



THE 2024 REVISED BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

Benefits and Practical Challenges for Emerging Markets and Developing Economies

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ABBREVIATIONS

AC	additional criterion/criteria
BCBS	Basel Committee on Banking Supervision
BCPs	Basel Core Principles for Effective Banking Supervision
CP	Core Principle
EC	essential criterion/criteria
ECL	expected credit loss
EMDEs	emerging markets and developing economies
US	United States
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSI	Financial Stability Institute
GFC	global financial crisis
ICT	information and communication technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
NBFI	non-bank financial intermediary
NGFS	Network For Greening the Financial System
RPT	related party transaction
SICR	significant increase in credit risk
SOB	state-owned bank
SOE	state-owned enterprise
SSM	single supervisory mechanism
UTP	unlikeliness to pay

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EXECUTIVE SUMMARY

This paper examines the benefits and implementation challenges of the newly revised Basel Core Principles (BCPs) for effective banking supervision. It outlines the rationale for the 2024 reform led by the Basel Committee on Banking Supervision (BCBS), highlights key enhancements, and provides insights to help supervisors—particularly those in capacity-constrained jurisdictions—align with the updated standards. While the paper primarily focuses on emerging markets and developing economies (EMDEs), the topics and issues it addresses are relevant to supervisors in all jurisdictions. The topics can be of value to policy makers involved in regulatory reform, as well as stakeholders engaged in technical assistance and capacity building in banking supervision.

Rather than using a principle-by-principle review, the paper has a topical approach to discussing the revisions. It identifies and analyzes the most salient thematic changes—such as operational resilience, climate and digitalization related risks, and governance—explaining their rationale and intended supervisory outcomes. This framing is intended to help readers grasp the broader direction and policy intent behind the updates as well as how these changes interact to strengthen supervisory frameworks.

First issued in 1997 and last revised in 2012, the BCPs serve as the de facto global minimum standard for sound prudential regulation and supervision of banks. They are used by national authorities to benchmark supervisory effectiveness and by the World Bank and International Monetary Fund (IMF) in the context of Financial Sector Assessment Programs (FSAPs). This timely update, shaped

by broad consultation, is in response to a shifting financial landscape, integrating lessons from recent crises, structural trends, and feedback from global stakeholders.

The revision preserves the foundational architecture of the Core Principles while introducing targeted enhancements in several critical areas. These updates include the integration of a leverage metric into capital adequacy, more granular expectations for credit risk management, and the introduction of operational resilience—emphasizing governance, cybersecurity, and business continuity. The updated BCPs also strengthen expectations for macroprudential policy and supervision and explicitly embed climate-related and digital financial risks into oversight practices.

Furthermore, the reforms raise supervisory expectations by upgrading several previously additional criteria to essential status, particularly in the areas of liquidity risk, interest rate risk, major acquisitions, and corrective and sanctioning powers. They also expand the focus on corporate governance, risk culture, and transparency while addressing the growing systemic footprint of non-bank financial intermediation.

Although these changes are expected to improve the resilience and discipline of banking systems globally, they may present practical challenges for all jurisdictions and in particular for lower-capacity jurisdictions, even when applied proportionally, as prescribed by the BCPs. The paper focuses the discussion of implementation challenges on areas deemed most relevant and demanding for EMDEs—those with the greatest supervisory implications or requiring new capabilities and institutional adjustments.

Among the main challenges, meeting higher expectations for operational and financial risk management requires capabilities that are still developing in many jurisdictions. The shift to operational resilience, for instance, demands

expertise in cybersecurity, information and communication technology (ICT) risk, and third-party oversight, while forward-looking provisioning under expected credit loss models calls for robust data, modeling capacity, and supervisory judgment—all often in short supply.

As an emerging risk, integrating climate-related risks into supervision remains difficult owing to limited data and scarce expertise, in addition to weak coordination. Although such risks are already materializing in many EMDEs, scenario analysis and climate stress testing remain resource intensive and nascent, underscoring the need for targeted support and greater cooperation.

Robust legal powers, institutional independence, and enforcement capacity have been areas where EMDEs often struggle. Raising supervisory expectations for governance, business model sustainability, and transparency will further test the institutional and legal framework. Many jurisdictions face political interference, underdeveloped governance frameworks, and legal or reputational constraints that complicate the disclosure of supervisory actions and the oversight of state-owned banks.

Finally, effectively applying proportionality—a key tenet of the revised BCPs—remains a persistent challenge. Where supervisory capacity is limited, it can lead to either excessive leniency or overly rigid rulemaking. Strengthening the practical application of proportionality will require clearer methodologies, peer learning, and sustained investment in supervisory tools and skills.

To overcome these challenges, EMDEs will need to adopt a strategic, phased approach to implementation—prioritizing the most critical areas and leveraging available support. Strengthening supervisory capacity requires sustained investment in skills development, data infrastructure, and analytical tools. Collaborating with international partners, engaging in peer learning platforms, and

participating in technical assistance programs can accelerate progress. Legal and institutional reforms—particularly those that bolster supervisory independence and governance oversight—will also be essential. Above all, embedding proportionality into supervisory practice must go hand-in-hand with building the judgment and risk-sensitivity needed to apply it effectively.

By offering a pathway to addressing these challenges, the revised BCPs present a strategic opportunity for jurisdictions to reinforce supervisory credibility, strengthen banking sector governance, and build long-term resilience. Achieving this, how-

ever, will require sustained domestic commitment, targeted technical assistance, and international support.

While the proportionate implementation of the 2024 revisions to the BCPs should be a priority for supervisors, the establishment of a strong foundational supervisory system remains the cornerstone of effective oversight. Key elements—such as clear responsibilities and objectives centered on safety and soundness, independence, adequate powers, robust governance, and sufficient resources—form the essential building blocks of a resilient supervisory framework.



CONTEXT, MOTIVATION, AND EXPECTATIONS OF THE REVISION



1.1 Background

In 2024, the Basel Committee on Banking Supervision (BCBS) revised the international standard governing the regulation and supervision of banks. The updated Basel Core Principles (BCPs) and assessment methodology were published in April 2024.²

As stated by the BCBS, the BCPs are the “de facto global minimum standard for sound prudential regulation and supervision of banks and banking systems.”³ They provide a universal benchmark

for evaluating the adequacy of legal and regulatory frameworks, as well as the capacity of supervisory authorities to identify and monitor the full spectrum of risks taken by banks.

Although the BCPs form part of the broader Basel Framework, their scope is not confined to internationally active banks or jurisdictions that are members of the BCBS. The proportionate approach embedded in the BCP methodology ensures their universal applicability across all types of banks

2. Basel Committee on Banking Supervision (BCBS), “Core Principles for Effective Banking Supervision (Bank for International Settlements [BIS], 2024), <https://www.bis.org/bcbs/publ/d573.htm>.

3. BCBS, “Core Principles,” p.7.

and jurisdictions—reflecting differences in size, complexity, and risk profile.

As demonstrated by multiple financial crises, weaknesses in banking systems can pose serious threats to financial stability—at both the national and global levels. The BCPs help strengthen supervisory systems by offering a benchmark for supervisory frameworks. While they play a critical role in promoting financial sector resilience, the BCPs are not designed to prevent all bank failures. Rather, they aim to ensure that banks operate under sound governance and risk management practices and that supervisors are empowered to take timely and effective action to preserve system stability.

Beyond their technical role in strengthening supervision, the BCPs also underpin global efforts to benchmark and assess supervisory effectiveness. Their role is institutionalized through the World

Bank-IMF Standards and Codes Initiative, where banking supervision is recognized as one of 12 key policy areas essential for effective economic and financial governance.⁴ The BCPs are applied in World Bank and IMF Financial Sector Assessment Program (FSAP) evaluations and in the preparation of Reports on the Observance of Standards and Codes.

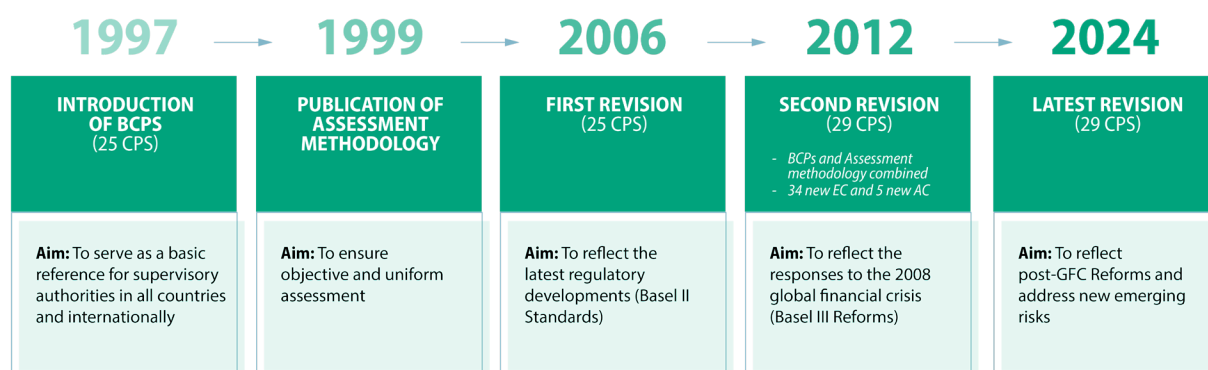
Reflecting the evolving landscape of prudential supervision, the BCPs have been periodically revised to remain aligned with global developments and supervisory practices. Since the BCPs' initial release in 1997, these updates have served to reinforce minimum standards for effective oversight in line with supervisory and industry developments, reflecting structural shifts in banking systems and insights gained from FSAPs.

1.2. The Motivation behind the 2024 Reform

The BCPs were originally published in 1997 and complemented in 1999 with an assessment methodology aimed at promoting more objective and consistent evaluations across jurisdictions. The first major revision took place in 2006, incorporating significant changes in risk management practices, supervisory approaches, and the growing complexity of cross-border banking. This revision also integrated elements of the Basel II framework, which had a transformative impact on prudential regulation and supervision. A second major update followed in 2012, driven by lessons learned from the 2008 global financial crisis (GFC). That version sought to address gaps revealed during the crisis and reflect key elements of the Basel III reforms.

In 2022, the BCBS launched a comprehensive review of the BCPs to align them with regulatory and supervisory developments that had emerged since the 2012 revision. The updated BCPs, published in 2024, reflect the regulatory shifts and structural transformation in the banking sector over the past decade. They incorporate key lessons from the COVID-19 pandemic and the March 2020 banking turmoil. They also take into account the various documents issued by the BCBS since 2012 and address supervisory challenges stemming from digitalization and climate-related financial risks (see figure 1).

4. Fabiana Melo, Katharine Seal, and Valeria Salomao Garcia, “2024 Revised Basel Core Principles for Effective Banking Supervision” (Policy Paper 2024/037, International Monetary Fund [IMF], 2024), <https://www.imf.org/en/Publications/Policy-Papers/Issues/2024/08/02/2024-Revised-Basel-Core-Principles-for-Effective-Banking-Supervision-553136>.

Figure 1.1: The Evolution of the BCPs

Source: The World Bank and Banco de España.⁵

Note: AC = additional criteria; BCPs = Basel Core Principles for Effective Banking Supervision; EC = essential criteria; GFC = global financial crisis.

