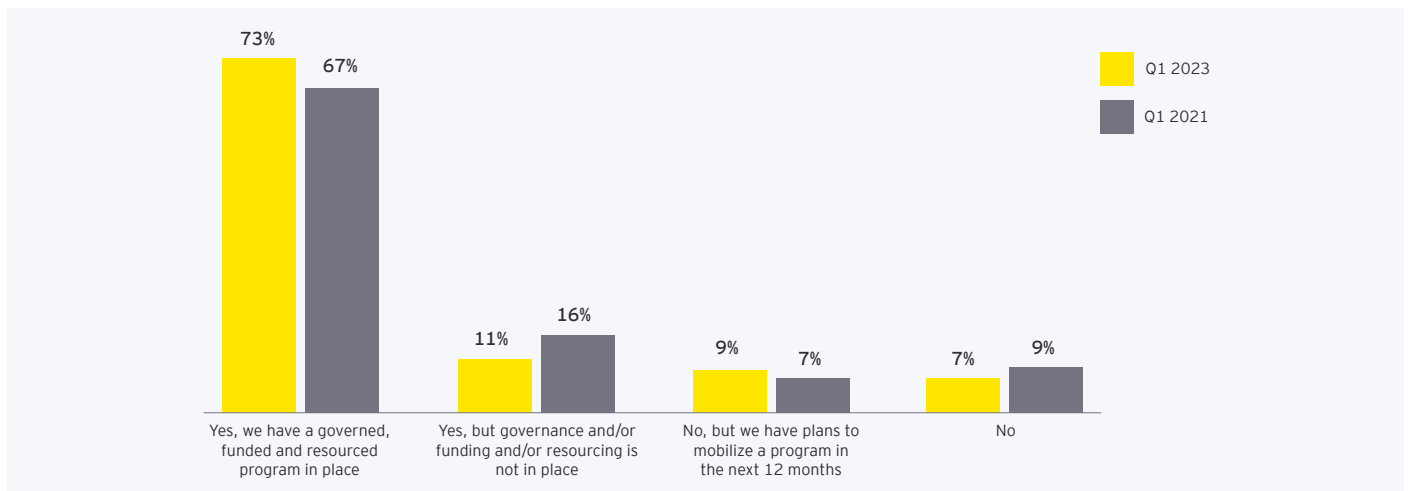


Richard Tuosto
Basel 3 Credit Risk US Consulting Leader,
Ernst & Young LLP

Program governance and mobilization

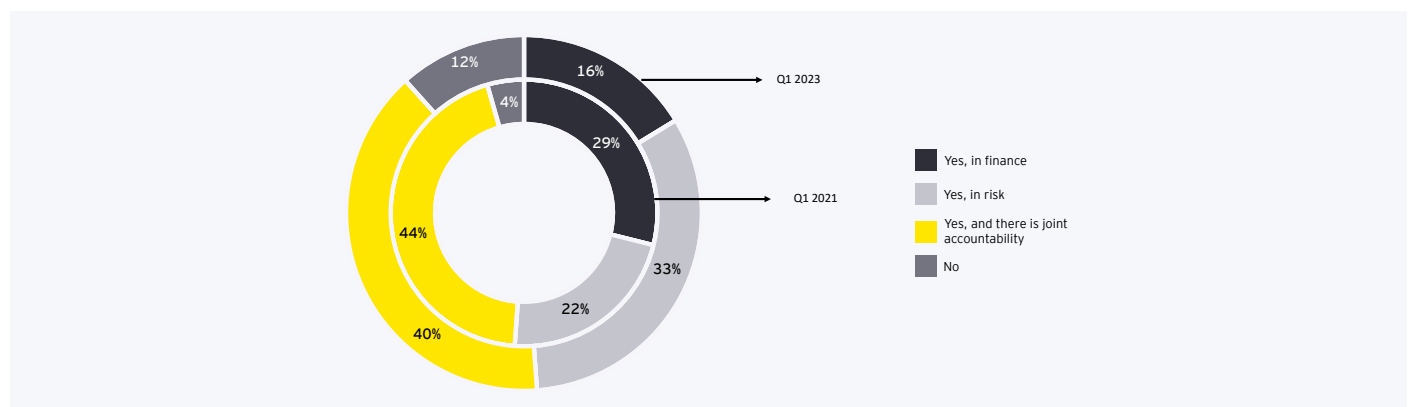


1. Does your firm have a Basel 3 Reforms program in place?



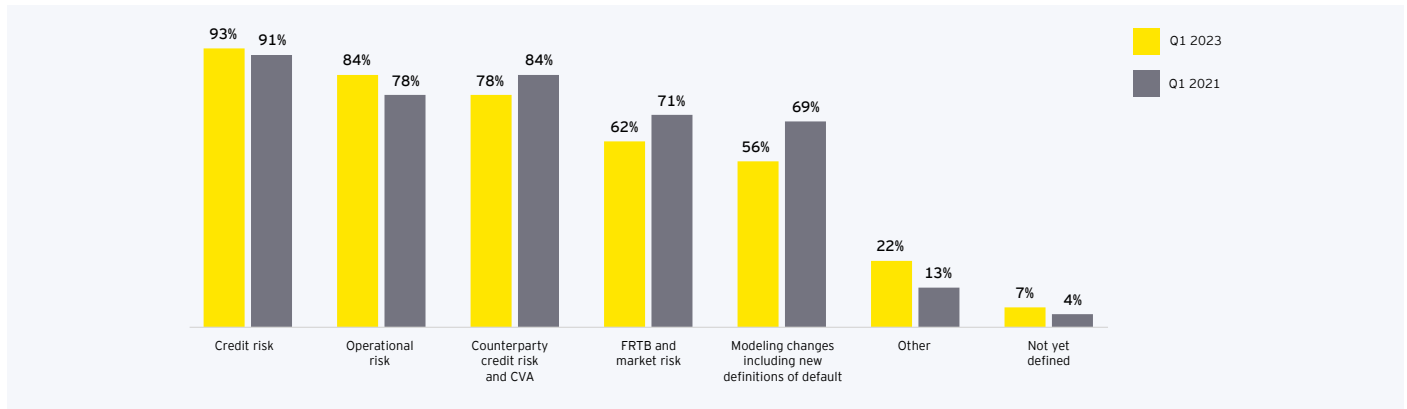
- ▶ The significant majority of banks have well-established delivery programs already in place. However, since the last survey, the passage of time and increase in regulatory attention has not necessarily led to a significant increase in banks launching their implementation programs.
- ▶ Twenty percent of non-G-SIBs have yet to mobilize a program compared to 10% of G-SIBs.
- ▶ Interestingly, some large US banks are among those without fully mobilized programs, which presumably reflects their predictions on how the US is likely to implement the Reforms.

2. Does your firm have an identified sponsor or accountable executive for the Basel 3 Reforms?



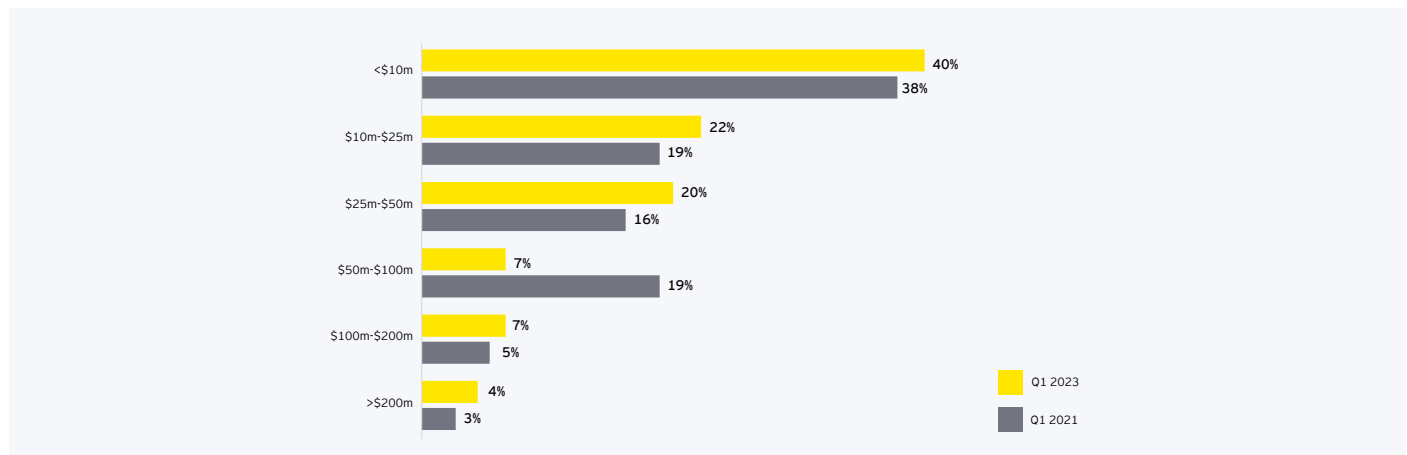
- ▶ Risk and finance functions remain dominant as primary or joint sponsors. There is no indication that the primary leadership has changed to business functions.
- ▶ As in the last survey, larger banks are still opting for joint accountability for oversight and direction of delivery of the Reforms (68% of G-SIBs vs. 27% of non-G-SIBs). This is not surprising as G-SIBs tend to pursue significant transformational change, so their program scope and coverage would cover a broader set of areas.
- ▶ Similarly, we also see regional differences in sponsorship approaches. Among banks in Asia-Pacific, 57% say risk remains the dominant function, while 54% in the Americas and 40% in EMEIA say accountability is joint or within finance (31% and 33% respectively).

