



Basel 3.1: The time to act is now

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On 27 September 2023, the Prudential Regulation Authority (PRA) [announced](#) a six-month delay to the go-live date for the Basel 3.1 reforms, to 1 July 2025, providing welcome relief for firms grappling with tight implementation timelines.

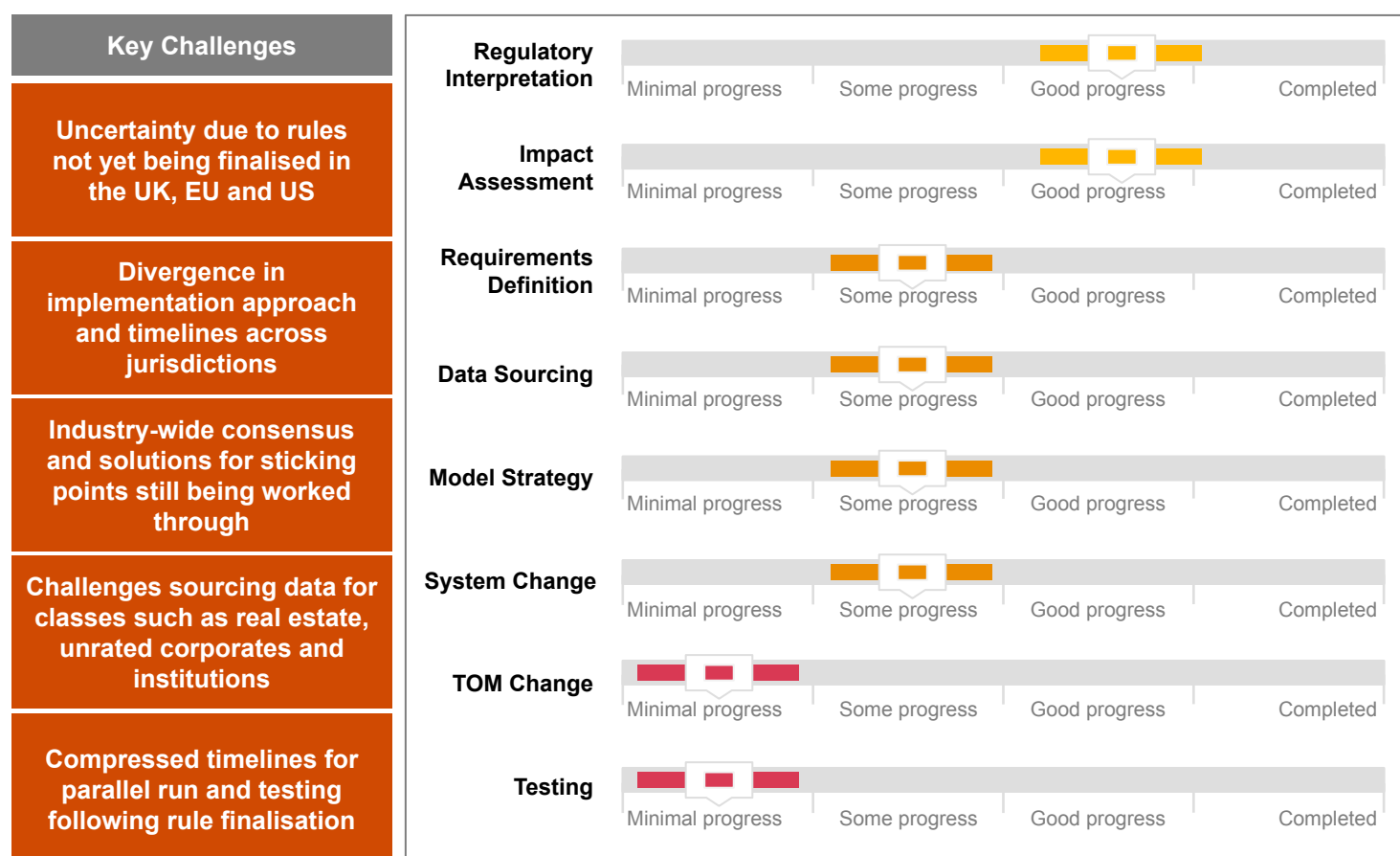
Basel 3.1 represents the most significant banking capital reform in over a decade, making significant modifications to requirements across both standardised and internal model approaches for credit risk, market risk, credit valuation adjustment (CVA), counterparty credit risk, and operational risk. The reforms will also result in a significant shift in firms' operating models, necessitating changes to approaches to capital management and the processes and controls leveraged in the production of the regulatory returns.

Whilst most firms have commenced implementation based on the PRA's draft proposals, which were published in November 2022 through Consultation Paper [CP16/22](#), significant work remains across the industry. Particular challenges relate to sourcing additional data required to perform calculations in line with revised methodologies, implementing and testing new regulatory calculations, and embedding a strategic approach to output floor management.