Experiences from FSAP evaluations also played a key role in shaping the 2024 revision. As noted earlier, the BCPs are assessed during FSAP evaluations, during which IMF and World Bank staff examine the degree of compliance with international standards across both advanced (IMF only) and emerging economies. Analysis of a range of assessment reports produced

by both institutions since the 2012 BCP revision has yielded valuable insights that have informed the BCBS reform process. Certain principles consistently received weaker ratings, particularly those related to independence, powers and resources, transactions with related parties, problem assets, risk management, corporate governance, and operational risk.

1.3. What Has Changed—and What Has Not

The 2024 revision reflects the BCBS's commitment to strengthening supervision to respond to evolving risks while preserving consistency with established frameworks. In addition to targeted changes to several core principles discussed in this paper, the update introduces enhancements that strengthen the framework without altering its foundational architecture.

Continuity in Foundational Elements

Several core components remain unchanged, underscoring the robustness of the existing framework. The “Preconditions for Effective Banking Supervision” are still considered fit for

purpose and required only minor amendments. Similarly, the “Assessment Methodology”—used by the IMF and World Bank in FSAPs and Reports on the Observance of Standards and Codes—remains largely the same, including the grading criteria, which continue to offer a stable and objective basis for assessing compliance. Minimal changes were made to the structure and guidance for IMF/World Bank assessment reports, preserving the integrity and consistency of past and future assessments.

The Number of Core Principles Remains Unchanged

Unlike the 2012 revision, which expanded from

5. Asunción Alonso, Danae Durán, Belén García-Olmedo and María Antonia Quesada, “Basel Core Principles for Effective Banking Supervision: An Update After a Decade of Experience” (Banco de España, 2024).

25 to 29 principles, the 2024 update maintains the total at 29 Core Principles (CPs). However, the number of essential criteria (ECs) has increased, reflecting higher supervisory expectations. Notably, nine additional criteria (ACs) have been upgraded to essential in key areas such as major acquisitions (CP7), corrective actions (CP11), corporate governance (CP14) and risk management (CP15), interest rate risk in the banking book (CP23), liquidity risk (CP24), and disclosure and transparency (CP28).

Targeted Adjustments to Structure and Presentation

Although the overall structure of the Core Principles has seen only slight modification, the 2024 version significantly revised the introductory sections to better reflect contemporary supervisory challenges and reinforce proportionality. Additionally, explanations of certain terms used in the Core Principles were included to promote clarity, consistency, and comparability in how jurisdictions interpret and apply the principles. Notably, a new annex has been added, which will catalogue relevant Basel standards, guidelines, and sound practices that have been published after the latest revision. This constantly updated annex reflects that supervision is not static. The annex

is intended as a resource on supervisory practices and emerging risks that have evolved since the last comprehensive review of the BCP.

Conceptual Clarifications

The revised framework offers a clearer articulation of the concept of proportionality (discussed in detail in chapter 3), which is central to tailoring supervisory expectations to the size, complexity, and risk profile of supervised institutions and to the characteristics of a particular financial system. This greater emphasis on proportionality aims to enhance consistent interpretation and application across jurisdictions.

Immediate Implementation

The revised Core Principles and their accompanying methodology are intended for immediate implementation. This decision underscored a strong commitment to raising supervisory standards globally without delay. At the same time, it is acknowledged that many jurisdictions may require time to fully align with the new expectations. The overarching goal is to support the development of a resilient and forward-looking global banking system.



KEY CHANGES AND THEIR EFFECTS ON ENHANCING BANKING SUPERVISION



This section presents the key areas of change and the expected benefits for both supervisors and banks.

2.1. Financial Risks

The GFC had a profound impact on the oversight of financial systems. Building on lessons learned from the GFC, more recent vulnerabilities, and key elements of the Basel III reforms, the 2024 revisions introduce significant updates to strengthen banks' resilience to financial risks. These enhancements are even more critical for emerging markets and developing economies

(EMDEs), where financial systems are often more exposed to weaknesses in credit markets, external shocks, and volatile funding conditions as observed in FSAPs.

The updates focus on reinforcing capital adequacy standards, improving credit risk management, modernizing and strengthening provisioning practices and the management of problem assets,

and sharpening oversight of concentration risks and interest rate exposures.

Introducing a Non-Risk-Based Measure

Revisions to Core Principle 16 (Capital Adequacy) require jurisdictions to adopt—or empower supervisors to impose—a non-risk-based measure of capital, complementing risk-based capital requirements. While the 2012 methodology broadly called for constraining leverage, the revised standard makes this expectation explicit by introducing a new essential criterion aligned with the Basel III leverage ratio framework. The non-risk-based measure must capture all on- and off-balance-sheet exposures, serving as a backstop against the build-up of excessive leverage and, in the case of more complex banking systems, risk model shortcomings. As with risk-based capital requirements, jurisdictions are not required to implement the Basel III leverage ratio per se; however, the change ensures that even jurisdictions that have not fully implemented Basel III adopt a minimum safeguard against systemic vulnerabilities.

Strengthening Credit Risk Management Practices

Updates to Core Principle 17 (Credit Risk) expand the scope of supervisory expectations by requiring banks to adopt a more comprehensive and forward-looking approach to credit risk management. Supervisors are now expected to ensure that banks identify and assess all sources of credit risk, including exposures beyond the loan book, and integrate forward-looking information into risk assessments and loss estimation methodologies in line with the BCBS's "Guidance on Credit Risk and Accounting for Expected Losses."⁶

The revisions also heighten the focus on counterparty credit risk—including transactions with non-bank financial entities—and clarify expectations concerning securitization exposures.

These enhancements are particularly relevant for advanced economies, although exposures related to counterparty credit risk and securitization are also emerging in some EMDEs and may become more material over time.

Problem Exposures, Provisions, and Reserves: Improving Early Intervention and Supervisory Oversight

Core Principle 18 (Problem Exposures, Provisions, and Reserves) was revised to strengthen supervisory expectations regarding the early identification and management of deteriorating exposures and the setting of adequate provisions. The updated principle applies to all provisioning approaches used for prudential purposes—including incurred loss models, expected credit loss (ECL) models, and calendar provisioning frameworks. The revisions align supervisory expectations with the BCBS's guidance on problem assets and ECL accounting.⁷ As with credit risk management, the revisions broaden the scope of supervisory expectations by replacing "assets" with "exposures" to explicitly capture off-balance-sheet items. Banks are now required to review and validate their credit loss provisioning and write-off practices through an independent control function, ensuring stronger governance. CP18 better articulates supervisory expectations concerning (a) the early identification, classification, and management of problem exposures and (b) setting prudent provisions and reserves. Banks' boards are now explicitly tasked with approving key policies on exposure classification, provisioning, management of problem exposures, and write-offs, reinforcing governance standards consistent with CP17. Further, updates to Principle 18 require alignment with the BCBS guidance on problem assets, which provides a clear definition of nonperforming exposures as (a) unlikelihood to pay (UTP), (b) 90 days past due, (c) defaulted exposures, and (d) credit-impaired exposures under the applicable accounting framework. Additionally, the concept of forborne exposure has been introduced as a critical

6. BCBS, "Guidance on Credit Risk and Accounting for Expected Losses" (BIS, 2015).

7. BCBS, "Guidance on Credit Risk" and BCBS, "Prudential Treatment of Problem Assets—Definitions of Nonperforming Exposures and Forbearance (BIS, 2017).

component of asset classification.

Supervisors are required to have clear authority to access information on risk mitigants, including collateral and write-offs, and to require banks to adjust their methodologies for classifying exposures and determining provisions—an important safeguard under ECL frameworks like International Financial Reporting Standards (IFRS) 9.

These changes provide critical tools and further empower jurisdictions to address long-standing challenges regarding delayed recognition of credit deterioration, underprovisioning, and asset quality misreporting—issues frequently documented in FSAPs. They also reinforce the fact that credit risk stemming from instruments and transactions beyond the loan portfolio can have a significant impact on banks' balance sheets and highlight the importance of broad supervisory oversight. By promoting stronger early intervention and more reliable provisioning, the revised CP18 helps strengthen financial sector resilience.

Sharpening Oversight of Concentration Risks and Large Exposures

Core Principle 19 (Concentration Risk and Large Exposure Limits) was enhanced to better reflect the BCBS's 2014 large exposures standard. The definition of connected counterparties was clarified;

the importance of setting large exposure limits based on Tier 1 capital was addressed through an additional criterion. In addition, the principle now explicitly recognizes that concentration risk can arise not only from credit exposures but also from market, funding, and collateral sources—including geographic, sectoral, commodity, and currency concentrations. These refinements are particularly relevant for EMDEs, where concentrated exposures and undiversified funding sources are common structural vulnerabilities.

Enhancing the Management of Interest Rate Risk in the Banking Book

The 2023 banking turmoil, the most significant since the GFC, brought to light the importance of proper management and oversight of interest rate risk in the banking book. Targeted updates to Core Principle 23 (Interest Rate Risk in the Banking Book) require supervisors to assess how banks' internal systems capture interest rate risk, particularly in light of customer behavior and embedded options in banking products. Supervisors must also obtain standardized assessments of the impact of interest rate shocks on both banks' economic value of equity and on earnings. These enhancements are critical because exposure to interest rate volatility and fluctuating capital flows can materially affect banks' balance sheets and income stability.

2.2. Emerging Risks

The 2024 revision addresses two critical and evolving threats—climate-related financial risks and risks stemming from the digitalization of finance.⁸ While these risks are not new, their growing impact on financial stability has made it imperative to formalize both supervisory expectations and banks' risk management practices. These revisions promote a more forward-looking, risk-sensitive approach to supervision and are highly relevant for EMDEs,⁹ where such risks have already had material effects on financial systems and where supervisory and institutional capacity may be more

limited.

Digitalization and Technology-Related Risks: Strengthening Oversight and Resilience

When the BCPs were revised in 2012, digital transformation was already gaining momentum, but since then it has significantly reshaped the financial landscape. The rapid expansion of financial technology, artificial intelligence, and innovative financial products and services has

8. The changes to the BCPs are grounded in, and should be read in conjunction with, the Committee's previous materials, such as the BCBS "Principles for the Effective Management and Supervision of Climate-Related Financial Risks" (BIS, June 2022) and BCBS "Sound Practices: Implications of Fintech Developments for Banks and Bank Supervisors" (BIS, February 2018), among others.

9. Even though the BCBS did not specifically target emerging economies.

created new opportunities for financial inclusion and efficiency. However, these advancements have also introduced new risks, particularly where the proliferation of digital financial services has, at times, outpaced regulatory and supervisory frameworks. In response to these challenges, the BCBS acknowledged that CP15 on risk management processes is broad enough to cover many of the risks arising from digitalization.¹⁰ However, several targeted amendments have been made to other CPs.

The revised standard enhances Core Principle 1 (Responsibilities, Objectives, and Powers) by requiring supervisors to be granted the power to access all relevant information—regardless of where it is stored—and to review the overall activities of the banking group, including those carried out by service providers.¹¹ Core Principle 10 (Supervisory Reporting) has been strengthened to require banks to provide information that enables the assessment of the materiality of emerging risks. Although the new language does not explicitly mention risks arising from digitalization, the concept of “emerging risks” is broad enough to encompass these new threats and allow supervisors to monitor them more effectively. Supervisors should ensure that reporting mechanisms adequately capture technology-related vulnerabilities and evolving threats.