3. Which areas are included in the scope of your Basel 3 Reforms program?



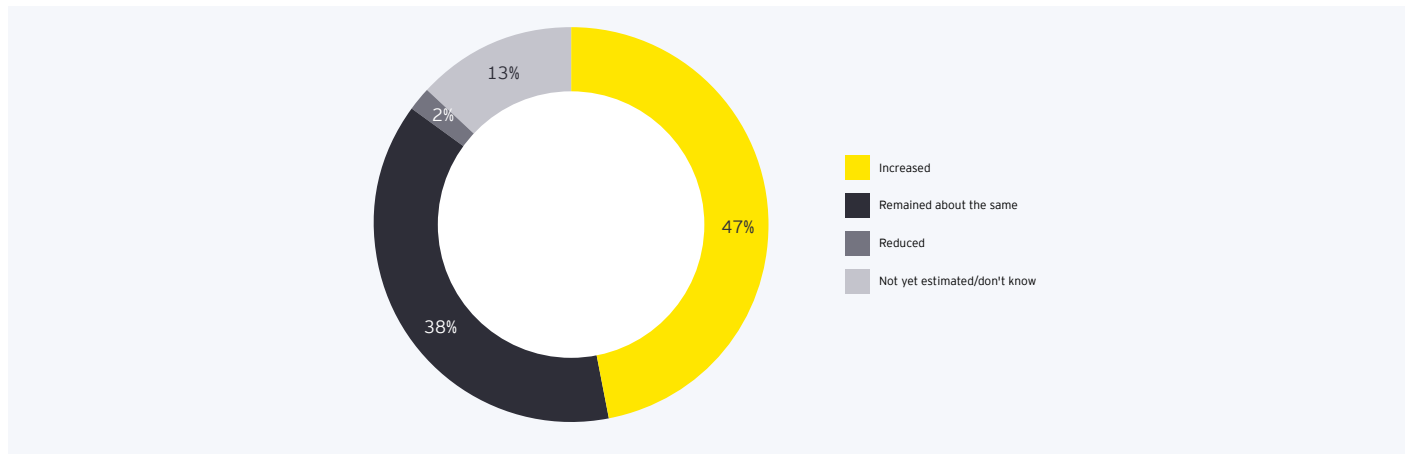
- ▶ The Basel 3 Reforms have wide ranging impacts across all primary risk types - credit, operational, counterparty and market risks. Unsurprisingly, these are also the areas included as part of respondents' delivery programs.
- ▶ Some firms include modeling changes in their Reforms programs while others decouple them from the wider agenda, likely due to different implementation timelines.
- ▶ Another area that sees different approaches is whether to incorporate FRTB and market risk. Seventy-nine percent of G-SIBs have this area as part of their delivery scope, as opposed to only 50% of non-G-SIBs. Potentially, FRTB is much less of an issue for the latter group.

4. How much will delivering the Basel 3 Reforms cost? (Includes end-to-end delivery to go live but excludes FRTB)



- ▶ The average spend on the Basel 3 Reforms, excluding FRTB, remains around US\$40m-US\$50m, similar to what was observed in the Q1 2021 survey results.
- ▶ However, when we analyze spend by respondents' profiles, we see that it is more than three times higher among G-SIBs (US\$70m-US\$80m) compared to non-G-SIBs (US\$15m-US\$25m) and the gap seems to be widening.
- ▶ Our experience suggests three primary drivers of differences in spend levels: size and complexity of the bank, scope of the Reforms program, and differing views on delivery approach (i.e., minimum compliance versus business benefits). Considering this and the next question together, we believe these factors are combining to escalate costs for the biggest banks as we approach go-live.

5. In the last 12 months, how have your Basel 3 Reforms costs changed? (Excludes FRTB costs)but excludes FRTB)



- ▶ We attribute the reported increase in Basel 3 Reforms costs to extended timelines, areas of additional complexity and challenge, and the fact that most delivery programs are still underway (as noted in question 11).
- ▶ Spend inflation is more predominant for larger firms delivering more significant change under the Basel agenda - 68% of G-SIBs report higher costs compared to 31% of non-GSIBs. Only one bank surveyed saw a cost reduction.

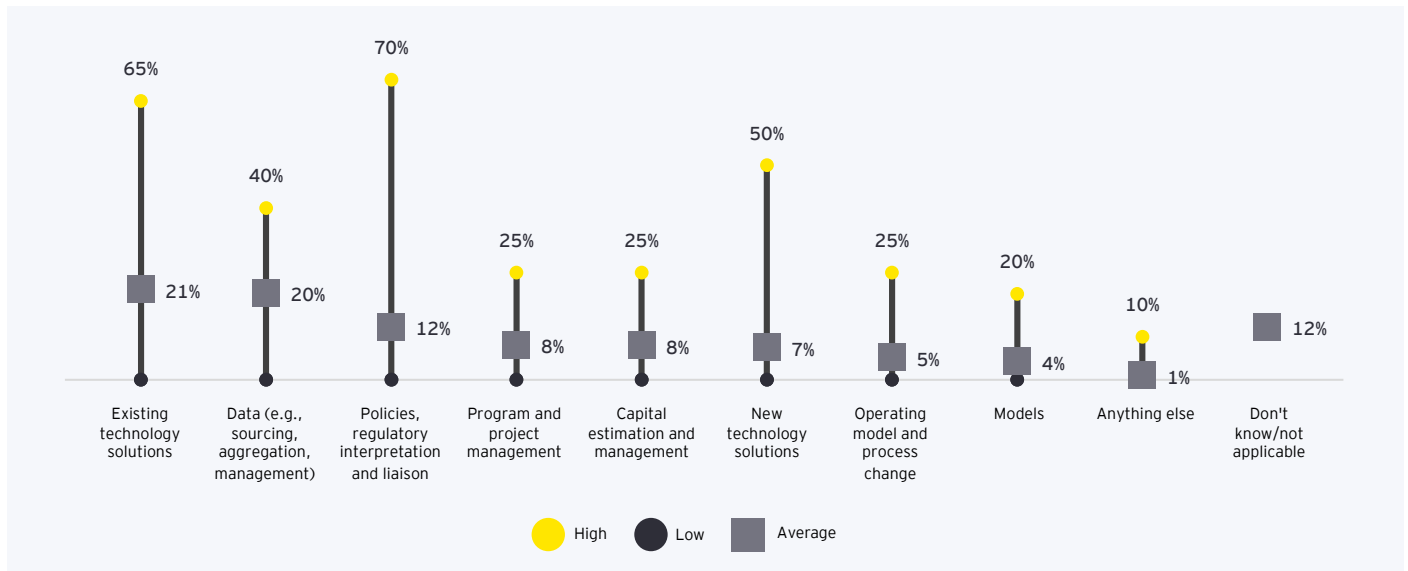
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Delivering the Basel 3 Reforms is costly, and this is particularly sensitive at a time when banks are suffering from significant market volatility. However, with a year and half until go-live in most regions, implementation spend is unlikely to decrease. Banks that focus on aligning their implementation approach to their overall strategy and driving business benefits can expect to see the greatest rewards from these changes.



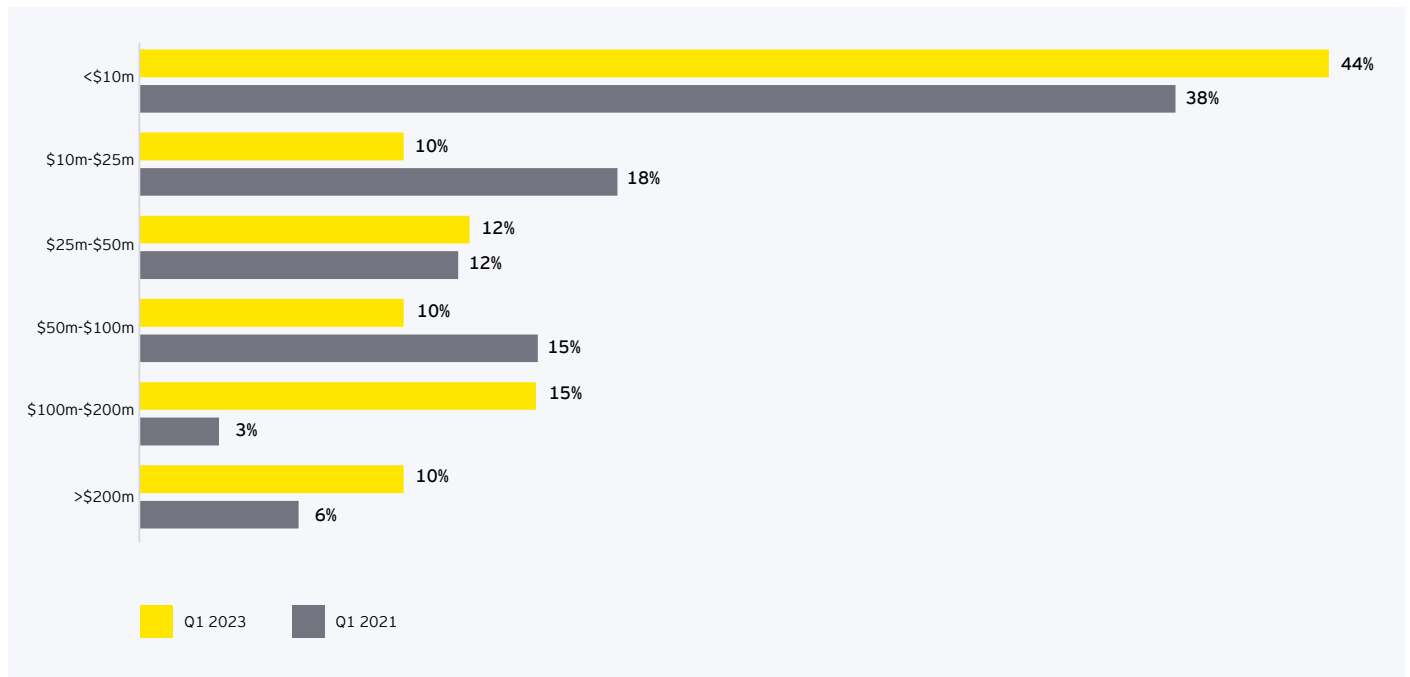
Federico Guerreri
EY Global and EMEIA Financial Services Risk Leader

6. What proportion of your current Basel 3 Reforms spending (excluding FRTB) are you allocating to the following areas?



- ▶ This is one of the new questions for this year's survey. By asking participants about their current spending on the Reforms, we can see the various stages of development across banks.
- ▶ However, the averages tell a clear story. Three categories that cover new and existing data and technology account for nearly half of all spending. Policies, regulatory interpretation, and liaison is the third highest category. This reflects banks that are early in their mobilizations focusing on interpretation, as well as larger firms that are further advanced but are coping with the complexities of operating across multiple jurisdictions.
- ▶ The range of spend concerning policies, regulatory interpretation and liaison seems to also indicate that some firms have allowed their policy and interpretation functions to contract over time and are now looking to staff up quickly. This could have resulted from lax regulatory rigor and oversight in the regulatory capital domain, but recent pressure may require them to maintain staffing levels and process investment at a higher norm than previously observed.
- ▶ Models are reported as a relatively small proportion of spend. While this probably reflects that many Basel programs do not include modeling as part of their scope, it is a surprisingly small proportion, nonetheless. Comparisons with the significantly higher proportion of spend on modeling as part of FRTB are striking (see question 9 on page 19).

