



Additional Details On The Update To Our Risk-Adjusted Capital Framework Methodology

April 30, 2024

S&P Global
Ratings

This report does not constitute a rating action

Contents

1. Key Messages
2. Why Now?
3. Key Updates
4. Rating Impact Highly Unlikely
5. Appendix

Key Messages

- On April 30, 2024, we published our updated risk-adjusted capital framework (RACF) methodology criteria.
- This update followed our Jan. 25, 2024, request for comment (RFC) seeking market feedback on our proposal. We also published a related FAQ titled “What's Behind The Proposal To Update Our Risk-Adjusted Capital Framework Methodology?”.
- In response to the market feedback, we also published an RFC process summary that provides an overview of the written comments we received and our responses to this feedback.
- The updated criteria address recently implemented Basel III framework reporting for market risk on trading activities and the credit valuation adjustment (CVA) charge. We also revised the approach for jurisdictions that exempt some asset classes from the regulatory CVA charge by applying a multiplier based on the average proportion of nonexempted counterparties, unless we believe applying a bank-specific multiplier may be material to our analysis.
- Given this is not a fundamental change to the criteria, we anticipate that any rating impact is highly unlikely. Furthermore, the changes are targeted to a limited aspect of the criteria (market risk on the trading book and CVA charge), which affect a limited number of banks currently reporting under the revised Basel III framework.

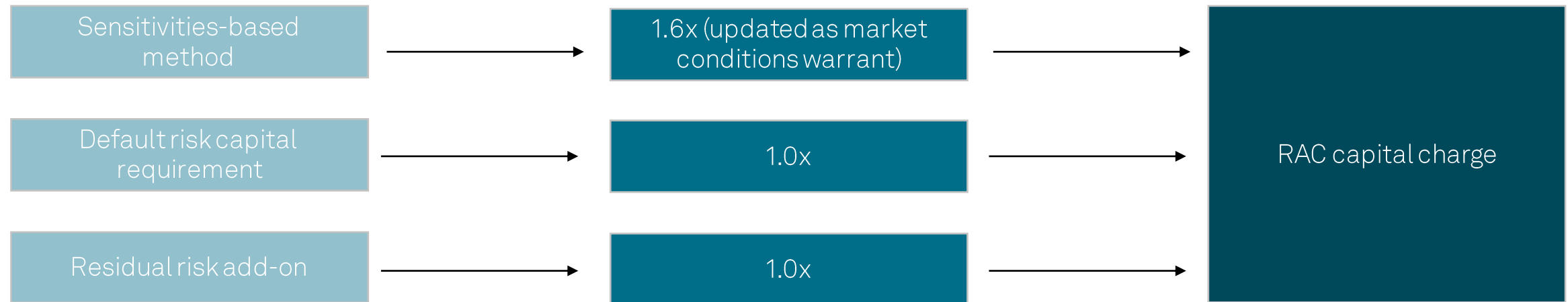
Why Now?

- Some regulators are starting to implement revised Basel III capital requirements.
- The revisions enhance the methods by which banks calculate risk-weighted assets for:
 - Market risks on trading activities; and
 - Risk of posting additional provisions due to a deterioration of creditworthiness of derivative counterparties, absent default (CVA risk).
- In recent months, Korean, Canadian, and some Japanese banks have implemented the revised Basel III reporting for these risks. Other jurisdictions will follow.
- We updated the criteria to address the revised Basel III regulatory calculations for market risk on the trading book and CVA. There are no changes to how we take account of these risks for entities that report under other regulatory reporting standards.
- Our criteria is not affected by the other Basel III reporting changes. This is because our RAC charges for other risks are derived by multiplying risk exposures by our defined risk weights instead of regulatory risk weights. This contrasts with our approach of applying a multiplier to the outcome of the regulatory calculation, which we use for market risk on the trading book and the CVA.