As discussed extensively in the following section, the revisions to Core Principle 25 (Operational Resilience) significantly expand requirements for banks to enhance operational resilience, particularly in the face of cyber threats, information technology disruptions, and third-party service dependencies. Banks must implement comprehensive business continuity plans, regularly test their resilience frameworks, and strengthen their capacity to respond to cyber incidents and operational disruptions.

These reforms bring notable benefits. By formalizing supervisory expectations and reinforcing banks’ responsibilities, the revisions provide a clearer and more consistent framework for managing digital risks. Additionally, the enhanced oversight of outsourcing arrangements ensures that risks linked to third-party providers are no longer treated as residual or secondary. By requiring clear governance over outsourcing, the new BCPs help close a longstanding supervisory gap that had become more pronounced with the shift to digital technologies.

Climate-Related Financial Risks: Enhancing Risk Management and Supervisory Expectations

The revised BCPs now explicitly require both banks and supervisors to adopt frameworks that can address climate-related financial risks in a comprehensive and forward-looking manner.

The BCBS defines climate-related financial risks as the potential risks that may arise from climate change or mitigation efforts, their related impacts, and their economic and financial consequences. While climate-related financial risks were implicitly addressed in the 2012 BCPs under the general requirement to monitor all material risks, the 2024 update makes expectations explicit by embedding targeted enhancements across several core principles rather than introducing a standalone principle.

Under the revised Core Principle 8 (Supervisory Approach), EC4, supervisors must now integrate climate-related financial risks into their risk assessment of banks. This could include assessing banks’ strategies, governance structures, and risk management practices to ensure they can identify, measure, monitor, and mitigate material climate-related financial risks.

10. The BCBS opted not to refer to specific products (for example, crypto assets) or technologies (for example, artificial intelligence, distributed ledger technology) within the text of the BCP because doing so could risk rapid obsolescence as different technologies evolve.

11. As indicated in the footnote to EC5 of CP1, “access” includes supervisory access in person to the bank’s premises and to senior executive staff and the board (both individual members and as a whole) as needed. The revised EC7 of the same CP stipulates that the supervisor has access, whether directly or through the supervised bank, to all necessary information for conducting such a review irrespective of where it is available. Another useful source to consider is the BCBS, “Principles for the Sound Management of Third-Party Risk” (Consultative Document, BIS, 2024), <http://www.bis.org/bcbs/publ/d577.htm>.

The revisions to Core Principle 10 (Supervisory Reporting), EC1, require banks to strengthen their risk reporting frameworks to include climate-related financial risks. Specifically, supervisors must have the authority to mandate that banks submit information that enables an assessment of the materiality of climate-related financial risks.

Similarly, the revised Core Principle 15 (Risk Management Process) explicitly requires banks to integrate climate-related financial risks into their overall risk management frameworks, where these risks are material. This could include incorporating climate risk factors into credit, market, and operational risk assessments, or establishing policies and processes to address both physical risks—such as extreme weather events—and transition risks—including policy shifts affecting

carbon-intensive industries. Recognizing that these risks may materialize over varying time horizons beyond traditional capital planning, banks must implement appropriate measures to manage these risks where they are material. Additionally, Core Principle 26 (Internal Control and Audit) mandates that banks' internal control frameworks consider the risk profile with a forward-looking view, whose time horizon reflects climate-related financial risks.

Together, these revisions offer practical guidance to strengthen supervisory frameworks and reduce systemic vulnerabilities to climate-related shocks. As climate risk becomes more quantifiable, these enhanced expectations will help ensure that financial institutions—and their regulators—are better positioned to manage future disruptions.

2.3. Operational Risk and Operational Resilience

The increasing complexity of the financial system and banks' growing reliance on technology-driven solutions have elevated the importance of operational resilience. Recognizing this, the BCBS introduced a significant revision to Core Principle 25 (Operational Risk and Operational Resilience) in its 2024 update. While retaining key requirements for managing operational risk, the revision broadens the principle's scope to explicitly include operational resilience, reflecting the evolving risk landscape facing financial institutions worldwide.¹²

The revised CP25 places a heightened emphasis on ensuring that banks develop and maintain robust strategies, policies, and processes to manage operational risk and safeguard the continuity of critical operations in the face of disruptions. Banks are now required to adopt a comprehensive approach that not only identifies and mitigates operational risks but also ensures effective response and recovery. Supervisory frameworks should be significantly

strengthened to assess banks' preparedness for and ability to recover from severe incidents, with an explicit focus on minimizing service interruptions.

These changes are keenly relevant for EMDEs, where digital banking, mobile payments, and cloud-based services are expanding rapidly to promote financial inclusion. While such innovation improves access to finance, it also heightens operational vulnerabilities—especially in jurisdictions where supervisory frameworks and information and communication technology (ICT) infrastructure remain underdeveloped. The revised CP25 provides a more robust foundation for addressing these risks, fostering greater resilience across financial systems.

Governance and Strategic Oversight

A key enhancement in the revised CP25 is the strengthened role of the board in overseeing operational resilience. Banks must ensure that their

12. The revision incorporates elements from the BCBS "Principles for Operational Resilience" (BIS, March 2021), which outlines how banks should strengthen their ability to withstand, adapt to, and recover from operational disruptions. The new version also refers to other key reference documents that were issued after the 2012 revision: Financial Stability Board (FSB), "Enhancing Third-Party Risk Management and Oversight" (FSB, December 2023); BCBS, "High-Level Considerations on Proportionality" (BIS, July 2022); BCBS, "Principles for the Effective Management and Supervision of Climate-Related Financial Risks"; BCBS, "Revisions to the Principles for the Sound Management of Operational Risk" (BIS, March 2021); BCBS, "Cyber Resilience: Range of Practices" (BIS, December 2018); BCBS, "Sound Practices: Implications of Fintech Developments"; FSB, "Guidance on Identification of Critical Functions and Critical Shared Services" (FSB, July 2013).

boards approve and periodically review operational risk (for material products) and resilience strategies (EC2), including clearly defined risk appetites and tolerances for disruption. Supervisors must assess whether boards are effectively overseeing senior management and ensuring that operational resilience is integrated into the broader risk management framework.

This stronger governance expectation helps address a common shortfall: insufficient board engagement on operational risks and fragmented accountability for resilience planning. By embedding operational resilience into board-level responsibilities, CP25 promotes better alignment between governance structures and the dynamic operational risk landscape. This is especially crucial in jurisdictions where financial institutions are highly exposed to external shocks, political instability, or infrastructure weaknesses.

Mapping and Safeguarding Critical Operations

The revised CP25 requires banks to comprehensively identify and map critical operations, including the people, processes, technologies, data, facilities, and third-party dependencies essential for their continuity (EC3). This clarity supports institutions' ability to mount an effective response to disruptions that threaten essential services.

Mapping safeguarding operations is especially important in EMDEs and in any jurisdiction where operational resilience can be undermined by unreliable infrastructure—such as unstable power supplies or limited internet connectivity. By mandating detailed mapping of dependencies and vulnerabilities, CP25 encourages institutions to prepare for such contingencies and safeguard trust in digital services that are increasingly central to financial stability and financial inclusion.

Incident Response, Recovery Planning, and Business Continuity

Banks must now establish and maintain incident response and recovery plans aligned with their tolerance for disruption (EC4), drawing lessons from past incidents. Supervisors are expected to ensure that these plans are not merely formalities but are continuously refined and embedded within the broader risk management process.

CP25 also mandates enhanced business continuity testing (EC5), including simulations of severe but plausible events—such as cyberattacks, utility failures, or systemic disruptions. Supervisors must evaluate the comprehensiveness and quality of these tests, promoting the likelihood that institutions can maintain essential functions under disruption.

ICT and Cybersecurity Resilience

The revised CP25 significantly expands the role of ICT and cybersecurity, requiring banks to establish and maintain ICT risk management frameworks that are aligned with their operational risk framework and operational resilience strategies (EC6). Expectations include detection, protection, response, and recovery capabilities that are regularly tested and monitored for vulnerabilities. Banks must demonstrate that their systems can support critical operations even under adverse conditions.

High-profile cyber incidents in recent years have exposed critical weaknesses in financial and public sector digital infrastructure, highlighting the need for strong ICT controls, heightened cybersecurity vigilance, and effective crisis response protocols. These events underscore the systemic vulnerabilities that the revised CP25 now addresses more explicitly, raising expectations for cybersecurity resilience and mandating more active board oversight. This aspect is particularly important—cyber risks are accelerating globally,

and institutions cannot choose to avoid ICT and cybersecurity risks. They must respond effectively to these risks regardless of their location, size, or degree of sophistication or complexity.

Third-Party Risk Management

CP25 introduces more stringent requirements for managing third-party and intragroup dependencies (EC9), reflecting the growing reliance of banks on external service providers for critical operations. Institutions are required to conduct thorough due diligence, establish robust contractual safeguards, and implement ongoing monitoring of outsourced arrangements, including exit strategies and contingency plans.

These provisions are particularly relevant where banks depend on a limited number of global providers for cloud services, payment systems, and core banking infrastructure. The enhanced supervisory expectations under CP25 help mitigate the risks associated with such dependencies by ensuring that banks are adequately prepared for service disruptions and that supervisors can identify and address concentration risks with potential systemic implications.

Change Management and Systemic Risk Oversight

The revised CP25 also elevates expectations for managing change (EC10), requiring banks to assess how new technologies and business expansions affect their operational resilience. Supervisors must verify that banks' change management processes are integrated with risk frameworks and appropriately resourced.

Moreover, the revisions introduce a crucial new dimension: the supervisory assessment of systemic operational risk. Best practice requires supervisors to identify and evaluate industry-wide concentration risks stemming from shared dependencies on critical service providers. These expectations are contained in revised AC1 and new AC2 in recognition of the fact that meeting these standards will be challenging and, for some years at least, aspirational. Where such dependencies threaten broader financial stability, supervisors are expected to take mitigating actions.

This systemic lens is particularly valuable in jurisdictions where financial sectors exhibit high interconnectedness and dependence on a small number of critical infrastructure providers. By encouraging supervisors to assess systemic risk exposure, CP25 enables more proactive interventions to preserve financial-system integrity.

2.4. Systemic Risks and Macroprudential Supervision

The past decade has underscored the importance of adopting a system-wide macro perspective in banking supervision to better identify and assess systemic risks. The GFC revealed that systemic risk can arise not only from traditional banks but also from other financial system participants, such as insurance companies and investment banks. It also demonstrated how such risks can spill across borders, amplified by the international interconnectedness of major financial institutions. In response, the post-GFC period saw a shift

toward macroprudential policies and supervision to strengthen financial stability by identifying and addressing vulnerabilities early and mitigating risks exacerbated by interconnectedness and procyclical behaviors by financial system participants.