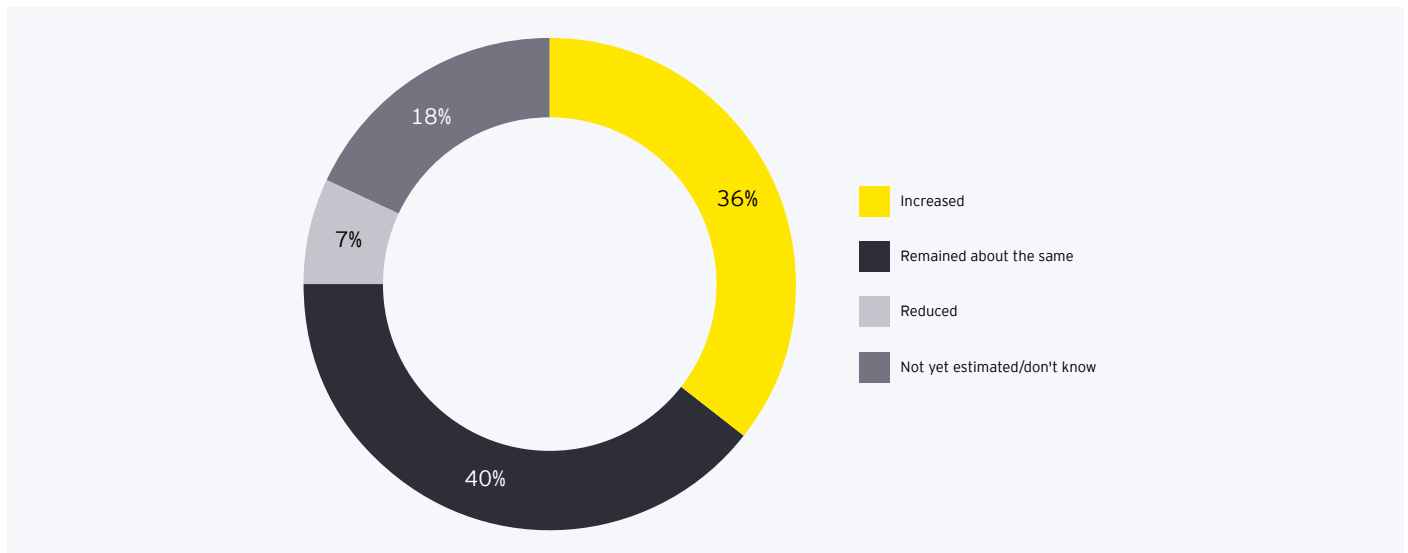
7. How much do you estimate delivering the FRTB element of the Basel 3 Reforms will cost? (This covers end-to-end delivery to go live)



- ▶ FRTB program budgets vary from US\$10m to US\$200m+ with wide variability across participating banks.
- ▶ Although relatively large budget estimates are reported for a number of banks, it should be noted that some

banks are funding all market risk change projects through FRTB programs, meaning budget levels need to be understood through that perspective. This often includes expensive technology upgrades that are funded through FRTB.

8. In the last 12 months, how have your FRTB costs changed?



▶ G-SIBs, in particular, have experienced FRTB cost increases in the last 12 months, most likely driven by expectations around the publication of finalized FRTB rules in the main jurisdictions, major investments in infrastructure and modeling,

and FRTB rollout across the globe in non-core jurisdictions.

▶ Similar to non-FRTB spend, very few banks report decreases in costs.

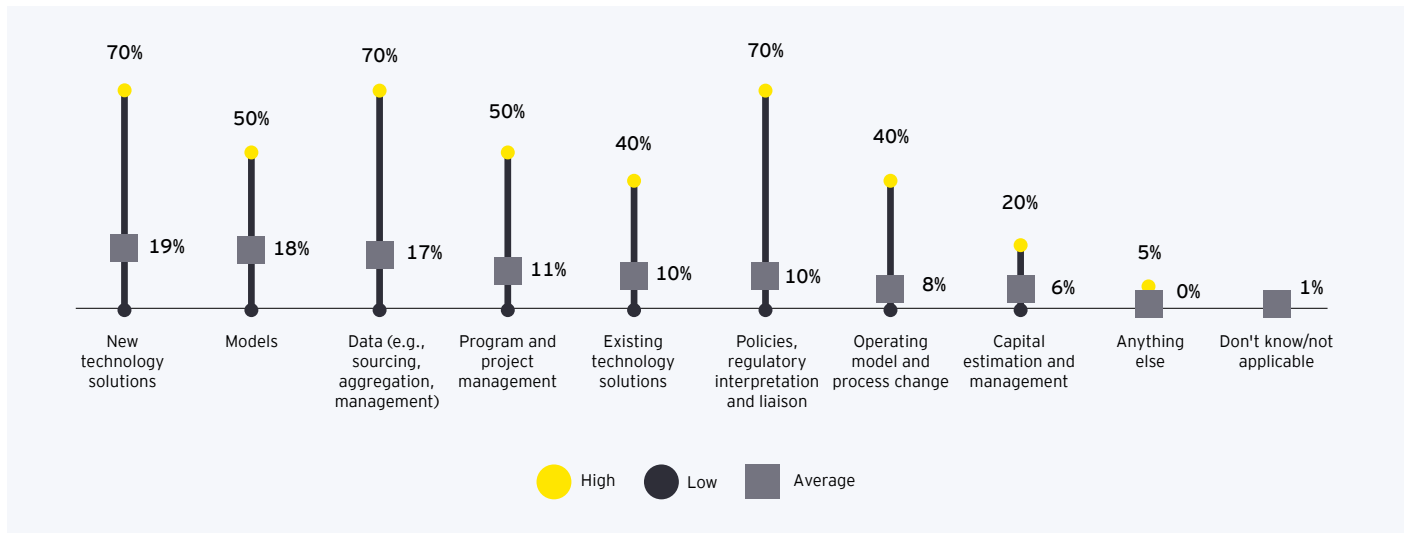
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FRTB introduces the biggest overhaul in market risk modeling and management in the past 25 years. This comes with its own challenges, which are intensified by delays and emerging differences in the local rules. It's important that organizations do not lose sight of their long-term visions while devising their implementation plans.



Sonja Koerner
EY EMEA Financial Services Prudential Leader

9. What proportion of your current FRTB spending are you allocating to the following areas?



- ▶ Infrastructure remains a major source of spending for most banks. Resolving data and modeling issues is driving significant spending as well, most likely tied up with preparations for Internal Model Approach (IMA) application, including remediation of any profit and loss (PnL) attribution and Risk Factor Eligibility Test (RFET).
- ▶ Global FRTB rollout has started without waiting for UK and US regulators to publish their rules. A number of regulators from EMEIA, APAC and the

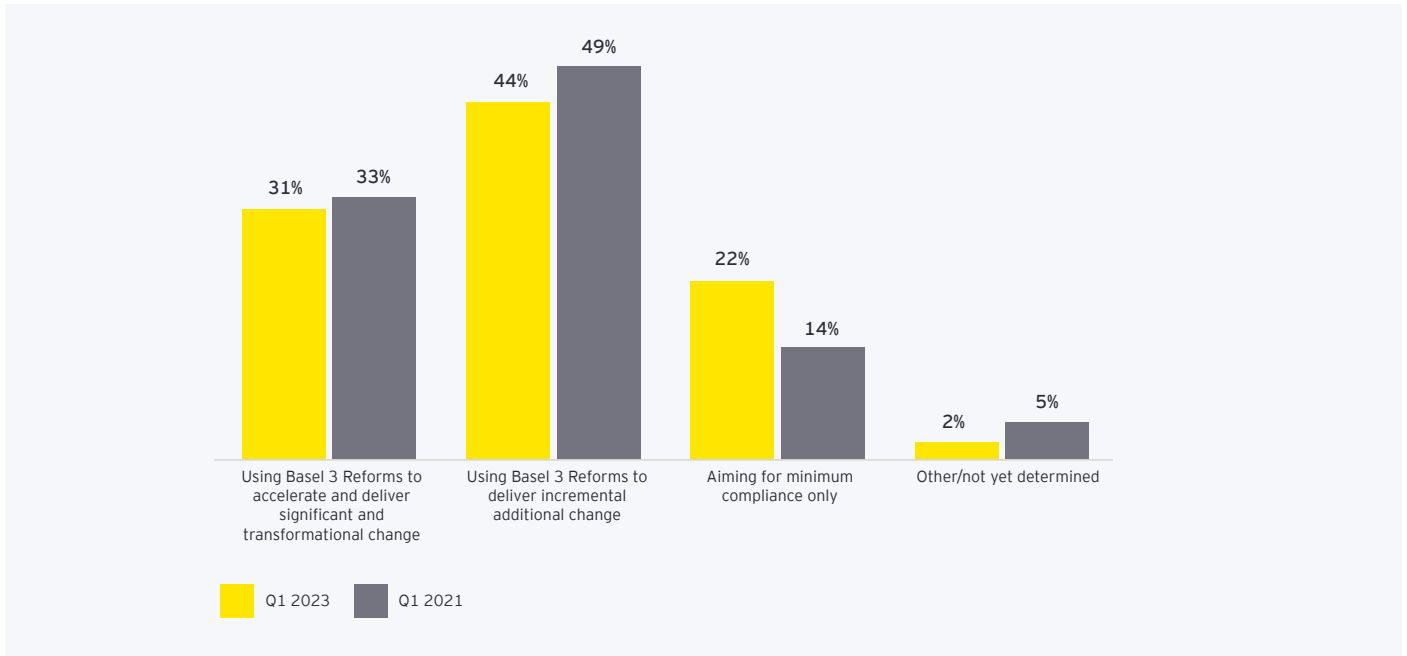
Americas have issued final versions of local FRTB rules and requested local banks to prepare for FRTB IMA approvals and FRTB SA (Standardized Approach) authorizations in certain instances, driving the increase of spending on policies and programs for banks with global reach.

