

Implementation Progress for Basel IV -Asia Pacific

December 2023



Progress and Challenges

Member jurisdictions of the Basel Committee for Banking Standards have made further progress as of October 2023** in implementing the Basel IV standards for the initial deadline as well as the finalised reforms. However, the compliance deadlines vary across different jurisdictions, which is adding a further level of complexity to the process for banks with an international presence. This paper highlights the key implementation dates across a number of jurisdictions in Asia Pacific, the challenges faced by banks in the region, and shares some guidance on what banks need to do to ensure that they meet the crucial deadlines.

Basel IV Implementation Timelines Across Key Markets in APAC

Jurisdiction	Key Risk Areas			
	Fundamental Review of Trading Book (FRTB)	Credit Risk	Credit Valuation Adjustment (CVA)	Operational Risk
Chinese Mainland	01-Jan-24	01-Jan-24	01-Jan-24	01-Jan-24
Hong Kong (SAR)	01-Jul-24* 01-Jan-25	01-Jul-25	01-Jul-24* 01-Jan-25	01-Jul-2025
Singapore	01-Jul-24* 01-Jan-25	01-Jul-24	01-Jul-24* 01-Jan-25	01-Jul-24
Indonesia	01-Jan-24	01-Jan-23	01-Jan-24	01-Jan-23
South Korea	01-Jan-23	01-Jan-23	01-Jan-23	-
Australia	01-Jan-26	2026	2026	01-Jan-23
Japan	31-Mar-24^ 31-Mar-25#	31-Mar-24^ 31-Mar-25#	31-Mar-24^ 31-Mar-25#	31-Mar-24^ 31-Mar-25#

* Commencement date for reporting only, with the regulatory requirements taking effect on a later date

** Basel Committee reports on Basel IV implementation progress. Retrieved from <https://www.bis.org/press/p231003.htm>

^ Commencement date for internationally active financial institutions and non-internationally active financial institutions that use internal model-based approaches for measuring risks

Commencement date for non-internationally active financial institutions that do not use internal model-based approaches for measuring risks⁸

© 2023 KPMG Advisory (Hong Kong) Limited, a Hong Kong (SAR) limited liability company and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



Key Challenges

Due to the breadth and complexity of the changes across jurisdictions under the final Basel IV reform package, banks with an international presence are facing several multi-faceted challenges in implementing these reforms. Implementation deadlines across Asia vary, with the earliest being 1 September 2023, and the latest being in 2026. This diverse regulatory picture adds a level of complexity for banks when implementing Basel IV and reporting the results.

Market Risk



- Implementation of the new banking book/trading book boundary poses the biggest challenge, as it could change the bank's business model, in particular, the banking book FX and interest rate hedging activities, as well as the issuance and hedging of structured investment products
- Banks encounter challenges in sourcing necessary data and ensuring data quality. For instance, determining bucket and risk weight for equity delta involves three dimensions: market capitalisation, economy and sector. Assigning bucket names can be complex, compounded by the dynamic nature of market capitalisation that requires monthly updates

Credit Risk



- New methodology for exposure classifications and risk-weight calculations has undoubtedly increased the data management burden for risk-weighted assets. (eg SCRA grade for bank exposures and the 1.5 multiplier for currency mismatch for unhedged retail exposures)
- Difficult to estimate accurate risk-weighted assets (RWA) by product due to ambiguous regulatory direction regarding the classification of synthetic products
- Lack of strategy planning on RWA and capital optimisation

Operational Risk



- Outdated or lack of end-to-end controls on the accuracy and completeness of the data at all stages of the RWA calculation process
- Ten years of high-quality historical data on the frequency and severity of losses are often not available
- Challenges in data modelling, parameter estimation, and calibration to ensure accurate and reliable risk quantification under the standardised measurement approach (SMA) for operational risk capital calculation

Steps to Regulatory Compliance

Key actions that banks should take to ensure compliance include:

1. Regulatory Gap Analysis



- Conduct a detailed gap analysis on the bank's existing data and calculation methodology against the Basel IV requirements; review the existing and required asset class categorisation requirements; analyse and remediate the gaps identified.

2. Data Gaps and Data Remediation



- Understand the bank's data, walk through data field definitions in the associated source systems against the new Basel IV requirements from the respective regulators; perform data quality analysis and checking against the requirements; propose updated data enhancements.

3. System Design, Implementation and User Acceptance Testing



- Design and implement an appropriate RWA/ FRTB/ SMA calculation system based on Basel IV requirements by incorporating robust methodologies, algorithms and data models.
- Develop user acceptance test plans and cases to cover all major functionalities in compliance with new Basel IV requirements; propose data field amendment recommendations.

4. Risk Governance Enhancement



- Provide recommendations on governance framework which could include any RWA optimisation considerations; recommendations on RWA calculations, market risk and capital management-related policies and procedures; banking and trading book boundary policy; and model validation on products valuation enhancement.

How KPMG can help

KPMG is a market leader in Basel standards interpretation and implementation. We offer a suite of solutions to help you navigate Basel IV implementation, including the following key areas:



Gap Analysis

- Analyse existing credit risk capital documents, and identify gaps in procedures and methodologies in meeting the new requirements
- By leveraging the expertise of our local teams across the region, we will provide our insights on the various requirements and rules
- End-to-end rule traceability from rules to your policies and procedures, business requirements, functional requirements and user acceptance testing (UAT)
- Drafting detailed action and remediation plans, and leveraging the Basel IV implementation experiences from our teams across APAC



Implementation Support

- Support on remediating the data quality and regulatory conformance gaps identified
- Upgrading data, systems and internal and external reporting infrastructure
- Design a UAT test plan and the test cases to cover all major functionalities for compliance of the regulation and requirements
- Updating bank policies and procedures to ensure conformance to the regulation



Post Implementation Optimisation

- Planning for and managing any increase in capital requirements
- Optimising risk management practice, risk appetite statement and limit setting
- Ongoing model review and system optimisation to support accurate risk measurement and regulatory compliance
- Asset portfolio adjustments and balance sheet optimisation in response to changes in risk weightings

Contact us



Michael Monteforte
Partner,
Financial Risk Management
KPMG China
T: +852 2847 5012
E: michael.monteforte@kpmg.com



Gemini Yang
Partner,
Financial Risk Management
KPMG China
T: +852 3927 5731
E: gemini.yang@kpmg.com



Robert Zhao
Partner,
Financial Risk Management
KPMG China
T: +852 2978 8939
E: robert.zhao@kpmg.com



Tom Jenkins
Partner, Head of Financial Services
Governance, Risk and Compliance
Services
KPMG China
T: +852 2143 8570
E: tom.jenkins@kpmg.com



Dr Yan Li
Director,
Financial Risk Management
KPMG China
T: +852 3927 5660
E: yan.l.li@kpmg.com



Yi-Hsin Wang
Director,
Financial Risk Management
KPMG China
T: +852 6715 0966
E: yihsin.wang@kpmg.com



kpmg.com/cn/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Hong Kong (SAR).

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.