Recognizing the growing interconnectivity of the financial system, the 2024 BCPs update introduces important enhancements to strengthen systemic risk monitoring and

macroprudential coordination. Although the 2012 BCPs already clarified that the banking supervisor does not necessarily need to be the macroprudential authority, they emphasized the need for supervisors to consider system-wide risks that could affect the banking sector. The 2024 updates build on this foundation by reinforcing expectations of cooperation between the relevant authorities, systemic risk analysis, and capital planning.

By reinforcing cooperation, broadening the macroprudential perspective in supervision, and providing new tools for capital resilience, the 2024 BCP revisions strengthen supervisory frameworks to better capture and address systemic vulnerabilities at an early stage. These changes are particularly beneficial, offering practical pathways to enhance crisis preparedness, promote cross-border coordination, and build more resilient banking sectors in increasingly interconnected financial environments.

Strengthening Cooperation among Authorities and across Borders

The revisions to Core Principle 3 (Cooperation and Collaboration) broadens the scope of EC2 by emphasizing the importance of close cooperation among all relevant domestic and cross-border authorities in charge of supervision, macroprudential policy, and financial stability, where these functions sit with different authorities. Supervisors are expected to actively exchange information and coordinate responses to systemic risks, reflecting the reality that banking crises can have wide-reaching effects beyond national boundaries. In jurisdictions where cross-border banking is significant and crisis management frameworks may still be evolving, this enhanced cooperation requirement promotes more integrated and timely responses to emerging threats.

Deepening Systemic Risk Analysis in Supervisory Approaches

Updates to EC1 and EC5 under CP8 (Supervisory Approach) require supervisors to examine banks' common behaviors as well as interlinkages that could affect the stability of the banking system. One of the significant amendments introduced to CP8 (EC2) is the requirement for supervisors (in conjunction with relevant authorities) to implement a process for assessing and identifying domestic systemically important banks. Supervisors are expected to publicly disclose an overview of the methodology employed in those assessments. These evaluations must be conducted regularly and promptly, considering the evolving dynamics and risks within the financial system. This represents a shift toward embedding a broader, system-wide perspective that goes beyond the banking system itself into routine supervisory practices. Vulnerabilities can propagate quickly through concentrated banking sectors, as often seen in EMDEs. In those cases, these changes help supervisors better anticipate and mitigate contagion channels, thereby supporting greater financial sector resilience.

Enhancing Capital Planning for Systemic Shocks

The revisions to Core Principle 16 (Capital Adequacy) introduce a new additional criterion (AC3) that supports laws or regulations to allow supervisors (or other relevant authorities) to require banks to maintain additional capital buffers (including sector related) specifically designed to absorb systemic shocks. Such buffers can be released during periods of stress to sustain lending and absorb losses, offering greater flexibility to manage downturns and support system-wide stability. Despite being an additional criterion, in the case of EMDEs, where macroeconomic volatility and external shocks can have outsized effects on banking systems, this provision is particularly important.

2.5. Strengthening Governance, Risk Management, and Transparency

The BCBS has placed a greater emphasis on risk culture,¹³ governance (CP14), risk appetite frameworks, and stress testing within the risk management process (CP15) in the revised standard.¹⁴ Additionally, the revisions introduce requirements for business model sustainability (CP8 and CP15) and strengthen expectations governing transactions with related parties (CP20), enhancing transparency and accountability.

These measures are particularly significant for EMDEs, where FSAP findings indicate that governance frameworks are often weaker, and recent cases have shown that related party transactions—although present in all countries—can be especially harmful in these jurisdictions.¹⁵ The updated principles establish clearer supervisory expectations and enforceable safeguards, reinforcing board accountability, integrating business model sustainability assessments into risk management, and closing loopholes that previously allowed disguised related party transactions. Collectively, these changes are designed to create a more disciplined and transparent banking environment, addressing longstanding weaknesses that have contributed to financial instability in many jurisdictions.

Corporate Governance: Strengthening Board Oversight and Accountability

The revisions to Core Principle 14 underscore the importance of corporate culture and values. The increased emphasis on risk culture aims to address a critical weakness in many jurisdictions, where formal regulatory frameworks may exist but are undermined by weak enforcement and internal governance failures. By explicitly requiring banks

to embed sound corporate values and risk culture into decision-making, the revisions further draw attention to institutions' own accountability and need to provide proactive oversight, helping prevent reckless lending and mismanagement before crises emerge.

The revisions also detail expectations regarding the board and board members, requiring supervisors to ensure that the composition of banks' boards reflects an appropriate balance of skills, experience, diversity, and expertise and that board members, collectively, possess qualifications commensurate with the size, complexity, and risk profile of the bank. While the 2012 revisions required the inclusion of non-executive directors on board committees, the updated BCPs place greater emphasis on board independence, requiring the board to include enough experienced independent directors. In addition, to enhance independence and adaptability, the revisions introduce expectations for board renewal, requiring banks to periodically refresh board membership to promote appropriate skills and independence. These improvements are particularly relevant in EMDEs, where it is not uncommon for boards to be dominated by concentrated ownership or political appointments. Mandating renewal helps mitigate risks associated with entrenched directorships, while enhanced skill requirements ensure boards can navigate increasingly complex financial landscapes. These changes promote stronger oversight and reduce the likelihood of governance failures that have historically contributed to banking crises.

The updated principle highlights that compensation frameworks must be transparent, nondiscriminatory, and structured to mitigate conduct risks that could

13. Risk culture refers to a bank's norms, attitudes, and behaviors related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks.

14. The revisions to the BCPs build on and should be read in conjunction with previous guidance issued by the BCBS and other standard-setting bodies. Key references include BCBS, "Corporate Governance Principles for Banks" (BIS, 2015); FSB, "Toolkit for Strengthening Governance Frameworks to Mitigate Misconduct Risk" (FSB, April 2018); and FSB, "Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices: The Use of Compensation Tools to Address Misconduct Risk" (FSB, March 2018). These materials provide foundational principles and practical tools that reinforce the supervisory expectations embedded in the updated BCPs.

15. Notably due to a lack of robust oversight.

result in financial losses. Greater emphasis has also been placed on board responsibilities, ensuring that board members possess appropriate skills, diversity,¹⁶ and experience to effectively oversee the bank's operations.

Risk Management: Embedding Long-Term Viability Assessments

Past financial crises have demonstrated that banking failures often stem from unsustainable business models characterized by excessive leverage, short-term funding strategies, or risky sectoral concentrations. These vulnerabilities are more common where there are external pressures to finance politically motivated projects or high-risk enterprises, as observed in FSAPs.

The revised CP15 reinforces the need for banks to integrate long-term business model sustainability assessments into their risk management frameworks. Updates also strengthen supervisory approaches by requiring supervisors to assess the robustness of the bank's risk culture and business models. Rather than focusing solely on immediate risks, banks must now evaluate the viability of their business models in relation to the banks' risk appetite, risk profile, and forward-looking business strategies.

This shift reflects a broader recognition that resilience depends not only on managing current risks but also on proactively aligning business strategies with evolving economic and financial conditions. By embedding business model sustainability assessments into risk-appetite

frameworks and forward-looking strategic planning, banks can enhance their ability to generate stable, long-term returns—even in uncertain environments. These changes are particularly valuable in contexts where banking failures have often stemmed from politically directed lending or overexposure to volatile sectors. Strengthening stress testing and improving risk data aggregation will also help supervisors detect vulnerabilities early, reducing the likelihood of systemic distress.

Closing Loopholes to Prevent Toxic Related-Party Transactions

Related party transactions (RPTs) involve financial dealings between a bank and entities or individuals with important ties to it, such as significant shareholders, board members, senior management, and their family members or affiliates. RPTs are vulnerable to conflicts of interest and can be exploited for malfeasance.¹⁷

Several past banking crises have been exacerbated by excessive lending to related entities under preferential terms, leading to significant losses when these loans defaulted.¹⁸ The revised Core Principle 20 introduces a minimum definition of related parties, which explicitly includes beneficial owners and individuals or entities exerting significant influence over the board and senior management. By clarifying the definition of related parties,¹⁹ the revisions will help countries close regulatory loopholes that previously enabled disguised related-party transactions to escape scrutiny.

16. This diversity includes gender. According to an IMF paper, globally, women hold less than 20 percent of bank board seats, with even lower representation in EMDEs. Ratna Sahay et al., "Banking on Women Leaders: A Case for More?" (Working Paper, no. 2017/199, IMF, 2017).

17. See Pierre-Laurent Chatain and Ezio Caruso, "Related Party Transactions: A Blind Spot in Banking Supervision?" Private Sector Development Blog (World Bank), April 02, 2024, <https://blogs.worldbank.org/en/psd/related-party-transactions--a-blind-spot-in-banking-supervision->.

18. According to World Bank, malignant RPTs have been a contributing factor in several major banking crises. For example, during Ukraine's 2014–16 banking crisis, nearly half of the country's banks collapsed due to mismanaged RPTs. In Moldova, excessive lending to related entities led to losses of approximately US\$1 billion in 2014, around 12 percent of its gross domestic product. Iceland's 2008 financial crisis also involved undisclosed large exposures to related parties, culminating in the collapse of major banks. More recently, in Ghana, abusive RPTs resulted in the revocation of several banking licenses in 2017. Similar issues have affected other countries, including Brazil, Bulgaria, Ireland, Portugal, and Türkiye. See "No More Sweet Deals: The Need to Reform Banks' Related Party Transactions" (World Bank Group, 2023).

19. The revised definition of related parties explicitly incorporates both control relationships and economic dependencies, thereby broadening and clarifying the scope of the definition.

Stronger approval processes now prevent individuals with conflicts of interest from participating in RPT decisions.²⁰ Supervisory oversight has also been reinforced. Under the new provisions, material individual RPTs must be reported and regularly reviewed by supervisors, while the previous framework required only aggregated exposure reporting. Yet this increased supervisory oversight may not prevent RPT conflicts of interest in the case of state-owned banks (SOBs). The application of related party oversight often remains limited in cases where SOBs engage with state-owned enterprises (SOEs). In these cases, the related party exposures are often not entirely detected, exposing SOBs to significant concentration risks that are not always fully quantified.

According to FSAP findings, many countries still fall short of international standards on RPTs, especially where weak legal frameworks and insufficient supervisory powers allow abusive practices to persist. The opacity of ownership structures—often poorly understood even at the licensing stage—further complicates effective oversight. In this context, the 2024 revisions are a welcome step forward. By mandating more rigorous approval and reporting mechanisms, the changes will enhance transparency and accountability, significantly reducing the risk of abuse of RPTs.

2.6. Non-Bank Financial Intermediation: Addressing Interlinkages and Systemic Spillovers

As non-bank financial intermediaries (NBFIs)²¹ become more prominent players in global finance, their growing entanglement with the banking system has heightened the need for closer supervisory scrutiny, including in EMDEs, where NBFIs may operate outside regulatory perimeters while playing an increasingly important role in credit provision. These evolving dynamics create new channels of risk transmission and underscore the need for supervisory frameworks that can effectively identify, monitor, and mitigate threats arising from these interconnections.

Since the 2012 update to the Core Principles, financial intermediation has evolved significantly, driven by the proliferation of both traditional and digital NBFIs, including e-money issuers, peer-to-peer lenders, and investment funds. Many of

these entities operate with limited or no regulatory oversight. Yet their growing footprint in credit markets and interlinkages with banks—through funding, guarantees, and risk transfers—have amplified concerns about potential contagion, especially during periods of stress.