- ▶ A relatively small number of banks have started their work on setting up operating models, reflecting general uncertainty about rollout of FRTB in main jurisdictions.

Delivery

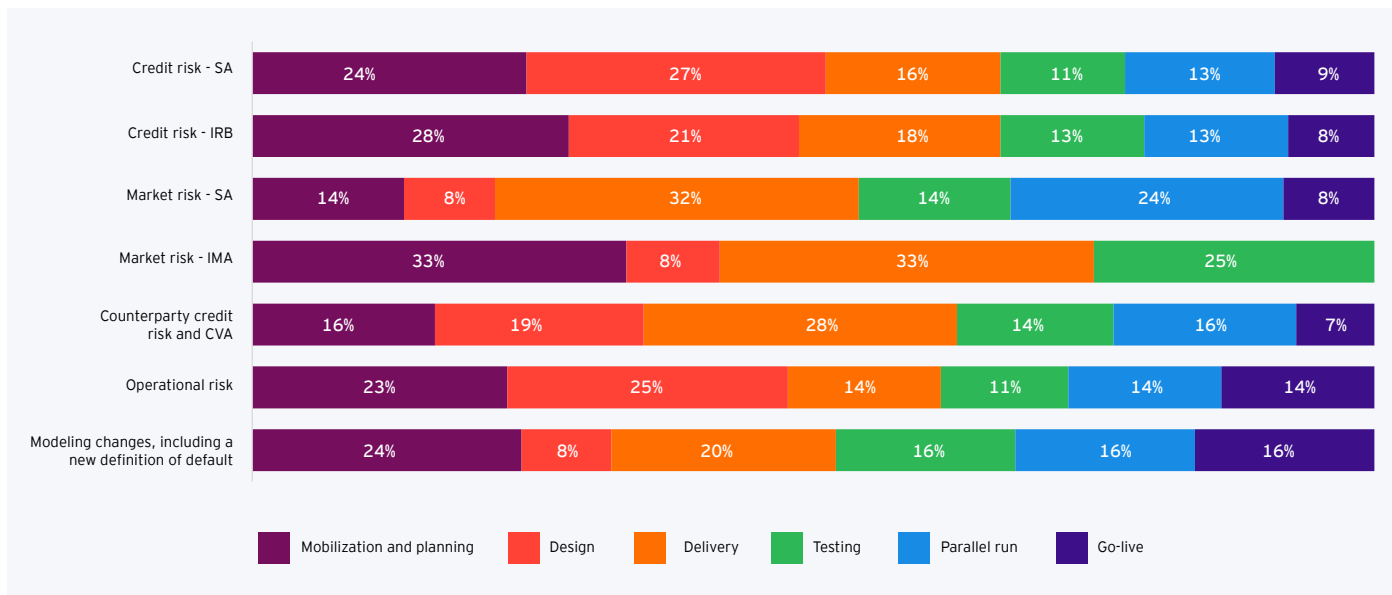


10. How would you characterize your delivery objectives?



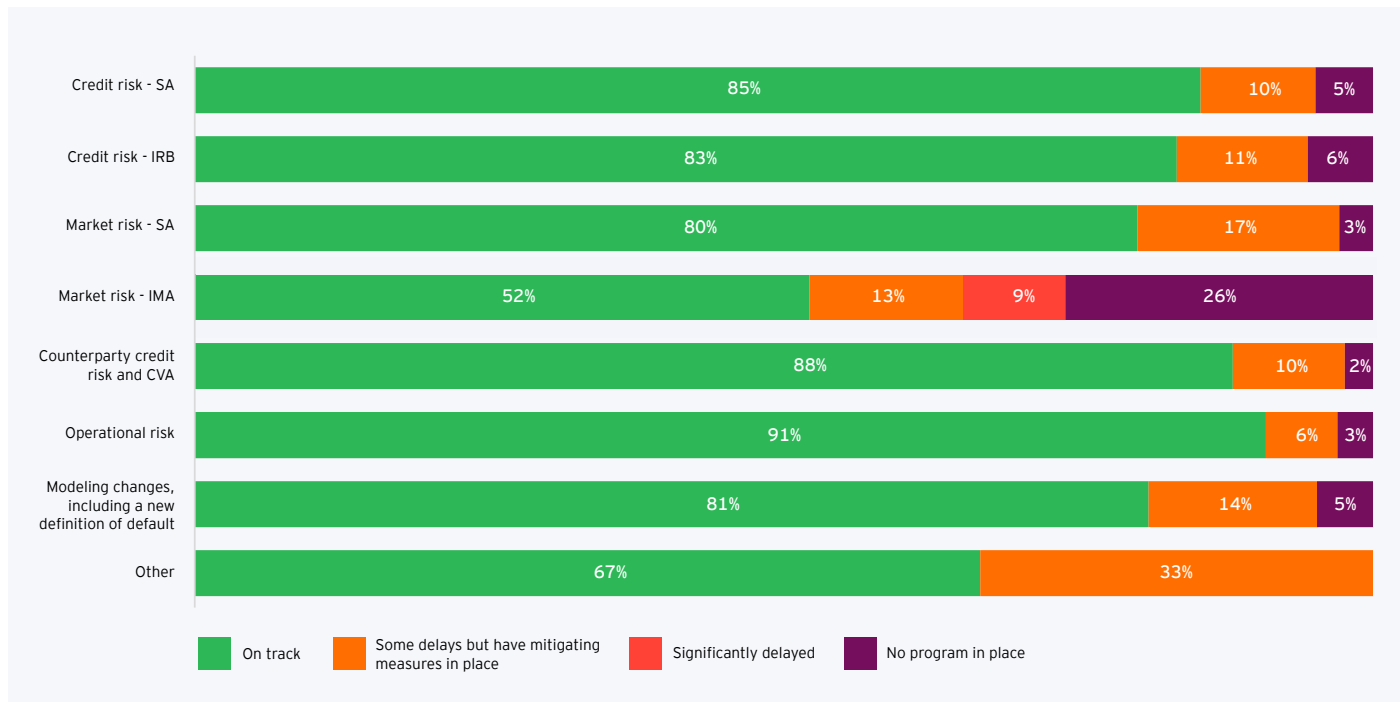
- ▶ Since the last survey, Basel 3 Reforms timelines have shifted backward by two years. However, we do not observe a major directional change in the respondents' delivery objectives. Delivering transformational or incremental additional changes remains, overall, the primary choice for most respondents.
- ▶ When we break down this view for G-SIBs and non-G-SIBs, there are diverging approaches. Almost half of G-SIBs, compared to a fifth of non-G-SIB respondents who participated in the survey this year, noted they are looking to deliver significant and transformational change; on the other end, a third of non-GSIB and only one-tenth of G-SIB participants were aiming for minimum compliance only.
- ▶ This links back to the spending budgets and patterns where, on average, medium and smaller banks spend much less on the delivery of the Reforms compared to the largest banks.

11. What is the current phase of your Basel 3 Reforms program delivery components?



- ▶ This year, we asked respondents to indicate where they are in their Basel 3 Reforms delivery across key scope areas. The varying levels of readiness might be influenced by a combination of factors ranging from the delivery objectives and scope, to firm size and complexity, or to nuances in local regulatory deadlines.
- ▶ Around two-thirds of respondents are early to mid-way in their delivery of the Reforms. This trend is even stronger for the larger firms where, on average across all scope areas, close to seven-tenths of G-SIBs have not yet progressed to the testing phase. The average drops to less than two-thirds for non-G-SIBs.
- ▶ There are some notable differences in the phasing of the market risk components. One-third of banks have paused their FRTB IMA programs, waiting for clarity around implementation timelines from their main regulators. The rest are in various phases of delivery and testing of FRTB IMA. None has started IMA parallel run, which is linked to the lack of regulatory timelines in major jurisdictions and mitigation of the various challenges related to PnL attribution and RFET. Implementation of FRTB SA delivery has advanced much more, with some banks already in go-live. This is most likely driven by EU banks, where capital reporting started in September 2021.
- ▶ As regulators across the world publish the final versions of their FRTB rules, it is expected that many more banks will transition into the parallel run/go-live phases very soon, at least for parts of their business.

12. What is your current Basel 3 Reforms program status in light of the 1 January 2025 deadline?



- ▶ Overall, respondents appear to be on track for most of the risk areas at this stage. This currently suggests a positive outlook on meeting set deadlines, although, as noted earlier, many respondents are still in the early or mid stages of their delivery journeys. So, maintaining this positive momentum will be important.
- ▶ One area that stands out is market risk, especially for respondents planning for IMA applications. More than half of banks have FRTB IMA programs that are not on track, and in a few instances, programs are not even mobilized. This is largely driven by uncertainty around publication of the final FRTB

rules by the main regulators of those banks. A lot of banks have plans to reboot their IMA programs pending clarity from their regulators around timelines, which should move programs into the green zone.

- ▶ It is worth noting that there are some regional timeline differences, too. For example, in the Americas, the US regulator has yet to publish their final rules around Basel 3 Reforms implementation, while the Canadian regulator announced the implementation of some of the revised rules planned to take effect as early as Q2 2023.