Final rules are now expected across two releases – in Q4 this year, covering market, CVA, counterparty and operational risks, and Q2 2024 in relation to credit risk, the output floor, and reporting and disclosure requirements. Whilst on the one hand this means uncertainty over the most material components will remain well into the new year, it allows for a staggered approach to some discrete components of implementation and testing, and reiterates the need to act ahead of rules being finalised.

Notwithstanding the delay, both achieving compliance and making the necessary strategy and operating model decisions to support capital and operational optimisation remains a challenge. Last week's announcement provides an opportunity to stand back and reassess implementation plans with a strategic focus, looking at opportunities to invest in solutions supporting both change and ongoing operations. Wherever you are in your implementation programme, the message is clear: *now is the time to maintain momentum and tackle implementation head on.*

Firms have made some progress across the board, despite rules still being finalised both in the UK and other major jurisdictions. However, uncertainty remains across a number of key areas. This paper takes stock on current implementation progress and explores the key challenges firms are facing in understanding and implementing the new requirements, as well as the capabilities required for success.



What are the current industry challenges?

Although the majority of firms have already initiated large-scale Basel 3.1 implementation programmes, a number of challenges have emerged across key activities. The extension to implementation timelines provides an opportunity to both work through these challenges and ensure a strategic approach to implementation.

Regulatory Interpretation



- Digesting and understanding impacts of regulatory rule changes on data, calculations and processes
- Managing rule divergence across jurisdictions
- Updating existing interpretations and identifying additional material interpretations, including associated governance

Impact Assessment



- Sourcing and validating data and assumptions used for quantitative analysis
- Understanding the impact of the output floor on capital requirements over time
- Understanding and managing the impact of multiple potential constraints (leverage, output floor, Pillar 2, etc)
- Reflecting impact in capital allocation, business strategy and pricing

Requirements Definition



- Managing conflicting business priorities across regions/divisions, including other firm-wide change programmes and initiatives
- Implementation of diverging global frameworks
- Trade-off between tactical and strategic solutions given timeline for implementation

Data Sourcing



- Sourcing of new data attributes for back books (e.g. three property limit, transactor vs. non-transactor)
- Data quality remediation and maintenance (e.g. retail SME, currency mismatch)
- Ability to document and maintain end-to-end data lineage
- Use of external/third party data and alignment to internal standards

Model Strategy



- Determining modelling strategy at portfolio, product, desk and/or business unit/legal entity level
- Performing cost-benefit analyses to support determination of optimal model landscape and outsourcing strategy
- Managing interplay with ongoing model remediation programmes e.g. IRB repair

System Change



- Complex strategic architecture design and implementation
- Ensuring timely delivery of systems integration, migration and upgrades before regulatory deadline
- EUC management and streamlining of manual adjustments
- Trade-off between off-the-shelf and bespoke functionalities

TOM Change



- Reflecting increased granularity of capital requirements in downstream processes such as pricing and business planning
- Operationalisation of output floor management process
- BAU operating model, resourcing strategy and process automation for ongoing compliance obligation management and monitoring

Testing



- Performing UAT and validation/assurance over implementation ahead of go-live
- Implementation of a robust framework for ongoing assurance over compliance in BAU, including substantive testing
- Embedding control testing in BAU
- Additional annual self-assessment and attestation requirements

The capabilities you need for successful Basel 3.1 implementation

The right combination of subject matter expertise, human effort and technology is required to support an efficient and effective implementation across all phases of your programme to ensure you maximise the benefits that can be realised.

Human led

Deep regulatory expertise – coupled with sufficient workforce capacity – is required to understand, assess and implement Basel 3.1 in a manner that ensures robust and timely compliance.

To get this right, you will need a team of UK regulatory and modelling SMEs with experience in complex regulatory interpretations, requirements design and implementation, as well as insight into market solutions. Depending on your structure, you may also need to assess the differences between current and future rules across multiple jurisdictions.

You will need to select and deploy the right vendor and internal solutions within your end-to-end environment, and ensure robust post-implementation review and testing to give you comfort ahead of go-live.

Tech powered

Basel 3.1 provides an opportunity to invest in strategic solutions to support both implementation and ongoing compliance management and assurance, as well as to review legacy systems and processes. Targeted use of versatile tooling solutions can support efficient and effective delivery across all stages, from impact assessments to testing.

A range of multi-purpose digital capabilities can support you through end-to-end implementation, including:

Quantitative impact analysis and forecasting tools to aid planning and portfolio strategy

Dynamic calculation and visualisation solutions for capital management

AI-driven data mining for data sourcing from non-digitised historical transactions

Rapid challenger model development solutions to support model strategy decisions

Diagnostic of EUC risk to enable automation of manual adjustments

Loan-level RWA calculation tooling to support both UAT and ongoing assurance

Off-the-shelf capital calculation data and process control checks

Workflow-based regulatory self-assessment solutions



We have an experienced team that can support your implementation journey. Please get in touch to understand more about our capabilities and digital assets.

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