Lessons from COVID-19 informed the revision of the BCPs. The March 2020 COVID-19 market turmoil exposed significant vulnerabilities in the global financial system. In what the Financial Stability Board (FSB) and central banks termed a “dash for cash,” investors across the globe rapidly liquidated even the safest assets—such as US Treasuries—to raise cash.²² This behavior was amplified by money market and investment funds, whose actions exacerbated liquidity stress. As market liquidity evaporated, particularly in sovereign bond markets,

20. The new EC4 of CP20 stipulates that banks should “have policies to prevent persons benefiting from the transaction . . . or who otherwise have a conflict of interest from being part of the process of granting and managing the related party transaction.” (Italics added.)

21. The definition of NBFIs used by the BCBS is based on the one by FSB and includes investment funds, insurance companies, pension funds, and other financial intermediaries. See Non-Bank Financial Intermediation: <https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/non-bank-financial-intermediation/>; BIS, “Newsletter on Banks Exposures to Non-Bank Financial Intermediaries” (BIS, November 24, 2022), https://www.bis.org/publ/bcbis_nl31.htm.

22. Dash for cash refers to an extremely high demand for cash and near-cash assets. See “Holistic Review of the March Market Turmoil (FSB, November 17, 2020) <https://www.fsb.org/uploads/P171120-2.pdf>.

central banks intervened with massive asset purchases, repurchase agreement operations, and emergency liquidity facilities to stabilize markets. The specific actors may differ, but such vulnerabilities are particularly acute in EMDEs, where supervisory capacity, data availability, and legal reach may be insufficient to comprehensively monitor and address risks stemming from NBFIs.

While the Core Principles apply to banks, the 2024 revisions reflect a sharpened awareness of the risks NBFIs pose to banking systems, including those affiliated or related to banks. Rather than extending direct supervisory requirements to NBFIs, the revised BCPs strengthen the supervisory lens on bank–NBFI connections through enhancements across several key principles. These changes reinforce a group-wide approach to supervision, expand expectations for risk management, and provide a structured path for EMDEs to build capacity in addressing these risks.

Strengthening Supervisory Powers and Group-Wide Oversight

Revisions to CP1 (Responsibilities, Objectives, and Powers) and CP10 (Supervisory Reporting) reinforce supervisors' authority to assess risks stemming from all material parts of a banking group—including those arising from affiliated or related NBFIs, whether regulated or not, and regardless of jurisdiction. Supervisors are expected to have the legal powers and access to information needed to evaluate these risks on a consolidated basis. This broadens the supervisory perimeter and enables a more holistic view of risk concentrations and transmission channels.

Enhancing Risk Management Expectations for Step-in and Counterparty Credit Risks

The revised CP15 (Risk Management Process), by upgrading an AC to EC²³, explicitly introduces expectations for banks to identify, assess, and manage step-in risk—the possibility of having to support an affiliated entity, including an NBFI, in distress, even in the absence of a contractual obligation. This addition highlights reputational and implicit support risks and aligns supervisory expectations with the reality of complex financial group structures.

Complementing this, CP17 (Credit Risk) has been strengthened to emphasize counterparty credit risk arising from exposures to NBFIs. In EMDEs, where such exposures may be growing but remain opaque, the revised guidance supports stronger risk assessment, due diligence, and mitigation practices, such as collateralization and limit-setting.

The revised BCPs help supervisors better capture risks arising from growing bank–NBFI interlinkages. Without extending the supervisory perimeter, the reform integrates NBFI-related vulnerabilities into key areas of banking supervision—group-wide oversight, risk management, and reporting. This modification provides supervisors with clearer tools and expectations to address emerging threats, strengthening their ability to safeguard financial stability in increasingly complex systems. This development is important in jurisdictions where the NBFI landscape has grown significantly and continues to expand.

23. CP15 EC2 (footnote 34).

2.7. Strengthening Legal Protection for Supervisors

Legal protection for supervisors is a key component of the BCPs because it allows for supervisory actions to be taken without fear of personal liability. A requirement that supervisors should be protected from legal actions when acting in good faith within the scope of their responsibilities has been part of the BCPs since they were first released in 1997 and has been reinforced over the years. In the 2024 revision, while the main text of EC9 under CP2 (Independence, Accountability, Resourcing and

Legal Protection for Supervisors) hasn't changed, a footnote was added to make it explicit that the legal protection should be comprehensive, extending to the members of the Board of Directors and other individuals that support supervisory functions. The footnote also clarifies that legal protection is provided in respect to actions taken, omissions made, or both while discharging their duties in good faith, and hence protection is to remain even after the appointment or employment ends.

2.8. Raising the Bar: From Additional to Essential Criteria

The 2024 revision reflects the BCBS's recognition that supervisory expectations must evolve in response to growing complexity and risk. A key development is the reclassification of several additional criteria (ACs)—once considered suggested best practices for jurisdictions with more complex banking systems—as essential criteria (ECs). These ACs set out practices that exceeded baseline expectations but contributed to greater supervisory robustness. Their elevation to essential status signals that these practices have matured and are now regarded as integral to effective supervision across all jurisdictions.

This shift underscores a broader recalibration: what was once aspirational is now foundational. It reflects the Committee's judgment that supervisory and regulatory capacity—globally—has progressed to the point where these enhanced expectations can be reasonably embedded within minimum standards. For some jurisdictions, the transition may require stronger legal mandates, institutional reforms, and targeted capacity building. In doing so, the revised BCPs promote global convergence around higher supervisory standards and improved financial stability outcomes.

Enhancing Risk Governance and Ownership Oversight

Upgraded ACs under CP7 (Major Acquisitions) and CP14 (Corporate Governance) aim to close longstanding supervisory blind spots, as documented in many FSAPs. Supervisors must now review significant acquisitions by banking group entities (CP7, EC6). In addition, banks are now required to notify supervisors of information that could affect the fitness and propriety of board members or senior executives (CP14, EC9). These measures bolster governance standards across complex ownership structures, a challenge that can be exacerbated in jurisdictions with concentrated ownership or political influence in the financial sector.

Deepening Risk Measurement and Internal Oversight

Revised CP23 (Interest Rate Risk in the Banking Book) and CP24 (Liquidity Risk) integrate advanced risk-monitoring practices into the supervisory core. Banks are now required to submit the results of internal interest rate risk in the banking book models using standardized shocks (CP23, EC4), while supervisors must assess whether these

models adequately capture risks (CP23, EC5). Similarly, supervisors must form a view on asset encumbrance and require banks to disclose and manage these exposures (CP24, EC9). Elevating these expectations ensures that material risks are neither overlooked nor underestimated, a critical enhancement but challenging where supervisory capacity to independently evaluate risk modeling is often limited.

Improving Transparency and Market Discipline

A final set of changes aims to support market-based discipline. Under CP28 (Disclosure and Transparency), the disclosure of risk exposures during the financial reporting period is now essential (CP28, EC2). This ensures that external stakeholders—including investors and counterparties—receive timely and relevant information to assess a bank’s risk profile, fostering trust and confidence in the financial system. For EMDEs, where public disclosures are often sparse or backward-looking, this change reinforces the importance of forward-looking transparency.

Strengthening Supervisory Response and Accountability

The 2024 reform has raised the bar by embedding AC1 and AC2 into the category of essential criteria²⁴ under CP11 (Corrective and Sanctioning Powers) that promote timely and decisive supervisory intervention. By requiring that laws and regulations aim to prevent undue delays in corrective actions (CP11, AC1), and that supervisors notify relevant non-bank financial institution regulators when formal actions are taken (CP11, AC2), the revisions enhance regulatory transparency and interagency coordination. These provisions are especially valuable where legal bottlenecks and fragmented supervisory frameworks can hinder swift responses to emerging risks. Additionally, CP11, EC7 updates now require supervisors to have a clear policy on disclosing sanctions and corrective actions (what to disclose and when) to enhance transparency and accountability, balanced with confidentiality needs and not compromising other supervisory goals.

24. AC1 is now reflected in EC3 and AC2 has been converted into new EC9.



ADDRESSING IMPLEMENTATION CHALLENGES OF THE REVISED 2024 BASEL CORE PRINCIPLES

This chapter examines key implementation challenges posed by the 2024 revision of the BCPs in the areas that had the most significant changes—particularly for jurisdictions with capacity constraints—and outlines recommendations to help address them. The revised BCPs are more comprehensive and demanding than the 2012 version, reflecting a deliberate effort to strengthen supervisory practices and align them with a rapidly evolving financial landscape.

Meeting these heightened expectations will require time, support, and sustained effort from both supervisory authorities and the banks they oversee.²⁵ Implementation cannot happen overnight and will depend on policy alignment, capacity building, and institutional strengthening. A phased and strategic approach should be considered for implementing the revised Basel Core Principles. This includes developing a well-structured action plan that prioritizes reforms based on the specific characteristics of each jurisdiction's banking systems

25. Melo, Seal, and Salomao, "2024 Revised Basel Core Principles."

and the availability of resources. Equally important is the careful assessment of the potential impact of regulatory changes before introducing new rules. Supervisory authorities must evaluate whether they

possess the necessary capacity to implement and enforce the changes effectively, and whether banks' systems and processes are adequately prepared to comply with the new requirements.

3.1 Proportionality

The concept of proportionality in banking supervision is applied so that regulatory requirements and supervisory practices align with banks' systemic importance, risk profiles, and the characteristics of a particular financial system. Its objective is not to weaken standards but to adapt them to each jurisdiction's circumstances and supervisory capacity, maintaining effectiveness while ensuring practicality. The BCPs were designed for universal application, hence the reason for embedding proportionality into the methodology. The 2024 revision reinforces the role of proportionality in supervision, recognizing the need to adapt expectations based on banks' size, complexity, and risk profile without undermining banking system resilience.

Flexibility is crucial to maintaining effective supervision across diverse financial systems. However, applying proportionality in practice remains challenging, particularly in EMDEs, where financial sector complexity, supervisory capacity, and institutional arrangements vary widely. Successful implementation requires flexibility—avoiding a one-size-fits-all approach without oversimplification or regulatory dilution. In 2022, the BCBS issued the “High-Level Considerations on Proportionality” with the objective of supporting jurisdictions in their decision-making process for adopting a proportionate approach.²⁶ In particular, the document includes illustrative technical annexes that, despite not being standards guidelines or sound practices, might be useful to guide supervisors in their implementation efforts.

The use of a proportionate approach to elements

such as prudential regulations and supervisory approach can be critical for supervisory effectiveness. As an example, the BCPs do not expect the implementation of the Basel framework but do expect that certain requirements be broadly aligned with the international standards. The unnecessary use of a more complex set of requirements might result in challenges in implementation and supervision.

Capacity Constraints and the Demanding Nature of Risk-Based Supervision

Building and operating proportionate, risk-based supervisory frameworks requires substantial effort and capacity. Unlike rule-based approaches, risk-sensitive supervision requires deeper assessments, stronger judgment, and robust documentation. Where human and technical resources are limited, this is particularly demanding.

Continued technical assistance by international financial institutions, including the World Bank and IMF, will be crucial to embed proportionality more systematically into supervisory practices under the revised BCPs.

