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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Premonition of 'Inflation', etc.

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《index》

1. # [Premonition of 'Inflation' \(Tsuyoshi Oyama\)](#)
2. # [Basel Committee and the Prospect of International Regulation \(Yuri Nakano\)](#)
3. # [Will the Market Goes Back Where it was at the Beginning of This Year? \(Toshikazu Kumagai\)](#)
4. [Seminars, Conference & Publications](#)

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2. Overview of Development in Financial Regulations (Trends & Topics)

Basel Committee and the Prospect of International Regulation (Yuri Nakano, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

The Basel Committee convened on November 28th and 29th in Chile Santiago. Conflicting issues such as the approach to measure credit risk-weighted assets was discussed at the meeting drawing attention of whether the committee could reach an agreement. Although the details of discussions at the meeting has not been disclosed, BCBS Chair Stefan Ingves touched on the high level summary of the meeting in his keynote speech at the 19th International Conference of Banking Supervisors. In his speech, he emphasized the difficulty to reach consensus across multiple jurisdictions facing many different issues and constraints, the need to compromise for all members, the difficulty to achieve a meaningful compromise, and the limits of international standard setting, which implies his continuous efforts to lead the international committee.

He mentioned that the meeting have made very good progress and the contours of an agreement are now clear, and introduced the high level summary as follow:

- ◆ A revised standardised approach to credit risk which will be more risk- sensitive than the current standardised approach, and more consistent with the internal model-based approaches.
- ◆ The revised framework will largely retain the use of internal models but with the safeguards provided by input floors and revision to the foundation IRB approach.
- ◆ A revised standardised approach for operational risk will replace the four existing approaches, including the Advanced Measurement Approach, which is based on banks' internal models.

- ◆ A leverage ratio surcharge for globally systemically important banks will be introduced to complement the risk-based G-SIBs (Global Systemically Important Banks) surcharge.
- ◆ Finally, an aggregate output floor will be part of the package of reforms. It will be based on the standardised approaches, and the final calibration of the floor is subject to endorsement by the GHOS (Group of Governors and Heads of Supervision)

The rules are expected to be finalized at the GHOS meeting which will be held at the beginning of January 2017 and the details are expected to be disclosed after the endorsement. BCBS Chairman closed his speech by saying “It is time to get the job done, to move forward, and focus more on supervision and implementation. While the Committee will continue to develop standards as and when needed, the time to finalize Basel III has come”. More than 25 years has passed since the introduction of the Basel I Capital Accord. Basel framework has experienced many global crisis since the introduction, which lead to the substantial revisions of the framework and now is about to reach its final stage.

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