

## Basel III:

# Mitigating Banking Risk Through Regulation

Developed to strengthen risk management, governance and transparency in banking, Basel III is a far-reaching reform of regulation in the sector. Firms need a fundamental rethink of their systems and processes to achieve compliance.

## What do firms need to know about **Basel III**?

**Basel III is a comprehensive set of reform measures designed to avoid a repeat of the global financial crisis in 2008 by managing risk and liquidity within the international banking sector. Despite an original deadline of 2015, firms are now working to prepare to comply with the new rules by January 2023.**

The Basel III reforms have three key aims:

- 1) Improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- 2) Improve risk management and governance
- 3) Strengthen banks' transparency and disclosures

The changes target bank-level (or microprudential) regulation to improve the resilience of institutions during periods of stress. They also address system-wide (macroprudential) risks that can build up across the sector as a whole. These two approaches to supervision are complementary as greater resilience at the individual bank level reduces the risk of system-wide shocks.



## What are the challenges of **Basel III** compliance?

**A major reason for the severity of the 2008 crisis was that the banking sectors in many countries had built up excessive on and off-balance sheet leverage. This was accompanied by a gradual erosion of the level and quality of the capital base. The banking system was therefore unable to absorb the resulting systemic trading and credit losses.**

In response, Basel III achieves far-reaching reform of the global banking system. The new standards aim to:

- Reduce banks' incentive to take excessive risks

- Lower the likelihood and severity of future crises
- Enable banks to withstand the stresses of a financial crisis (without resorting to government support)

This represents a fundamental reorganisation of how banking institutions operate and how they manage systemic risk across their business units. It means that firms need to rethink their systems and processes - and not just within their finance function.

## How Millennium Consulting can help with **Basel III**

**As well as demonstrating compliance, firms will have to show they can measure risk in their operations. For many, this means getting rapidly up to speed with the identification and implementation of new processes and systems infrastructure to be ready for the deadline.**

Creating future-proof procedures will also be a key step, with Basel IV widely expected to follow the arrival of Basel III. This will only create more stringent capital requirements and greater financial disclosure - adding to the huge data volumes firms will have to process at high speed to achieve compliance.

Businesses need to build their systems infrastructure around the ability to deliver compliance now and in the future. It is more of a shift in mindset than a quick technical fix - and the experienced Millennium Consulting practitioners can help you make that journey.

We also work in partnership with a wide variety of technology vendors to supply solutions that overcome the challenges associated with Basel III.

Contact us to find out more about how we can help you deliver Basel III compliance:  
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