Comparison of proposed standards in key jurisdictions

	BCBS (2017 reforms)	Proposed EU approach (CRR III & CRD VI)	Proposed UK approach (CP 16/22)
Output floor	Basel introduces a new overall floor for modeled RWAs set at 72.5% of standardized RWAs. This applies at the organization level across all risk types with a five-year transitional period.	The EU follows the Basel approach (72.5%) and transition. However, it provides for an extended transition (8 years) for unrated corporates, low-risk mortgages and derivatives. In addition, IRB firms are granted transitional preferential treatment (to 2032) for unrated corporates and residential mortgages. The output floor applies at the EU group consolidated level although there is an approach specified to apportion floored RWAs at the consolidated level to subsidiaries in each EU country. This will result in the impact being distributed across the countries in which an EU group operates.	The UK follows the Basel approach and transition. The output floor applies at consolidated UK level and RFB consolidated level for UK-headquartered groups. It does not apply to entities of non-UK headquartered groups.
Wholesale credit risk - SA	Basel makes several changes to the treatment of wholesale exposures to increase risk sensitivity. There is a reduction on the mechanistic reliance on credit ratings, requiring banks to conduct sufficient due diligence, and developing a granular non-ratings-based approach for jurisdictions that cannot or do not wish to rely on external credit ratings. Basel introduces a flat 100% risk weighting for unrated corporates in jurisdictions that allow an ECRA. In jurisdictions that follow the SCRA, a risk-sensitive approach is introduced with investment grade corporates risk-weighted at 65% and non-investment grade at 100%. Basel introduces a new 85% risk weight for unrated corporate SMEs.	The EU generally follows the Basel approach. It applies the 100% risk weighting for unrated corporates in line with Basel; however, there is a carve out for IRB firms when calculating output floors (65% risk-weighting if PD <0.5%). The EU position on SMEs is unchanged with exposures either categorized as retail SME, 75% risk weighting, or corporate SME, 100% risk weighting. The EU is also proposing to keep the SME support factor in place. In contrast to the UK, the EU is proposing to keep the infrastructure support factor. This allows for lower risk weights for exposure to specified projects.	The UK generally follows the Basel approach. However, it introduces a risk-sensitive approach (permission required) for unrated corporates with a 65% risk weighting for investment grade and 135% for non-investment grade. This sits alongside the ECRA for rated corporates exposures. The UK is proposing to adopt the 85% risk weight for unrated corporate SMEs (annual turnover more than £40m) and retain the lower risk weight of 75% for retail SMEs. Alongside these changes, the UK is proposing to withdraw the SME support factor. The UK is proposing to apply a more risk-sensitive approach to project finance exposures – largely the same exposures to which the existing CRR infrastructure support factor applies. As a result, the infrastructure support factor is proposed for removal.

	BCBS (2017 reforms)	Proposed EU approach (CRR III & CRD VI)	Proposed UK approach (CP 16/22)
Retail credit risk - SA	Basel introduces increased risk sensitivity for residential mortgages replacing the current flat risk weight. In the revised SA, mortgage risk weights depend on the LTV of the mortgage. Basel provides two approaches to risk-weighting residential mortgages (i) whole loan approach and (ii) a loan splitting approach. The value of the property will be maintained at the value measured at origination unless national supervisors elect to require banks to revise the property value downward.	The EU generally follows the Basel approach, with the EU proposing a loan splitting approach for residential mortgages. However, to calculate LTV, banks are permitted to revalue property assets after origination and can adjust upwards if certain conditions are met, for example, the value of the property (or a comparable property) should not exceed the average value over the last six years. Linked to the output floor, there is a carve out for IRB firms that sets the standardized risk weight for residential mortgage loans up to 55% LTV at 10% until 31 December 2032.	The UK generally follows the Basel approach, with the UK proposing a loan splitting approach for residential mortgages. To calculate LTV, the UK proposes that the valuation of property assets should be at origination, but this can be updated to a current value when remortgaged.
Wholesale credit risk - Internal ratings-based approach	Basel removes A-IRB for: ‣ Large and mid-sized corporates, with consolidated revenues > €500m ‣ Banks and other financial institutions For equity exposures, the IRB approach is completely removed. There is no change in the modeling options available for Sovereign exposures. Introduces new PD, LGD and EAD input floors for IRB. ‣ Corporate, PD (5bp) and LGD (unsecured 25%, secured varied)	The EU generally follows the Basel approach but puts in place transitional arrangements for the LGD input floor for specialized lending.	The UK generally follows the Basel approach but goes further by removing all modeled options for Sovereign exposures.
Retail credit risk - Internal ratings-based approach	Basel introduces input floors for retail exposures: ‣ Mortgages, PD (5bp) and LGD (5%) ‣ QRRE transactor, PD (5bp) and LGD (50%) ‣ QRRE revolver, PD (10bp) and LGD (50%) ‣ Other retail, PD (5bp) and LGD (varied)	The EU follows the Basel approach.	The UK generally follows the Basel approach but proposes a more conservative PD floor for residential mortgages and QRREs (10 bp).
Operational risk	Basel simplifies the framework by replacing four current approaches with a single SA.	The EU follows the Basel approach and uses its national discretion to set Internal Loss Multiplier at 1.	The UK follows the Basel approach and uses its national discretion to set Internal Loss Multiplier at 1.
Credit valuation adjustment (CVA)	Basel views CVA as a complex risk and is often more complex than most of the positions in banks' trading books. As a result, Basel removes the use of the internally modeled approach, replacing it with (i) an SA; and (ii) a basic approach.	The EU broadly follows Basel; however, it excludes exposures to sovereigns, non-financial counterparties, and pension funds clients from the CVA RWA charge.	The UK broadly follows the Basel approach with some areas of divergence. In line with Basel, the PRA proposes no exemptions for exposures related to sovereigns, non-financial counterparties and pension funds from the CVA charge. However, to some extent, this is offset by a reduction of the alpha factor under the SA-CCR approach from 1.4 to 1 for non-financial counterparties and pension funds which is a divergence from both Basel and the CRR.

	BCBS (2017 reforms)	Proposed EU approach (CRR III & CRD VI)	Proposed UK approach (CP 16/22)
Market risk (FRTB)	Through the FRTB, Basel overhauls the SA framework to make it more risk-sensitive and mandatory for all trading banks. As part of the reforms, there is a new capital charge for residual risks. In respect of modeling, Basel overhauls the existing IMA approach. Banks are now required to calculate capital using expected shortfall as a risk measure, and NMRFs are included within the capital calculation. Another change also sees IMA approvals granted at trading desk level with new back testing requirements imposed, and model eligibility is now subject to a profit and loss attribution test.	The EU calls for a 1 January 2025 implementation date which represents a two-year delay to the Basel go-live of January 2023; however, this is in line with several jurisdictions, including the UK. The EU's proposals generally follow Basel. However, some of the core components of the rules are still to be further defined in a series of draft regulatory technical standards. Additionally, the proposals include a provision that allows the European Commission to amend the market risk capital calculation approaches of any major discrepancies with other major jurisdictions, by 31 March 2024.	The UK broadly follows Basel with some divergences. For SA, these relate to the definition of jump-to-default for the purpose of the default risk charge capital calculation, sticky-strike Vega, as well as the introduction of a "carbon trading" risk bucket and a proposed new approach for the treatment of CIUs. For IMA, the consultation includes divergences relating to the ability of banks to include the impact of NMRFs when performing desk level backtesting, a detailed specification of the NMRF stress period selection, and a new capital charge for non-data-related risk modeling deficiencies under the existing Risks Not in Model (RNIVM) framework.
Off balance sheet	Basel introduces a revised definition of commitment, based on contractual arrangements entered into by firms. It proposes a new 10% CCF for unconditional cancellable commitments. For direct credit substitutes (including standby letters of credit serving as financial guarantees for loans and securities), a 100% CCF is proposed.	The EU introduces a transitional period where institutions are permitted to apply a 0% CCF for unconditionally cancellable commitments until 31 December 2029.	The UK broadly follows Basel; however, it sets a higher CCF for "other commitments."

Divergence from Basel   No Divergence from Basel

Glossary

A-IRB – Advanced internal ratings-based approach
BCBS – Basel Committee on Banking Supervision
CCF – Credit conversion factor
CP 16/22 – Consultation Paper 16/22 'Implementation of the Basel 3.1 standards'
CRD – Capital Requirements Directive
CRR – Capital Requirements Regulation
CVA – Credit valuation adjustment
EAD – Exposure at default
ECRA – External credit risk approach
FRTB – Fundamental Review of the Trading Book
IMA – Internal models approach
IRB – Internal ratings-based approach
JTD – Jump to default
LGD – Loss given default
LTV – Loan-to-value
PD – Probability of default
QRRE – Qualifying Retail Revolving Exposure
RFB – Ring-fenced bodies
RWA – Risk-weighted assets
SA – Standardized approach
SA-CVA – Standardized approach for CVA
SCRA – Standardized credit risk assessment
SME – Small- and medium-sized enterprises

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