Key Updates: Market Risk In The Trading Book – Revised Basel III Reporting

RACF Multiplier on Basel III Sensitivities-Based Standardized Approach

Basel III Capital Requirements



When the breakout of the regulatory calculation between the sensitivities-based method, default risk capital requirement and the residual add-on is not available, we apply the sensitivities-based multiplier to the balance of the regulatory charge

Entities that are domiciled in Basel III jurisdiction applying the simplified standardized approach: We apply a 1.2x multiplier to the simplified standardized approach regulatory charge.

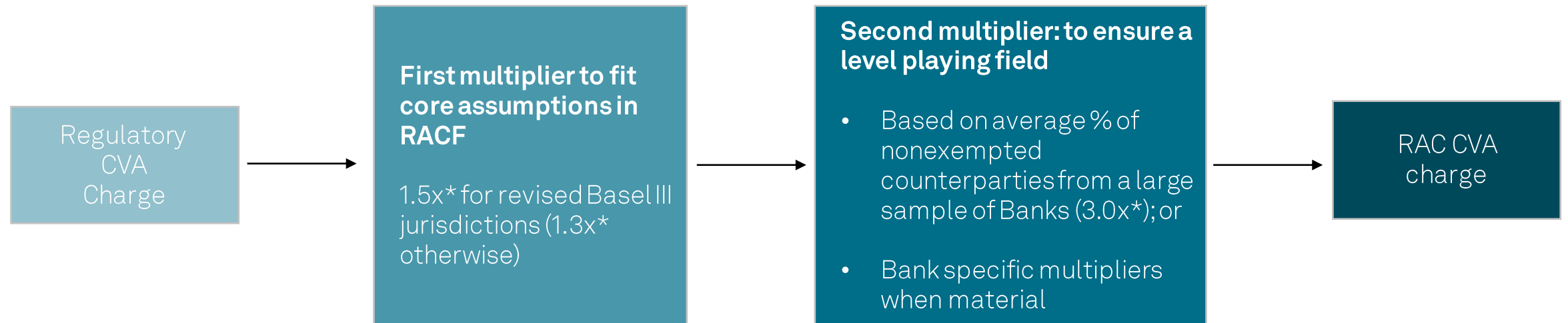
There were no changes for entities reporting under prior approaches such as Basel 2.5.

Key Updates: CVA- Revised Basel III Reporting

- For entities applying the revised Basel III standardized or basic approach in reporting CVA risk, we apply a multiplier of 1.5x, which will be updated as market conditions warrant.
- For entities applying the fallback approach under revised Basel III reporting, we apply the same approach as for banks not publishing a regulatory CVA charge. We compute the RAC CVA charge as a percentage of derivatives receivables (asset side of the balance sheet), with multipliers calibrated on a set of representative banks

There were no changes for entities reporting under prior approaches such as Basel 2.5.

Key Updates: When Some Asset Classes Are Exempted From Regulatory CVA



* Updated as market conditions warrant

This differs from the prior approach of applying a bank-specific multiplier, without considering the materiality of CVA risks.

Rating Impact Highly Unlikely

- The changes target a **limited aspect of the RACF criteria** that only applies to banks using revised Basel III reporting.
- The calibration of the revised Basel III reported trading and CVA risk to a one-year horizon and 99.9% VaR confidence level is consistent with the approach we apply to Basel 2.5 and prior regulatory regimes.
- We recognize that upon transition to the revised Basel III framework, the output of the RACF criteria--the risk-adjusted capital ratio--could materially affect a small number of banks. Nevertheless, we believe any rating impact is highly unlikely because our financial institutions rating methodology considers the RAC ratio in conjunction with the risk position assessment, which specifically addresses factors not already captured in the capital and earnings assessment.
- We similarly don't expect any rating impact for other entities that apply all or elements of the RACF criteria, such as non-bank financial institutions, MLIs, PSFAs, prudentially regulated FMIs or non-U.S. local and regional governments owning, controlling, or guaranteeing a financial institution.