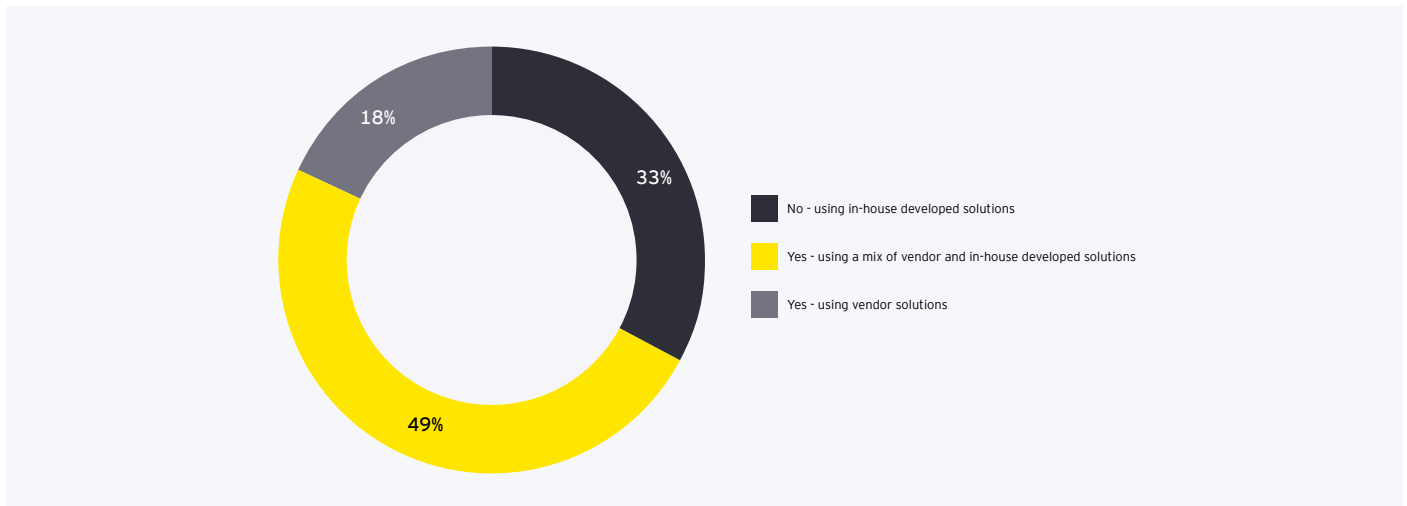
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We see positive forward momentum towards meeting Basel 3 Reforms deadlines, although we note that readiness varies considerably. For those firms that are behind, learning from others' experiences will be key in managing the challenges that are undoubtedly ahead.



Stuart Thomson
UK Financial Services Risk Leader,
Ernst & Young LLP

13. Will you use a vendor solution for your Basel 3 Reforms capital calculation?



- ▶ The scope of the Basel 3 Reforms is wide-ranging, captures all key risk areas, and impacts most aspects of regulatory reporting. It should also be a relatively replicable capability across organizations. Thus, there is a strong incentive to explore and, at some level, incorporate vendor solutions as part of the capital calculations - as we can see in the results.
- ▶ This view is even more prevalent for non-G-SIB respondents, who might neither have the capacity nor need to develop all required solutions in-house. So, we see just 19% of non-GSIBs, compared to over 50% of G-SIBs, opting to develop in-house solutions, which might allow greater levels of customization and coverage.

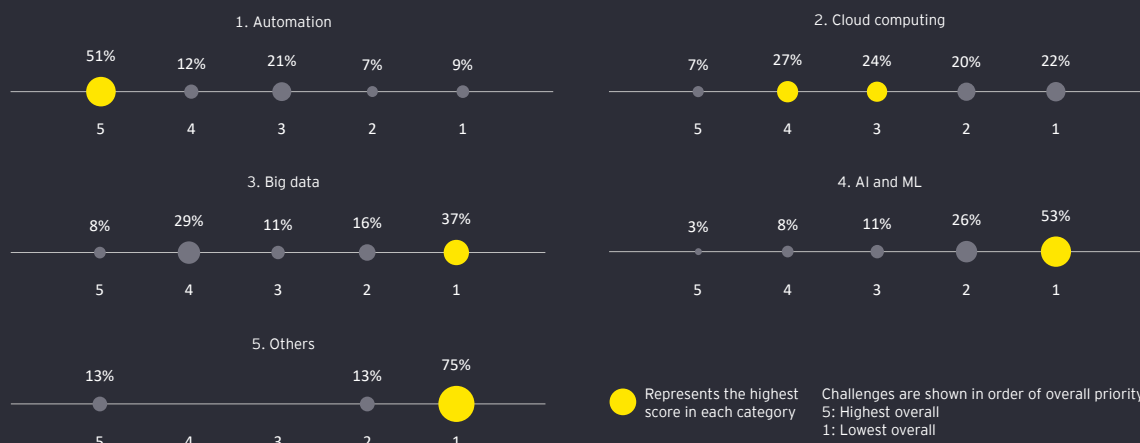


Vendor solutions are becoming an increasingly important part of the overall technology landscape given the breadth of the Basel 3 Reforms. The majority of firms are looking to leverage vendor solutions, often in conjunction with in-house solutions. The use of vendor solutions is particularly prevalent amongst non-G-SIBs who often have less appetite or requirement to develop their own solutions.



David Williams
UK Financial Services Technology Solution Delivery Leader, Ernst & Young LLP

14. On a scale of 1-5 (with 1 being the lowest, 5 being the highest), please rank each of these technologies in the order of their importance to your delivery of the Basel 3 Reforms



- ▶ As technologies progress rapidly, financial institutions are actively looking to modernize their legacy systems and adopt approaches to achieve greater operational efficiencies, cost savings and facilitate capital optimization.
- ▶ Around half (51%) of participants indicate that the use of automation is key in their delivery. There is also a

strong indication that respondents are looking at cloud solutions - likely for both data management and capital computation - given more than half of them noted this as their second- and third-used technology by importance.

- ▶ Given that we are in the realms of regulatory capital, it is unsurprising that AI/ML techniques are less prominent in banks' thinking.

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We see further evidence that many firms are incorporating digital automation capabilities and cloud solutions to scale and enhance risk management, monitoring and controls. When it comes to proactively managing risks using forward-looking simulations, unleashing the power of cloud-based solutions and greater automation will be a key enabler.



Dr. Sven Ludwig
 EY EMEIA Sustainability and Strategic Initiatives Leader

15. What are the most significant challenges your firm faces in delivering the Basel 3 Reforms? (Pick your top five in order of challenge)

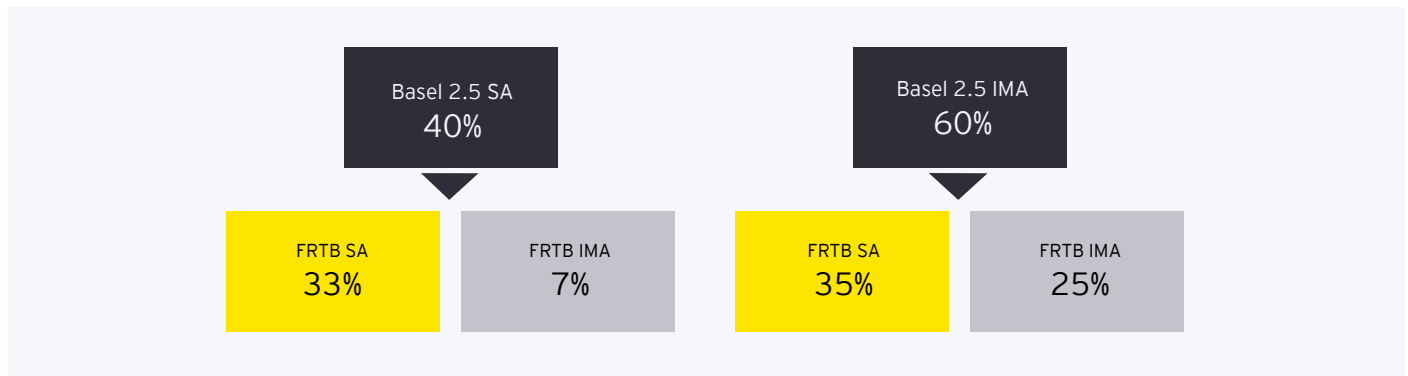


- ▶ Although banks are making progress in delivering the Basel 3 Reforms, the same challenges persist. This year again, the quality and availability of data was the most highly ranked challenge by respondents. However, a broader set of challenges is apparent overall, indicating the complexity of delivery as we approach go-live.
- ▶ Similarly, the delivery of risk-weighted assets (RWA) systems remains another top challenge for respondents, followed by the availability of resources. In the previous survey, this third position was held by the operational model and regulatory reporting changes challenge, which dropped to fourth position this year.
- ▶ One challenge that moved higher is program funding, which is unsurprising given that almost half of respondents indicated that their costs have increased in the last 12 months. We also see some uptick on the modeling, measuring and mitigating capital impacts challenge, as focus shifts to this area.
- ▶ Other challenges noted include jurisdictional uncertainties and delays around the Basel 3 Reforms timelines, reflecting the pending finalization of global rulesets, as well as availability of resources with substantive subject-matter expertise.