Risks of Oversimplification, Fear of Dilution, and Misuse of Flexibility

Proportionality allows for simplification but carries dual risks:

- Some supervisors may relax standards excessively for smaller banks, leaving risks unaddressed.

26. BCBS, “High-Level Considerations on Proportionality.”

- Others may fear that using flexibility weakens supervisory rigor, leading to overregulation even for low-risk institutions.

These tensions may push supervisors back toward uniform, undifferentiated rules, undermining the very purpose of proportionality. As indicated, BCBS's 2022 "High-Level Considerations on Proportionality"²⁷ already provides valuable principles for applying proportionality without compromising prudential objectives. Expecting additional detailed global guidance may not be realistic or necessary. Rather, practical insights through the compilation of case studies showcasing how supervisors across different jurisdictions have operationalized proportionality successfully might be useful.

Structured Application to Avoid Incoherence

Proportionality must be applied through clear, documented frameworks, not case-by-case improvisation. Without structured criteria and transparency, authorities risk inconsistent decisions, the emergence of pockets of vulnerability, and discontent in a banking sector that recognizes that the rules are inconsistent and unfair.

Rather than a compromise, proportionality can be a catalyst for modernizing supervision—helping authorities better target key risks and allocate scarce resources accordingly. This is especially pertinent where banking sectors are highly heterogeneous, ranging from large systemic banks to microfinance institutions.

Key elements of a strategic approach include the following:

- Developing tiered regulatory and supervisory frameworks calibrated to size, risk profile, and systemic importance;
- Prioritizing risk-sensitive supervision of systemically important banks, while maintaining simpler, robust requirements for smaller banks; and
- Increasing transparency and communication with supervised entities to build credibility.

International support should focus on sharing best practices, facilitating peer learning, and strengthening supervisory capacity to help EMDEs fully leverage the opportunities offered by proportionality under the revised BCPs.

3.2 Implementing Climate-Related Financial Risk Reforms

As discussed earlier, the revised BCPs introduce explicit requirements for banks and supervisors to integrate climate-related financial risks into risk management frameworks and supervisory practices. The BCBS's "Principles for the Effective Management and Supervision of Climate-Related Financial Risks,"²⁸ emphasizes proportionality as a guiding principle; it supports tailoring supervisory expectations to the size, complexity, and risk profile

of financial institutions. Although this approach helps reduce compliance burdens while promoting effective risk integration, its implementation poses challenges for EMDEs. These challenges primarily stem from capacity constraints and data deficiencies. Overcoming these barriers requires national-level reforms, international cooperation, and guidance from global standard-setting bodies, though critical information and guidance can be

27. BCBS, "High-Level Considerations on Proportionality."

28. BCBS, "Principles for the Effective Management and Supervision of Climate-Related Financial Risks."

obtained through BCBS²⁹ and Network for Greening the Financial System (NGFS)³⁰ materials.

Limited Supervisory Capacity and Technical Expertise

Many supervisory authorities lack the institutional capacity and technical expertise to assess and monitor climate-related financial risks effectively. According to a 2023 IMF report,³¹ supervisors in many EMDEs require extensive technical assistance to develop adequate risk assessment methodologies.

To address these gaps, jurisdictions should prioritize targeted training programs and seek technical assistance to strengthen supervisory expertise. Structured learning efforts—including scenario analysis, stress testing, and disclosure frameworks—are increasingly supported by the IMF, World Bank, and the Financial Stability Institute. Pilot stress-testing exercises can help build local supervisory capacity, while partnerships with international institutions and academia can support longer-term skill development through certification and region-specific programs.³²

Data Availability and Quality Constraints

A fundamental challenge in implementing climate-related risk assessments is the lack of reliable and standardized data. Many jurisdictions may face significant data gaps, unlike advanced economies,

where climate risk disclosure frameworks are more developed. Challenges are more acute where financial institutions do not yet collect or report granular data on climate risk exposures, and climate-related economic indicators remain scarce. Experience from FSAPs and technical assistance work confirms that data limitations are widespread across jurisdictions. The IMF's Climate Change Indicators Dashboard shows that the absence of harmonized data sources remains a major hurdle for financial stability assessments.³³

Addressing these data constraints requires close collaboration between financial sector experts and climate scientists to develop comprehensive datasets covering both physical and transition risks.³⁴ Policy makers should prioritize standardized climate risk data collection frameworks, including public-private partnerships to establish centralized repositories. Initiatives like the World Bank's Climate Knowledge Portal serve as a useful model.³⁵ Enhanced international cooperation also is critical for developing consistent cross-border risk analysis, especially for banks with global operations.

Supervisory Coordination and Cross-Border Considerations

Given the interconnected nature of financial markets, climate risks often extend beyond national jurisdictions, posing systemic challenges that require coordinated responses. However, weak

29. See for example, BCBS, "Principles for the Effective Management and Supervision of Climate-Related Financial Risks"; BCBS, "Disclosure of Climate Related Financial Risks" (Consultative Document, BIS, 2023) <https://www.bis.org/bcbps/publ/d560.htm>; BCBS, "A Framework for the Voluntary Disclosure of Climate-Related Financial Risks" (BIS, 2025) <https://www.bis.org/bcbps/publ/d597.htm>; BCBS, "Climate-Related Financial Risks—Measurement Methodologies (BIS, 2021) www.bis.org/bcbps/publ/d518.pdf.

30. NGFS, "Guide for Supervisors Integrating Climate-Related and Environmental Risks into Prudential Supervision" (NGFS, 2020); "NGFS Short-Term Climate Scenarios for Central Banks and Supervisors," NGFS, 2025, <https://www.ngfs.net/en/publications-and-statistics/publications/ngfs-short-term-climate-scenarios-central-banks-and-supervisors>; NGFS Scenario Portal, "Data and Resources," <https://www.ngfs.net/ngfs-scenarios-portal/data-resources/>.

31. Tobias Adrian, "Climate Risks and Financial Stability: What Can Central Banks and Financial Sector Supervisors Do? High-Level Seminar on Climate Change Issues for Governors and Financial Sector Policymakers" (IMF, Bangkok, Thailand, December 12, 2023).

32. Adrian, "Climate Risks and Financial Stability."

33. IMF, Climate Change Indicators Dashboard, <https://climatedata.imf.org/>.

34. Adrian, "Climate Risks and Financial Stability."

35. World Bank, Climate Knowledge Portal: <https://climateknowledgeportal.worldbank.org/>.

cross-border supervisory cooperation mechanisms limit the ability to assess and mitigate these risks effectively. The 2021 FSB Roadmap³⁶ stresses the need for greater global coordination to develop common methodologies for risk assessment and supervision. The FSB has also emphasized in its 2023 Progress Report that supervisory fragmentation remains a key barrier to effective climate risk oversight.³⁷

To overcome these coordination challenges, jurisdictions should strengthen their participation

in supervisory colleges and regional stability forums, as well as the NGFS. These forums facilitate knowledge sharing and promote harmonization of methodologies. Establishing regional climate risk hubs or working groups could further enhance collective oversight. The FSB advocates such mechanisms to bridge data and supervisory gaps, and jurisdictions not already participating would benefit from aligning their efforts with these global initiatives.

3.3 From Risk to Resilience: Challenges in Operational Risk and Operational Resilience

The introduction of operational resilience in the BCPs raises expectations for banks and supervisors across all jurisdictions. The heightened expectations around cyber resilience and ICT risk management require sophisticated technology as well as specialized human capital. Yet these demands can be particularly acute in EMDEs, where attracting and retaining skilled information technology professionals is an enduring challenge. Supervisory agencies themselves may also struggle with limited technical expertise and constrained resources specifically related to ICT, making it harder to effectively evaluate banks' cyber and operational resilience frameworks.

Third-party risk management, another cornerstone of the revised framework, underscores a growing area of concern that is global in scope but can be especially challenging for most EMDEs. Limited availability of service providers and banks' lack of internal resources can hamper the development of exit strategies and weaken business continuity plans. Lack of experience and expertise might also affect the ability of banks to manage the transition process and ensure continuity of services. Moreover, difficulties in enforcing legal contracts and legal disputes might weaken banks' ability to ensure robust outsourcing agreements.

Regarding ICT, expectations can be especially challenging for smaller institutions in low-capacity environments. While all banks—regardless of jurisdiction—face the challenge of updating ICT risk strategies, mapping critical operations, and testing recovery plans, smaller EMDE banks often operate in environments with weaker infrastructure. They may lack the resources and technical capabilities to meet the more demanding requirements.

More broadly, the new emphasis on incident reporting, business continuity testing, and systemic risk oversight places significant demands on governance and management structures worldwide. In EMDEs, these challenges are often magnified by gaps in basic ICT risk frameworks and in the governance capacity needed to integrate operational resilience policies with broader risk management efforts.

In practical terms, in addition to the guidance provided by the BCBS on operational resilience,³⁸ these jurisdictions may benefit from targeted capacity-building programs, technical assistance to strengthen supervisory oversight, and the development of platforms where banks and supervisors share real-time intelligence about cyber threats, vulnerabilities, and incident trends.

36. FSB, "FSB Roadmap for Addressing Climate-Related Financial Risks" (FSB, 2021).

37. FSB, "Progress Report on Climate-Related Disclosures" (Report, FSB, 2023).

38. BCBS, "Principles for Operational Resilience"; BCBS, "Revisions to the Principles for the Sound Management of Operational Risk"; BCBS, "Newsletter on Third- and Fourth-Party Risk Management and Concentration Risk" (BIS, 2022), www.bis.org/publ/bcbs_n128.htm; BCBS, "Principles for the Sound Management of Third-Party Risk."

3.4 Problem Exposures, Provisions, and Reserves

The 2024 revision brought several important updates aimed at promoting the early identification of problem exposures,³⁹ enhancing forward-looking provisioning practices, and strengthening supervisory oversight of provisions that require a significant change in the prudential regulatory and supervisory frameworks. In particular, for jurisdictions that choose to transition from incurred loss to expected credit loss models, this entails a forward-looking approach to credit losses that requires historical and credible data, more expert judgment, and strong technical expertise and supervisory capacity. According to a survey conducted for a 2021 World Bank report,⁴⁰ the most critical issues that banks and supervisors faced with IFRS 9 implementation were data availability, low data quality, modeling risk, and overreliance on expert judgment.

Data Deficiencies as a Barrier to Robust ECL Implementation

Limited data availability and poor data quality pose significant challenges for the development and application of ECL models, particularly in jurisdictions where historical credit data, default histories, and borrower-level information are incomplete or unreliable. These deficiencies undermine the accuracy of risk parameter estimates and reduce the effectiveness of forward-looking provisioning. To address data restrictions, it is essential to strengthen credit data infrastructure, including by developing centralized credit registries and enhancing banks' internal data systems. Industry collaboration through data pooling and standardized reporting can be important tools to improve model calibration.

The Critical Role of Expert Judgment in the ECL Framework

Expert judgment plays a key role in the assessment of ECL frameworks, particularly in areas such as macroeconomic forecasting, significant increase

in credit risk (SICR) assessment, and management overlays. Among other challenges, lack of expertise and limited supervisory resources hinder the ability to assess and challenge model assumptions effectively, which is essential to ensure consistent application of standards across the banking sector.

Expert judgment is also key in the assessment of UTP. Unlike the "90 days past due" rule, UTP relies on a range of qualitative indicators such as borrower insolvency, covenant breaches, or distressed restructuring. Some jurisdictions continue to rely solely on quantitative criteria or do not rigorously apply the UTP criterion. Ensuring proper implementation of UTP requires banks to establish clear internal policies, maintain robust documentation, and apply the criterion uniformly across loan portfolios. Supervisors should play a key role in reviewing the governance regarding UTP decisions, ensuring that classifications are neither overly conservative nor unduly delayed.

To ensure the reliability and consistency of ECL implementation, thematic examinations and in-depth on-site inspections should be conducted with a specific focus on ECL models. These supervisory reviews should assess the soundness of model design, the appropriateness of assumptions and overlays, the robustness of governance frameworks, and the quality of data inputs. By targeting common risk areas such as SICR, macroeconomic scenario development, and management judgment, supervisors can identify inconsistencies, promote best practices, and ensure that provisioning practices remain prudent, transparent, and aligned with regulatory expectations.

Impact of Macroeconomic Volatility on ECL Implementation

In EMDEs, the high volatility and unpredictability of macroeconomic conditions pose significant

39. The 2024 revision makes an explicit reference to forborne exposures (CP18, EC1). It is not discussed in this paper as it is not a significant new development, but forborne exposures should remain an area of supervisory attention, particularly in EMDEs.

40. Ezio Caruso et al., "Accounting Provisioning under the Expected Credit Loss Framework: IFRS 9 in Emerging Markets and Developing Economies—A Set of Policy Recommendations" (World Bank, Washington, DC, 2021).

challenges to the implementation of forward-looking ECL models under IFRS 9. Since ECL estimates are sensitive to economic variables such as gross domestic product growth, inflation, interest rates, and exchange rates, sudden or frequent shifts in these indicators can make the design and calibration of macroeconomic scenarios particularly difficult.

As a result, banks often struggle to incorporate reliable forecasts into their models, and supervisors face difficulties in assessing the plausibility and consistency of banks' forward-looking assumptions. These factors highlight the need for robust governance, expert judgment, and supervisory oversight to ensure that ECL provisioning in EMDEs remains risk sensitive yet credible.

3.5 Supervising for the Long Term: Constraints on Business Model Assessments

The revised Basel Core Principles emphasize the importance of assessing the long-term viability of banking business models, a shift that is particularly timely in light of the 2023 banking turmoil and rising systemic risks. While these revisions offer valuable enhancements for banking supervision, as discussed in chapter 2, they can be challenging. These challenges stem from the structural characteristics of many EMDE banking sectors, including reliance on concentrated revenue streams, vulnerability to external shocks, and exposure to systemic crises.

Vulnerabilities from Concentrated Revenue Streams and External Shocks

In many EMDEs, banks may depend heavily on a narrow set of revenue-generating activities or sectors, including lending tied to commodity exports or, in some cases, to public policy objectives.⁴¹ While the degree of concentration varies across jurisdictions, such reliance can heighten vulnerability to sector-specific downturns and external shocks, such as commodity price fluctuations, geopolitical instability, or macroeconomic conditions in key trade partners.

However, implementing business model assessments remains challenging, particularly for smaller and less diversified domestic banks. Many may lack the data, analytical tools, and internal

expertise needed to assess the sustainability of their business models under different scenarios. These challenges are compounded in jurisdictions where supervisory capacity is limited. Targeted capacity building for both supervisors and banks could help overcome these implementation gaps.

Political Economy and Pressures on Business Models

Another challenge arises from political economy dynamics. In some jurisdictions, banks—particularly state-owned or government-linked entities—may face pressure to finance politically motivated projects, even when these conflict with prudent risk-taking or long-term viability; this situation has been well documented in FSAPs. Such pressures can distort business models, resulting in credit misallocation or exposure to unprofitable lending segments.

In these contexts, applying the revised BCPs may run up against broader policy objectives. Strengthening supervisory independence and legal safeguards to prevent undue political interference will be critical to upholding the credibility of sustainability assessments and protecting the long-term soundness of the banking system. Strengthening the governance and capacity of SOEs can also contribute to the establishment of more sustainable business models.

41. In some EMDEs, state-owned banks may be directed to finance projects aligned with political objectives rather than commercial viability. This practice can lead to credit concentration in particular sectors and increase the risk of loan defaults, especially during economic downturns.

Supervisory Capacity and Implementation Gaps

Effective implementation of the revised standards also depends on the ability of supervisory authorities to assess business model sustainability in a systematic and consistent manner. Yet, as observed in FSAPs, many supervisors face constraints in terms of staffing, expertise, access to reliable data, and availability of appropriate analytical tools. These limitations hinder their ability to evaluate banks' strategic planning, stress testing, risk appetite, and risk alignment with business models.

To address these challenges, supervisory frameworks could benefit from more structured approaches to assessing business model sustainability, including the strengthening of existing tools and methodologies. Targeted technical assistance and peer learning initiatives—

especially those anchored in regional or international platforms—can help supervisory authorities strengthen their analytical capabilities and apply the revised standards in a proportionate and context-sensitive manner.

Disparities in Implementation Capacity

While some EMDE supervisors may have the internal capacity to conduct meaningful sustainability assessments, many others do not. These institutions may lack the expertise, systems, or resources to assess long-term business viability, particularly under adverse stress scenarios. Understanding a bank's business model requires insight into how a bank manages and reports performance across core business lines—something supervisors often struggle to reconcile with standardized reporting formats.

3.6 Bridging the Gap: Challenges in Operationalizing Enhanced Transparency Requirements

The 2024 revision of the BCPs introduces a significant change to CP11, urging supervisory authorities to adopt a clear ex-ante policy on the public disclosure of corrective actions and sanctions. Public disclosure practices remain highly heterogeneous across jurisdictions. Some authorities—such as those in the European Union and the United States—routinely publish sanctions, including those related to anti-money-laundering and countering the financing of terrorism violations.⁴² Others, however, prioritize confidentiality to safeguard supervisory effectiveness and legal prudence.

EC7 now specifies that laws, regulations, or the supervisor should determine whether sanctions should be disclosed, and if so, what information should be made public and when. While promoting greater transparency and accountability, EC7

also acknowledges that disclosure should not compromise broader supervisory objectives or interfere with ongoing enforcement or legal proceedings.

Moving to a regime in which there is more disclosure may represent a significant shift, and it may be predicated on the legal and institutional frameworks to support the disclosure and a conscious shift of mindset toward more open practices.

Reputational Risks and Financial Stability Concerns

Disclosing enforcement actions can unintentionally trigger reputational crises, depositor runs, or systemic instability. These risks are particularly acute when disclosures are poorly timed or

42. See for example the European Central Bank's "Annual Report on Sanctioning Activities in the SSM in 2023." The report offers a comprehensive overview of the Single Supervisory Mechanism's (SSM) enforcement actions, including both pecuniary and non-pecuniary penalties. It illustrates the bank's approach to transparency in enforcement and the types of sanctions imposed; <https://www.bankingsupervision.europa.eu/press/other-publications/publications/sanctioning-report/pdf/ssm.sr2024-fa110879af.en.pdf>.

misunderstood. For instance, corrective actions meant to strengthen an institution may be interpreted as signs of distress, prompting creditor withdrawals or market contagion. These effects can be magnified in shallow banking systems or in jurisdictions with a history of regulatory forbearance or crisis episodes. To mitigate such risks, EC7 appropriately allows supervisors to delay or withhold disclosure when immediate publication could compromise financial stability or ongoing enforcement efforts.

Capacity Constraints

The 2012 version of CP11 was silent on the issue of sanctions disclosure. The new EC7 seeks to fill this gap by calling for legal or procedural clarity for such purposes. For many EMDEs, aligning with this expectation will require more than policy changes. It will also involve legal reform, institutional capacity building, and the development of robust internal processes to assess the appropriateness and timing of disclosure.

Balancing Transparency and Supervisory Effectiveness

While transparency enhances market discipline, disclosing sanctions, especially during early-stage

enforcement can conflict with other supervisory or legal objectives. Premature publication may undermine sensitive supervisory dialogues, prejudice judicial processes, or disrupt cooperation with domestic or foreign regulators. The new EC7 explicitly acknowledges these tensions by allowing case-by-case discretion in disclosure. EMDEs should reflect this in frameworks that provide proportionality and legal safeguards, enabling discretion based on the seriousness, recurrence, and potential systemic implications of the infraction. Avoiding a one-size-fits-all approach is essential to preserving the integrity of supervisory outcomes.

Embedding Disclosure within a Broader Communication Strategy

The implementation of disclosure frameworks should not occur in isolation. They should be supported by a broader supervisory communication strategy aimed at improving financial literacy and reinforcing public trust. This includes clear and consistent messaging to financial institutions, media, and civil society. Moreover, once implemented, disclosure should also encompass a proactive engagement to explain the purpose and context of enforcement actions. Where confidence in supervisory authorities is fragile, such strategies are critical to ensuring that greater transparency

3.7 Building Robust Corporate Governance Frameworks

strengthens, rather than undermines, the stability and credibility of the financial system.

As outlined in chapter 2, the 2024 revision of the BCPs places greater emphasis on effective corporate governance, particularly in the areas of board oversight, risk culture, and internal control frameworks. While these reforms are critical for improving bank resilience and accountability, effective implementation may bring additional challenges for many EMDEs. Such challenges can be rooted in, for example, institutional weaknesses,

political economy dynamics, and capacity constraints, which often impair banks' governance. Overcoming them requires legal reforms and enhanced supervisory oversight.

Weak Institutional Frameworks and Limited Board Capacity

In many jurisdictions, governance structures remain underdeveloped, as observed in many FSAPs. Banks' boards often lack the independence, expertise, or diversity needed to effectively

carry out their oversight responsibilities, making the implementation of enhanced governance requirements particularly challenging. Moreover, a limited pool of qualified candidates further increases the challenge to establish robust corporate governance frameworks. Where banking sectors feature highly concentrated ownership, boards and management may be dominated by controlling shareholders, politically connected individuals, or long-serving members with limited financial-sector experience or other relevant skills, further weakening governance effectiveness.

These weaknesses undermine effective risk governance, dilute accountability, and often prioritize the interests of controlling owners over those of the financial institution. That is amplified when banks are part of domestic financial conglomerates that are systemic to both the financial sector and the broader economy, reducing the ability of regulators to effectively safeguard the system's integrity.

As discussed in chapter 2, the revised CP14 calls for periodic board renewal and robust nomination processes. In many jurisdictions, legal frameworks lack mechanisms to counterbalance the influence of controlling owners in board appointments and to ensure that management compensation is aligned with risk outcomes. Practices and cultural norms surrounding board appointments should be examined to consider if they support the identification and appointment of effective board members.

In many jurisdictions skilled personnel are scarce, and the cost of developing qualified boards is high, making it a serious challenge to recruit competent professionals. This challenge is especially pronounced for small and rural banks. The difficulty affects not only board composition but also the staffing of board committees and senior

management roles—particularly in critical functions such as risk management and internal audit. As documented in numerous FSAPs, where banks struggle to attract qualified individuals to serve on boards or specialized committees, internal controls are weakened, undermining effective checks and balances.

Addressing those gaps may require strengthening legal and regulatory provisions on board members' qualifications, board composition, and performance. Supervisory authorities should be empowered to assess and challenge governance arrangements and intervene where weaknesses are identified. Implementation may need to be phased in, beginning with domestic systemically important banks or institutions already under intensive supervision. In parallel, targeted technical assistance and board-level capacity-building programs—especially in areas such as risk governance, strategic oversight, and ethical leadership—can help institutions meet enhanced standards.

Political Interference and Dominance of State-Owned Banks

In jurisdictions where state-owned banks hold a dominant market share, political influence over board appointments and strategic decisions can significantly undermine effective governance.⁴³ This, in turn, can weaken financial stability by reinforcing the sovereign-bank nexus through high exposures to government debt and lending to often inefficient state-owned enterprises. Boards may also be tasked with executing politically motivated lending⁴⁴ or investment decisions, undermining the independence, prudence, and long-term vision expected under the revised standards. This risk is particularly acute where political authorities exert de facto control over banks' governance and where

43. World Bank, "Corporate Governance of State-Owned Enterprises: A Toolkit" (Washington, DC: World Bank, 2014), <https://openknowledge.worldbank.org/handle/10986/16014>.

44. Politically motivated lending practices not only undermine governance but also increase moral hazard concerning repayment and profitability due to often preferential rates.

45. In certain countries, SOBs are predominantly staffed by appointees from local governments, which complicates efforts to maintain a clear separation between the bank's governance and political interests. Preventing excessive intervention by local authorities becomes a significant and complex challenge in such contexts, especially when banks are used to serve short-term political objectives.

legal protections for supervisory independence are weak.⁴⁵

While the revised CP14 does not differentiate requirements by ownership type, its effective implementation in the SOB context requires alignment between financial sector regulation and broader state ownership policies.⁴⁶ Supervisors should advocate for the application of uniform governance standards across all banks, regardless of ownership, and be empowered to conduct independent assessments of SOB governance effectiveness. Where legal or political constraints limit such oversight, reforms should aim to establish firewall provisions between political authorities and bank boards.

Supervisory Constraints and Enforcement Limitations

Even where governance regulations exist, supervisors may face practical limitations in enforcing compliance. These include insufficient legal authority to compel governance changes, limited protection from legal retaliation when taking action against directors or senior management, and lack of specialized tools or training to assess governance practices in depth. In some jurisdictions, enforcement depends on moral suasion or informal dialogue, reducing the effectiveness of supervisory intervention.

To operationalize the revised CP14, supervisory authorities need clearly defined powers and procedures to evaluate governance effectiveness and take corrective action. This includes having the power to require changes to the board, require board renewal, or mandate remediation plans. At the same time, supervisory frameworks should be supported by structured governance assessment tools—such as standardized scorecards, qualitative indicators, and interview protocols for board members—to enhance objectivity and consistency.

Capacity development is also critical. Supervisory agencies should invest in building specialized governance teams, and training curricula should include modules on board dynamics, behavioral governance, and the interplay between ownership structures and oversight. International technical assistance, including peer exchanges and participation in regional governance forums, can help reinforce these efforts and facilitate convergence toward best practices.

Aligning Governance Reforms with Local Institutional Realities

The full implementation of the revised CP14 may be constrained by broader institutional and political economic factors. In jurisdictions with limited rule of law, underdeveloped capital markets, or dominant family-owned banks, comprehensive governance norms may be perceived as impractical, externally imposed, and unnecessarily costly. The risk of regulatory overreach or implementation fatigue is particularly high when reforms are seen as mismatched with the domestic context.

To manage these risks, supervisors should adopt a proportional and context-sensitive approach. This includes tailoring expectations to the size, complexity, and risk profile of supervised institutions. Reforms should be sequenced, focusing first on institutions with the greatest systemic relevance and weakest governance. Particular attention should be given to the practical limitations faced by smaller institutions, which, even if not systemic, often serve vast portions of the population, and unexpected fallouts can create situations of tension within domestic borders. Ensuring that proportionality does not become an excuse for poor governance but rather a pathway to realistic and meaningful improvements is critical.

Supervisory messaging should emphasize the practical benefits of good governance—such as

46. The Organisation for Economic Co-operation and Development (OECD) offers guidance for governance of SOEs through its “Guidelines on Corporate Governance of State-Owned Enterprises” (OECD, 2024), https://www.oecd.org/en/publications/2024/06/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2024_68fa05cd.html.

improved financial performance, access to capital, and reputational gains—to foster buy-in from boards and shareholders.

At the same time, efforts to promote a stronger risk culture and governance values should go beyond compliance. Supervisors can partner with industry associations, academic institutions, and civil society to build awareness, develop director certification programs, and create a pipeline of skilled board candidates. Over time, these efforts can help embed governance expectations more deeply into the financial sector fabric.

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CONCLUSION

The 2024 revision of the BCPs is a timely and much-needed update, given the significant market developments over the past decade. While supervisors and banks in both advanced and emerging economies may face challenges in implementing the revised principles, the benefits of the reform outweigh these difficulties. The updated BCPs better equip financial institutions to manage evolving risks, enhance supervisory effectiveness, and strengthen the overall resilience and governance of the banking sector. While the proportionate implementation of the 2024 revisions to the BCPs should be a priority for supervisors, the establishment of a strong foundational supervisory framework remains the cornerstone

of effective oversight. Key elements—such as clear responsibilities and objectives centered on safety and soundness, independence, adequate powers, robust governance, and sufficient resources—form the essential building blocks of a resilient supervisory framework. Yet many jurisdictions continue to struggle with these fundamental aspects.

Addressing these foundational challenges is critical, as they provide the necessary structure for tackling some of the implementation hurdles highlighted in this paper. Moreover, a true risk-based approach to supervision, coupled with a rigorous authorization process, must remain the foremost priority for supervisory authorities worldwide. Support from



technical assistance, including in the prioritization of reforms, can be an important aid in accelerating change.

As markets evolve, emerging risks and heightened expectations consistently permeate the revisions of the BCPs, making adaptation an ongoing process rather than a one-time adjustment. Each revision raises the bar, introducing new challenges but also reinforcing the resilience and effectiveness of supervisory frameworks. The 2024 updates, while demanding, present an opportunity for jurisdictions to strengthen supervisory frameworks and build long-term financial stability.

The discussions presented here reflect an early analysis of the revised standards, which only recently entered into force. As countries move forward with implementation, new challenges and practical issues may emerge that are not yet fully apparent. Moreover, the application of these revised standards in future FSAPs will likely reveal additional perspectives, highlight further gaps, and either confirm or address some of the initial concerns raised in this paper.

ANNEX:

KEY CHANGES IN THE 2024 REVISED BASEL CORE PRINCIPLES*

CATEGORY	KEY UPDATES / FOCUS AREAS
Financial Risks	CP16: CAPITAL ADEQUACY • Non-risk-based measure of capital introduces the supervisory power to impose a non-risk-based leverage ratio to supplement risk-based capital requirements to constrain leverage buildup—EC7 • Capital buffers permit authorities to require banks to maintain additional capital buffers, including sectoral requirements that can be released when systemic risk materializes or subsidies—AC3 (new AC) CP17: CREDIT RISK • Credit risk management process enhances credit risk management by requiring banks to adopt a forward-looking approach covering all sources of credit risk and aligning with BCBS guidance—EC1 • Board responsibility strengthens board and senior management responsibility over credit risk policies—EC2 CP18: PROBLEM EXPOSURES, PROVISIONS AND RESERVES • Broadened definition broadens the scope from “assets” to “exposures” to explicitly capture off-balance sheet and forborne exposures—EC1, EC6, EC7, EC9, and EC10 • Incurred loss to expected loss introduces expected credit loss approaches (IFRS 9) to provisioning—EC2 and EC4 • Board oversight requires board to approve and regularly review key policies on exposure classification, provisioning, and managing problem exposures and write-offs, and oversees their effective implementation within the overall risk management framework—EC3 • Timely and realistic provisioning requires banks to have adequate policies, processes, and resources to establish provisions and write-offs, and these are suitable for the timely and realistic measurement of provisions, including expectations about future credit losses—EC4 • Effective review and validation process strengthens governance through independent review and validation of provisioning and write-off practices—EC4 • Enhanced supervisory powers expands the supervisory access to information on risk mitigants, including collateral, and write-offs—EC6 • Harmonized definitions of non-performing exposure align definitions of non-performing exposures as (a) unlikely to pay (UTP), (b) 90 days past due, (c) defaulted exposures, and (d) credit-impaired exposures under the applicable accounting framework with the relevant BCBS standard—EC9

* The changes presented in this table reflect only the key updates introduced as part of the 2024 revision.

CATEGORY	KEY UPDATES / FOCUS AREAS
Financial Risks (Cont.)	Forborne exposures introduce “forborne exposure” as critical component of asset classification—EC1 and EC9 Board responsibilities establish explicit board responsibility for policies on classification, provisioning, problem exposure management, and write-offs—EC10 CP 19: CONCENTRATION RISK AND LARGE EXPOSURE LIMITS Connected counterparties strengthens the definition of connected counterparties by explicitly referring to control relationship and economic interdependence—EC6 Limits align limits with the BCBS standard, using Tier 1 capital rather than total capital as the basis for calculating credit exposure limits to single counterparties or groups of connected counterparties—AC1 CP 23: INTEREST RATE RISK IN THE BANKING BOOK Incorporation of customer behaviors requires banks to incorporate customer behavior and embedded options into interest rate risk assessments—EC3 Incorporation of earnings to shocks introduces standardized assessments of interest rate shocks on both economic value and earnings—EC4 Strengthened oversight upgrades from AC to EC of the requirement for supervisors to obtain and assess banks’ results of their internal rate risk measurement systems based on minimum criteria—EC4 and EC5
Emerging Risks	DIGITALIZATION OF FINANCE: CP1, CP10, CP15, CP25 Powers require supervisors to have the power to access to group-wide information, including third-party operations supporting critical bank functions—CP1/EC5 Reporting includes in the powers to require information those that allow for the assessment of the materiality of emerging risks—CP10/EC1 Risk management processes require banks to have adequate risk management processes to assess risks that could materialize over longer time horizons (including risks related to digitalization)—CP15/EC2 Operational resilience expands requirements to enhance operational resilience to more effectively address risks from cyber threats, information technology (IT) disruptions, and third-party dependencies—CP25 CLIMATE-RELATED FINANCIAL RISKS: CP8, CP10, CP15, AND CP26 Supervisory oversight integrates climate-related risks into supervisory assessments of banks’ strategy, governance, and risk management—CP8/EC1, EC4 Risk materiality highlights the importance of prudential returns to encompass information for the assessment of the materiality of climate-related financial risks—CP10/EC1 Risk management requires banks to Incorporate climate-related financial risks into their overall risk management frameworks—CP15/EC2 Internal controls require internal controls to consider climate-related financial risks using a forward-looking, long-term perspective—CP26/EC1

CATEGORY	KEY UPDATES / FOCUS AREAS
Operational Risk and Operational Resilience	CP25 • Scope broadens the scope of the core principle to fully include operational resilience—EC1 • