Reg News

Basel IV in APAC

(aka Basel III Reforms) – Finally Rolling!

Basel IV in APAC incorporates the latest and final internationally agreed-upon Basel III reforms for capital, market, credit, operational, and leverage risks, and regulatory disclosure/reporting guidelines. Notably these include major new calculation methodologies such as SA-CCR (the standardized approach for counterparty credit risk) that has gone live in most jurisdictions and FRTB (the fundamental review of the trading book) that for most jurisdictions, is anticipated to take effect in 2025.

Key Takeaway: Basel IV in APAC contains rule changes that are materially different in scope and complexity.

The rules for Basel IV in APAC represent a baseline – a starting point – for each jurisdiction to chart its own Basel journey. Globally, the expectation remains that those modifications will be made to accord with each country's/jurisdiction's unique characteristics, requirements, and timelines. All locally incorporated banks must be ready as per each jurisdiction's regulatory timeline.

Key Takeaway: If rule changes for Basel IV in APAC are not already effective in your country, they will be – very soon.

Basel IV in APAC – The Main Risk Changes

For Basel IV in APAC, the primary rule changes across risk areas and their known or anticipated effective dates are:

Basel IV Risk Area	Primary Changes	Effective and/or Target Dates
Credit	• Standardized Approach (SA): Risk-sensitive, granular risk weighting, and asset classification • Internal Ratings-Based (IRB) Approach: Elimination of scaling factor, new collateral haircut instead of C*/C**, new risk-weight (RW) function for residential mortgages • Securities Financing Transactions (SFT): New exposure at default (EAD) and haircut floor requirements • Assets Classification: Stricter criteria for large corporates, equity, and sovereigns	• **1.2023** Australia, Korea • **1.2024** Singapore, Hong Kong, Japan, et al • **1.2025** Other countries, TBC

Market	• Fundamental Review of the Trading Book (FRTB) introduction
	• Standardized Approach (SA) risk capturing via:
	  • Sensitivity-based approach
	  • Default risk charge (DRC)
	  • Residual risk add-on
	• Expected shortfall
	• Internal Model Approach (IMA): Includes the internal model capital charge (IMCC), non-modellable risk factors (NMRF), and the default risk charge (DRC)
	• Credit Valuation Adjustment (CVA): Revised framework increases CVA risk sensitivities
		• TBD, with expectation of 1.2025

Operational	• SA: Now driven by business indicators and an internal-loss multiplier based on historical performance • Replaces firms' previous ability to select approaches	• **1.2023** Australia, Korea • **1.2024** Singapore, Hong Kong, Japan, et al • **1.2025** Other countries, TBC
Capital	• Output Floor introduction • Effective immediately or phased in over five years	• **1.2023** Australia, Korea • **1.2024** Singapore, Hong Kong, Japan, et al • **1.2025** Other countries, TBC

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Last, but not least – Basel IV in APAC also means the spread of GDR and XML

The global trends toward granular data reporting (GDR) and more automated and XML-mandated submission directives are evident across Basel IV in APAC. For example, we see them taking shape in Singapore with MAS' Data Collection Gateway (DCG), in Hong Kong with the HKMA's GDR initiative, and in Australia with APRA's Comprehensive Data Collection program and the APRA Connect facility. Changes like GDR heavily impact data sourcing and collection, data management, aggregation, and risk calculations. Likewise, regulators' advancement of more automated and sophisticated reporting/submission/disclosure methodologies put new pressures on firms at the disclosure and reporting stages to conform functionally and technically with requirements for XML submissions to portals or even to enable direct data collection by the regulator.

The sheer complexity of Basel IV calculation changes already has – or certainly will now incite financial institutions to undertake comprehensive reviews of strategic data sourcing and architecture.

So, Basel IV in APAC is bigger than you may think… Provokes need for strategic change under the hood – functionally and technically.

Basel IV in APAC brings sizable changes that will force banks to replace internally built legacy systems replete with spaghetti code or lumbered with vendor solutions that are not elastic, robust, or complete enough to cope with the many complexities of Basel IV rules implementation and evolution.