**Thank You - Any Questions,
Please Feel Free To Contact Us**

Financial Institutions Analytical Contacts

Mathieu Plait

Paris

+33 14 420 7364

mathieu.plait@spglobal.com

Thierry Grunspan

Columbia

+1 (212) 438-1441

thierry.grunspan@spglobal.com

Chizuru Tateno

Tokyo

+81 3 4550 8578

chizuru.tateno@spglobal.com

Emmanuel F Volland

Paris

+33 14 420 6696

emmanuel.volland@spglobal.com

Mehdi El Mrabet

Paris

+33 14 075 2514

mehdi.el-mrabet@spglobal.com

Guilherme Machado

San Paulo

+30 399 700

guilherme.machado@spglobal.com

Matthew Albrecht

Englewood

+1 (303) 721-4670

matthew.albrecht@spglobal.com

Methodologies Contacts

Steven Ader

New York

+1 (212) 438 1447

steven.ader@spglobal.com

Michelle M Brennan

London

+44 20 7176 7205

michelle.brennan@spglobal.com

Marta Castelli

Buenos Aires

+51 11 4891 2128

marta.castelli@spglobal.com

Terry Sham, CFA, FRM

London

+44 20 71760432

terry.sham@spglobal.com



Appendix

S&P Global
Ratings

Assumptions Applied In Calibrating Our Criteria Update

- The standardized sensitivities-based and internal model regulatory calculations for market risk, though different in the application of bank-specific assumptions, are calibrated consistently for confidence levels and liquidity time horizons. This supports our assumption that the regulatory charges are calibrated to a 97.5% expected shortfall and varied liquidity horizons by asset and sub-asset classes.
- The **1.6x multiplier applied to the sensitivities-based method** converts the regulatory confidence levels and liquidity time horizons to the one-year horizon and 99.9% VaR confidence level underpinning our RACF criteria. Our multiplier was derived from our analytical judgement based on assessing available data from a representative sample of major banks with meaningful trading activities. The multiplier will be updated periodically as market conditions warrant. Our one-year liquidity horizon assumption is supported by our belief that although some trading positions can be quickly unwound, they would likely be replaced by new trading positions as the bank continues to take risks to support its income-producing activities.
- The **1x multiplier to default risk under the Basel III standardized approach** is consistent with the Basel III assumptions of a one-year holding period and a 99.9% confidence level. The 1x multiplier to the Basel III standardized approach residual add-on risk reflects that the regulatory charge is anticipated to be less than 5% of the total charges.
- The **1.2x multiplier for banks applying the Basel III simplified standardized approach** recognizes that the Basel calibration is consistent with the prior Basel standardized approach except for the scalars to the calculated charge.
- Our **1.5x multiplier for CVA risk for banks applying the revised Basel III standardized or basic approach** applies a similar approach to the sensitivities-based method, given that the same underlying principles are applied to the regulatory calculation.

Related Publications

Criteria and Related Publications:

- [Risk-Adjusted Capital Framework Methodology](#), April 30, 2024
- [RFC Process Summary: Risk-Adjusted Capital Framework Methodology](#), April 30, 2024
- [Request For Comment: Risk-Adjusted Capital Framework Methodology](#), Jan. 25, 2024
- [What's Behind The Proposal To Update Our Risk-Adjusted Capital Framework Methodology?](#), Jan. 25, 2024

Other Research on Basel Developments:

- [Credit FAQ: How the U.S Proposes to Implement Basel III Capital Rules And The Impact on U.S Bank Capital Ratios](#), Jan. 11, 2024
- [EU Banking Package: Inconsistencies Temper Framework Improvements](#), Jan 9, 2024
- [Basel III Bank Capital Rules in Europe: Delayed and Diluted](#), Oct. 28, 2021
- [The Basel Capital Compromise For Banks: Better Buffers, Elusive Comparability](#), Jun 3, 2021

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge) and www.ratingsdirect.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/ratings/usratingsfees.

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

spglobal.com/ratings

S&P Global
Ratings