Capital impacts

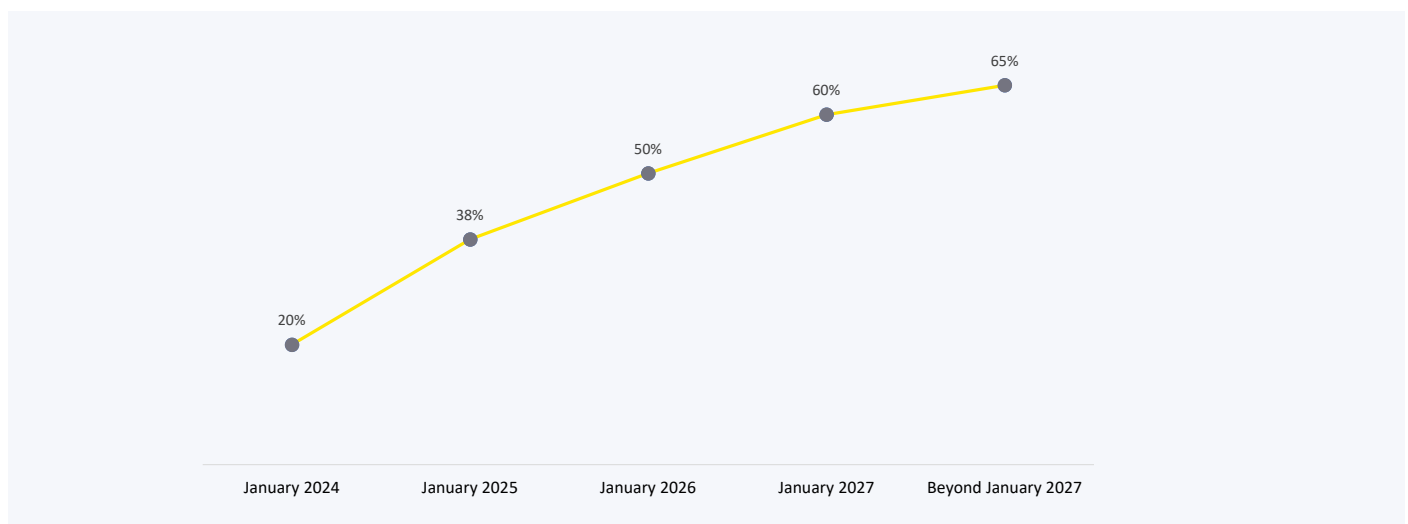


16. Are you currently calculating market risk capital using a standardized approach or an internal model approach?



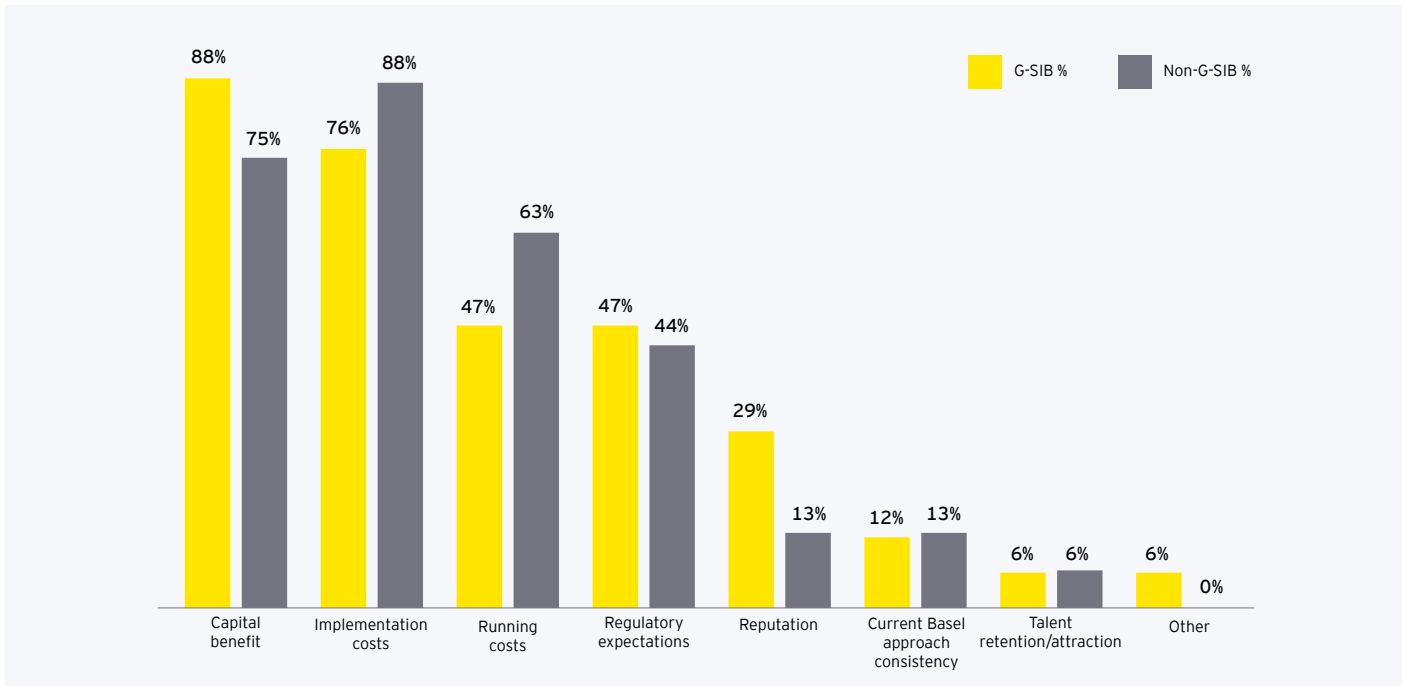
- ▶ Responses suggest a major shift in capital calculation approaches in the Fundamental Review of the Trading Book (FRTB) towards the standardized approach (SA), with 40% of G-SIBs currently using the internal model approach (IMA) for calculating market risk in the process of shifting to the SA. This reflects increased costs in modeling, implementing and running an IMA under FRTB.
- ▶ The implications of a major shift towards the use of SA from a business and capital perspective are yet to be fully understood, as is the likely regulatory response, especially towards banks with more complex portfolios.

17. What percentage of trading desks will apply for FRTB IMA by the below timeframe?



- ▶ The data indicates a very gradual adoption of the FRTB IMA for most banks in the next few years. This can be viewed as a reflection of FRTB IMA implementation complexity though uncertainty around the publication of final FRTB rules for major jurisdictions is most likely also impacting readiness.
- ▶ Publication of the final rules in the UK and US is likely to change expectations and lead to more aggressive FRTB IMA implementation plans in banks although the target percentage of desks may not change.

18. What are the top 3 factors influencing your decision on using FRTB IMA/FRTB SA capital calculation approach?

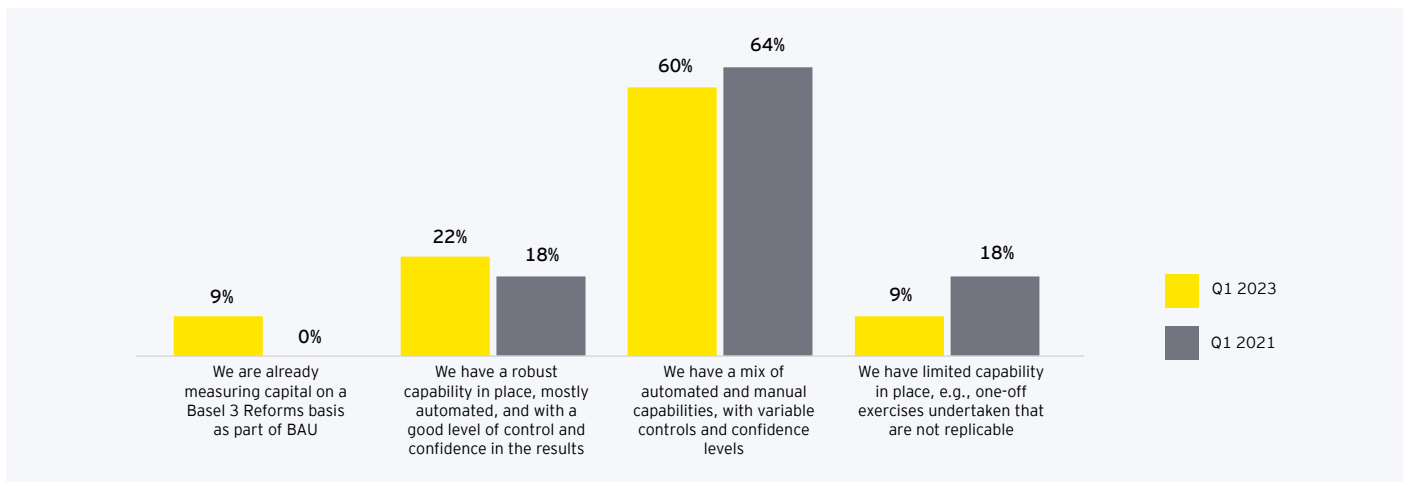


- ▶ The two main drivers that determine whether banks use FRTB IMA or FRTB SA are implementation costs and capital benefit. This is not surprising given the budgets spent on implementing FRTB so far and the potential limits on capital benefits from FRTB IMA due to the standardized floor.
- ▶ Running costs and regulatory expectations are another major factor. While a number of banks using

internal models right now say they will switch to FRTB SA, the regulatory response to such a change is not yet clear.

- ▶ Reputation is the final driver significantly influencing the decision about using FRTB IMA. This is much more significant to G-SIBs, with almost 30% concerned about impacts on their reputation if they decide to use FRTB SA in the new capital regime.

19. What capability do you have in place to estimate and assess the regulatory capital impacts of the Basel 3 Reforms? (Please select the answer that most closely represents your situation)



- ▶ The ability to model, measure and mitigate capital impacts remains a challenge but the responses show an upward trend in the estimation and assessment capabilities, with fewer respondents having only limited capabilities compared to Q1 2021. However, the majority still have moderate rather than robust capabilities for capital impact estimation.
- ▶ This year, we introduced another category to understand the extent to which banks are already measuring their RWA following the latest ruleset – almost a tenth of respondents are doing this already.
- ▶ Interestingly, we see few significant differences this year between G-SIB and non-G-SIB respondents. This might suggest a broad levelling of capital impact assessment capabilities as the go-live data approaches.

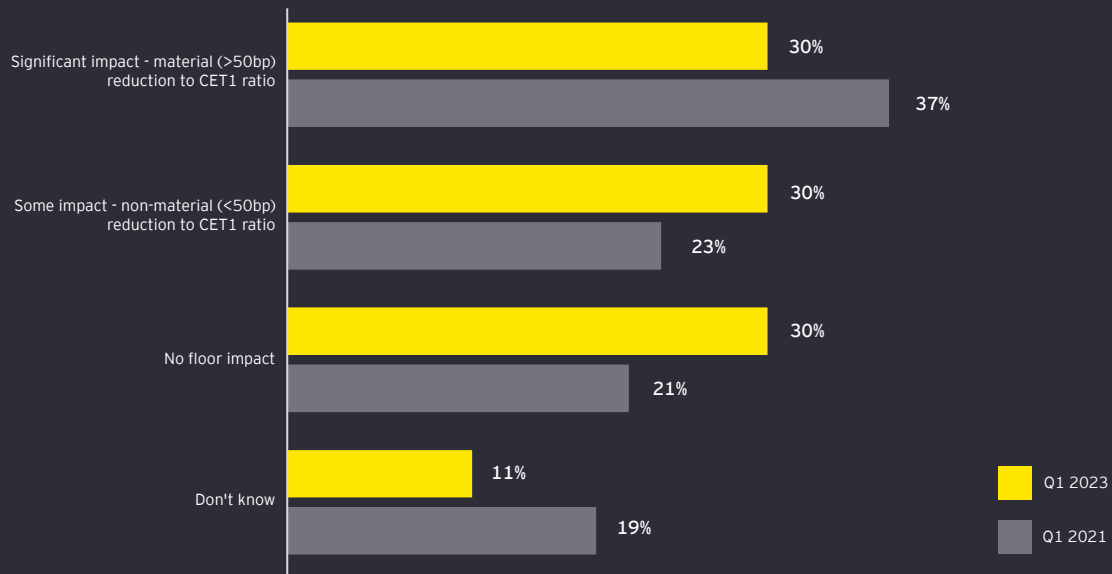
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Industry compliance efforts have steadily increased in line with clarification of local jurisdictional rules, regulatory expectations and timelines. However, we expect to see a further pick up in pace once US proposed rules are published, which are expected over the coming months.



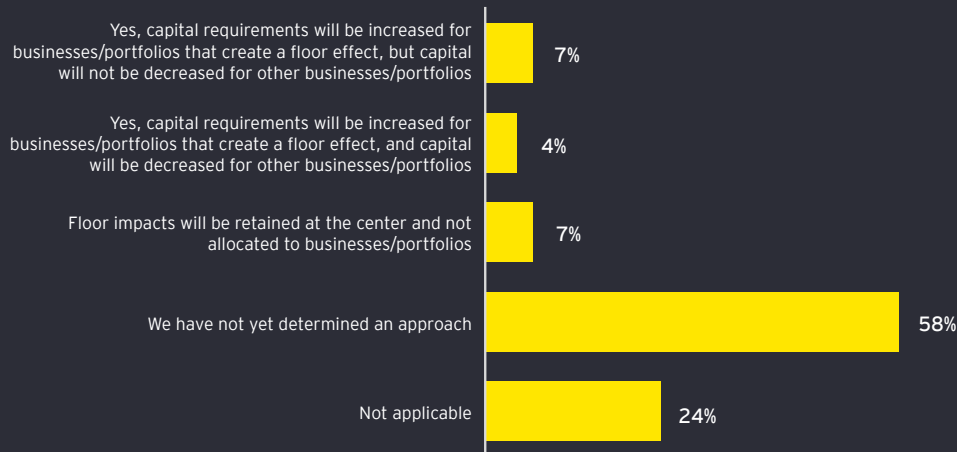
Shaun Abueita
UK Traded Risk Business Consulting Leader, Ernst & Young LLP

20. How much of an impact do you see from the overall standardized floor?



- ▶ The standardized capital floor (also known as output floor) remains one of the most debated changes introduced by the Basel 3 Reforms. As expected, there are now fewer respondents who are yet to understand what impact this new change might have on their capital.
- ▶ While the mix of responses shifted this year, 60% of banks expect to see a reduction on their Common Equity Tier 1 (CET1) ratio driven by the standardized floor. However, there is evidence that floor impacts are lessening slightly. This is potentially due to two factors: jurisdictional-specific rule changes, and the impact of capital management activities.
- ▶ Standardized floor magnitude and impact could be affected by the applied regulatory approaches as well as portfolio mix and quality. Almost two fifths of non-G-SIB respondents indicated that they expect material reduction of CET1 while a similar proportion of G-SIBs selected that non-material impact is expected.
- ▶ Almost one-third of respondents do not expect any impact from the standardized floor. This was largely driven by respondents in the Americas, due to the presence of the Collins Amendment in the current capital adequacy regime, and non-G-SIBs.

21. Have you determined an approach to allocate the capital impact of the standardized floor?



- ▶ Although banks are progressing with their Basel 3 Reforms programs and becoming more aware of the potential impacts, there remains uncertainty around the allocation of the capital impacts arising from the standardized floor. Similar to what we observed in Q1 2021, more than half of the respondents indicated they have not yet determined an approach.
- ▶ There are both technical and practical questions to be resolved in determining an approach to allocate floor impacts. In our view, this remains an imperative area requiring decisions. It is key to understanding capital consumption at a granular level, and therefore monitoring and managing capital at business/portfolio levels. This is a critical part of determining strategies for capital mitigation and management.

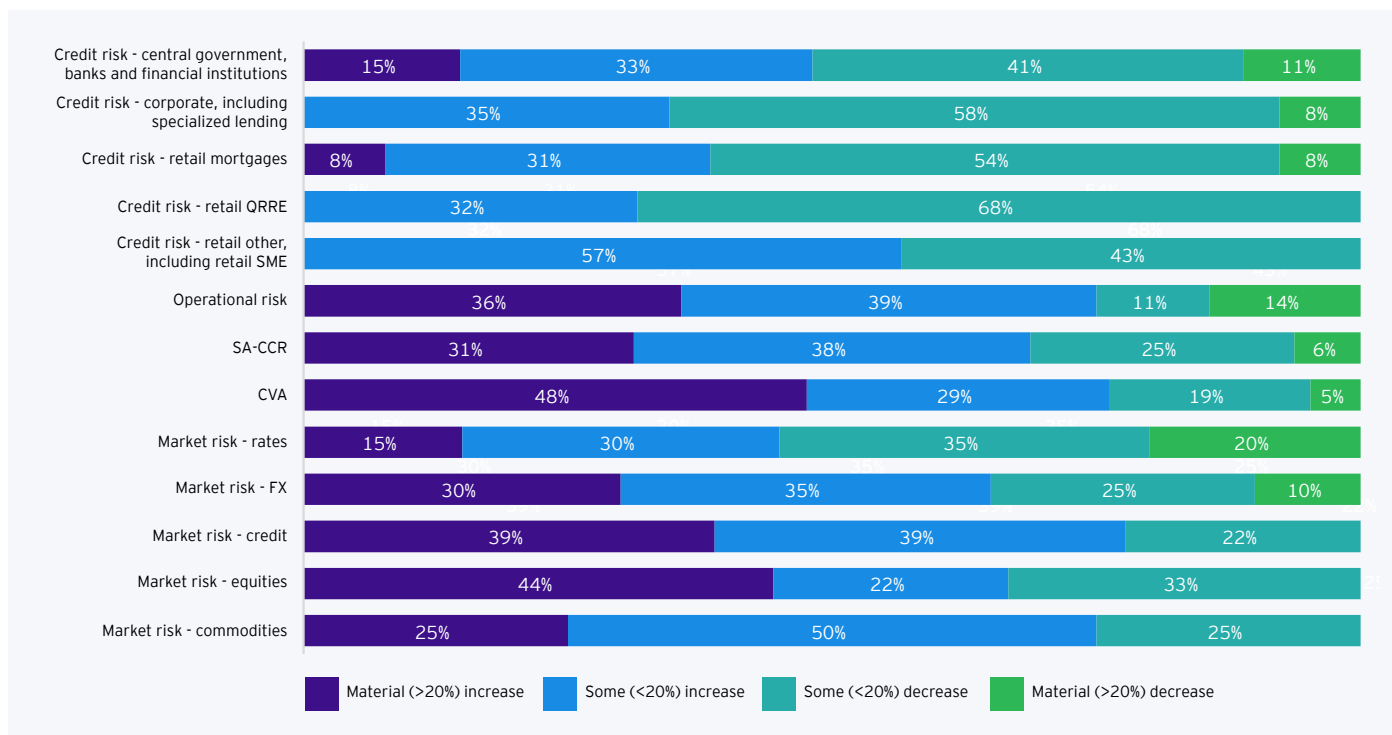
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The new rules will significantly change capital consumption, and, while the need to operate two sets of calculations is known, uncertainty remains over how firms will choose to allocate the capital impacts. This, together with the effectiveness and range of strategic and commercial impact mitigation strategies, is likely to affect firms’ abilities to manage return on equity.



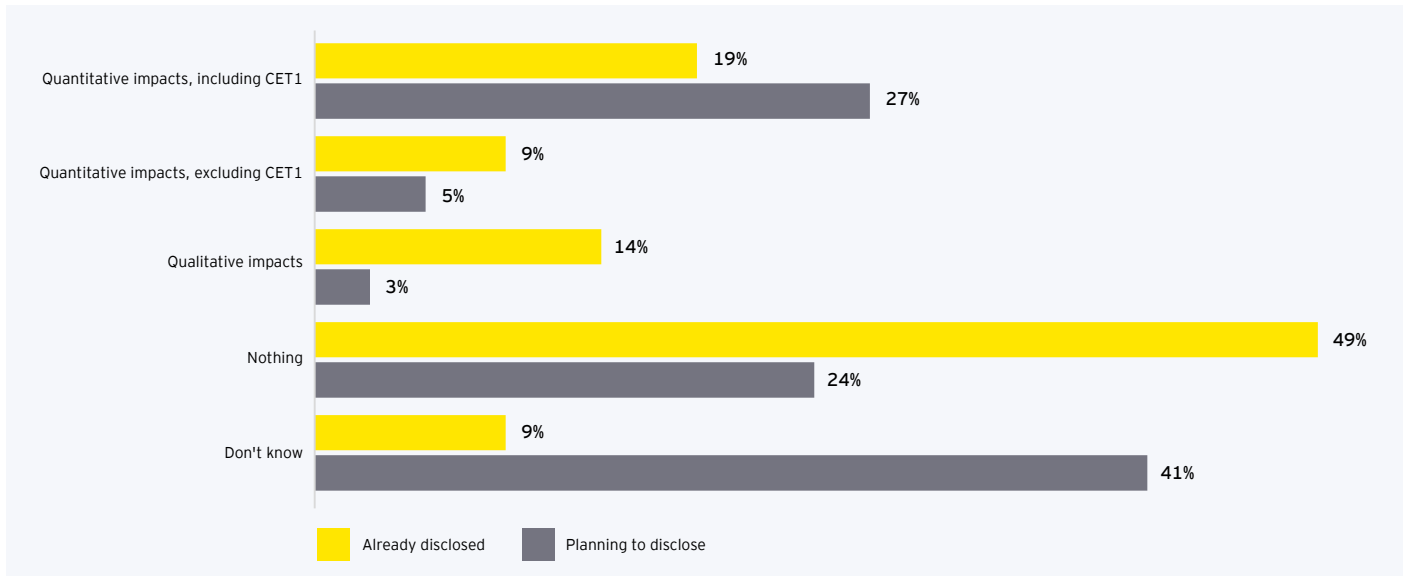
Jared Chebib
Basel 3 Reforms Leader, Ernst & Young LLP

22. What areas show the largest capital impact, excluding the capital floor? (Please choose an impact range for each area)



- ▶ These results show capital impacts across different risk areas. Since most respondents have yet to determine their preferred allocation approach, the changes exclude the standardized floor impact.
- ▶ The impacts of the Basel 3 Reforms on capital are complex and typically depend on several factors. These include portfolio mix, book quality, choices of regulatory approach and jurisdictional-specific rules.
- ▶ Similar to the trends observed in 2021, this year's responses show banks still expect the largest capital impacts in counterparty, market, and operational risk areas. For credit risk, on average, more respondents see moderate decreases in capital impacts (pre-floor).
- ▶ As banks progress with their Basel 3 Reforms implementation programs and build capital assessment capabilities, we see a clear and robust understanding of capital changes as key to their business strategies and approaches to business and capital optimization.

23. What information have you disclosed or plan to disclose?



- ▶ While disclosure of Basel 3 Reforms impacts to the market remains an area of uncertainty, we observe a slow directional shift compared to Q1 2021, with more respondents starting to disclose their capital impact results either quantitatively or qualitatively. Almost one-third of respondents also indicated they were planning to disclose quantitative results in the next 12 months.
- ▶ Nonetheless, it is important to highlight that the remaining half of the respondents have not yet disclosed any results. While this percentage drops when we look at their plans over the next 12 months, the majority has not yet determined what information they would look to share, or have not made plans to disclose any capital impacts.
- ▶ We see some differences between G-SIB and non-G-SIB banks. Close to 60% of the larger banks, compared to only 35% of smaller banks, have published either quantitative results or qualitative impacts.



We sense that the cautious approach towards disclosing Basel 3 Reforms impacts could be partly driven by still evolving capabilities to estimate and assess capital impacts. Market pressures are expected to pick up as we approach go-live and, with that, market expectations for banks to be able to explain their mitigation strategies.

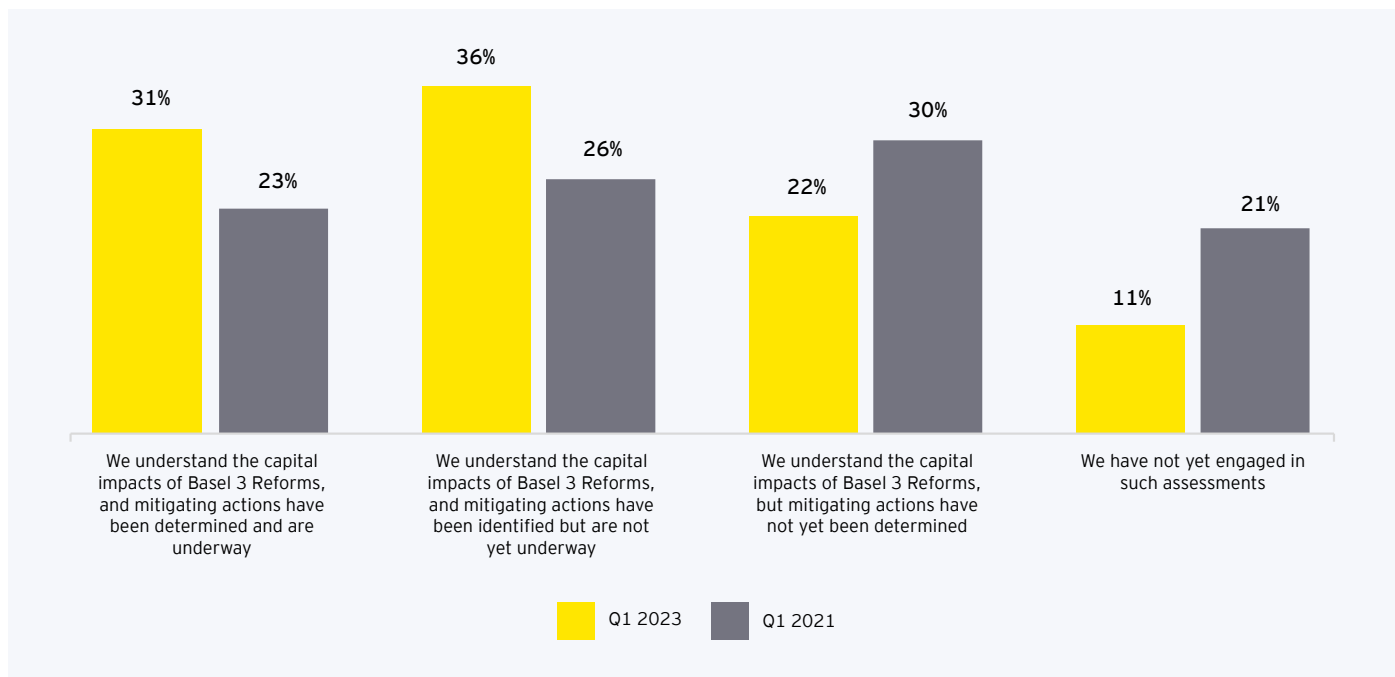


Nigel Moden
EY EMEA Banking & Capital Markets Leader

Strategic and commercial impacts

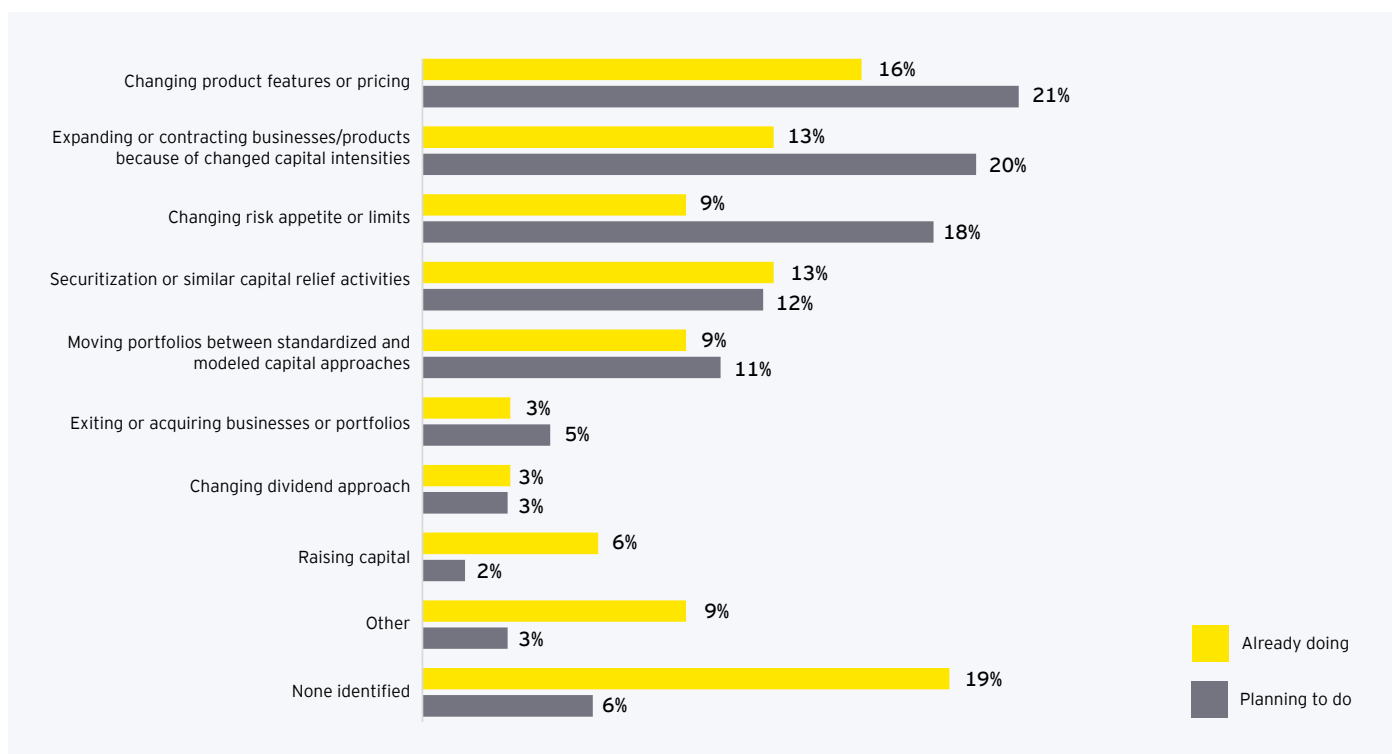


24. What stage do you feel you are at in terms of assessing the strategic and commercial impacts that the Basel 3 Reforms will bring?



- ▶ As noted in an earlier chart, capital impacts are not evenly distributed, and mitigation is complex. Fewer than a third of respondents reported having a robust or standard ability to estimate capital impacts. We see a similar picture in the assessment of strategic and commercial impacts of the Basel 3 Reforms.
- ▶ We are also seeing more progress towards a better understanding and management of the impacts this year. We expect further progress as businesses draw nearer to operating under the Reform's new capital weightings.
- ▶ Interestingly, non-G-SIBs are marginally ahead of G-SIBs in planning and executing mitigation this time around - 70% of non-G-SIBs have at least identified mitigating actions, compared with 63% of G-SIBs. Banks headquartered in Asia and the Americas seem to be further down the track than those in EMEIA.

25. What potential mitigating actions have been identified? (Please select all that apply)



- ▶ The 2021 survey had shown that the primary mitigation focus was on internal management actions such as changing capital allocation, regulatory approaches and pricing. This year we observe similar trends: Changing product features/pricing and adjusting business/product mix, as well as opting for capital relief activities are the most popular mitigating actions already in practice.
- ▶ Actions that have a significant external impact (raising capital or changing the dividend approach) are still not favored - only a few firms selected these.
- ▶ While business or portfolio divestments and acquisitions are not popular courses of action at this stage, we expect to see more activity in this space in coming years. As impact estimation, assessment and optimization capabilities mature, it is likely that there will be growth opportunities, particularly where banks find themselves at a competitive advantage relative to others due to their capital position.

Conclusion

We had noted in the 2021 survey that banks will have to continue to balance a relentless focus on operational implementation with astute commercial decisions, as well as an ability to respond with agility to regulatory and environmental developments. This remains the case today – and none of these actions will be easy, with data and technology being the top delivery challenges.

The current economic and political environment, compounded by war in Europe, energy price spikes, and inflation has added complexity and volatility to the situation. And this is not helped by global regulators' differing approaches to finalizing the Basel updates.

This contextual complexity is reflected in the responses we have seen, which show how banks are at different phases of delivery, with varying interpretations of scope and attitudes to change. Capital impacts are not evenly

distributed, and mitigation is complicated, with many banks lacking a robust ability to estimate and mitigate impacts.

With less than two years until the go-live date in key jurisdictions, banks need to prioritize their preparations now in order to manage delivery risks and strengthen their capital positions.

To discuss our insights on the Basel 3 Reforms, including how your institution compares with other survey participants, please speak to the survey team or to your local EY contact.

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