Some of the sticking points will arise from the need for:

- **Correct interpretation of and precise adaptation to jurisdictionally nuanced local Basel IV rules**
- **Laser-focused analytics to understand implications of the many complex calculation changes**
- **End-to-end transparency, data lineage, and deep-dive understandability**

The sheer complexity of Basel IV calculation changes already has – or certainly will now incite financial institutions to undertake comprehensive reviews of strategic data sourcing and architecture. Maintaining tight lineage to prove out accuracy is critical considering the volume of change. Having transparency into the results and the ability to dissect the data at multiple levels of consolidation and rule treatment is paramount. And direct integration with reporting is critical to avoid potential leakage across complex report allocations and breaks in the reporting logic.

On top of the SA floor requirement, business users will also need the ability to run various scenarios on the source data and on simulated data sets to assess current and future risks and opportunities. Also, there is a substantial change in the manner of submitting Pillar 1 reports to a regulator. This creates an increased burden to correctly allocate intermediate results and final risk-weighted assets (RWA) to Pillar 1 and submission files.

As Basel IV in APAC rolls out, what's next?

With only one- or two-years' time remaining until go-live dates across APAC, financial institutions must act now. Asking themselves challenging questions such as the following – can kick-start the change needed to be ready in time.

We help clients address these kinds of questions and navigate the many deviations and complications surrounding Basel IV's changes.

With Adenza, you can achieve an end-to-end, future-proof Basel IV operating model – in APAC or wherever you are in the world.

- ***Can we source and incorporate all the new data elements required without having to resort to manual supplements and/or additional interventions and controls?***
  Firms need to anticipate that the increased granularity and new datapoint needs under Basel IV, such as trade attributes for SA-CCR and sensitivities data for FRTB, will stress their sourcing capabilities and put upstream data lakes/feeds into flux. They also need to keep in mind that their current data architectures may lack the nuance, flexibility, and transparency necessary to execute against Basel IV rules changes.

- ***Does our system enable expected higher volume runs and multiple runs?***
  Anticipating the need to run data-intensive calculations more frequently, particularly for the new Output Floor, Leverage Ratio (LR), and Large Exposure (LE) calculations, firms must re-evaluate the performance of their current regulatory solution.

- ***Can we efficiently cope with the increased level of disclosure requirements?***
  Financial institutions need to take into account the increased complexity and need for agility as reporting deadlines loom in the context of still evolving regulations.

- ***Do we have the performance capacity and the lineage and drilldown capabilities that will enable us to produce timely runs that give us visibility into and traceability of our aggregation and calculation results?***
  Increased disclosure data granularity requirements mean increased aggregation, so firms need to assess if their current systems are performant and transparent enough.

- ***Are we capable of dealing with rules that heighten the need to reconcile overlapping and/or interconnected disclosures?***
  Firms that today run reporting out of various functional silos that tap separate data sources are acutely aware that to reconcile at the new required level will be a highly manual, labor-intensive, and potentially error-prone process. They need to consider new approaches/processes to reduce risk in terms of internal audit and regulatory scrutiny exercises.

- ***Can we validate the new complex calculations?***
  Firms are acknowledging the need to evaluate if they are resourced appropriately to identify what is correct/optimal for the roll out of Basel IV in APAC.

- ***Will we be able to reuse the same, consistent data and rely upon production-quality processes to support the newly mission-critical what-if and stress-testing analysis?***
  There is a need to rethink the firm's analytic capabilities and replace spreadsheet-bound and black-box systems.

- ***Does our front office communicate with our regulatory-reporting function adequately?***
  Adequate connectivity between the trading and banking books is now required to create an efficient, consistent, and strategic approach for the credit and market risk requirements of Basel IV in APAC.

We can help you navigate the many deviations and complications of implementing Basel IV's changes and develop an end-to-end, future-proof Basel IV operating model – in APAC or wherever you are in the world.

Contact Adenza tto discuss your questions, concerns, and plans around Basel IV in APAC.

For more information, contact
communications@adenza.com
www.adenza.com

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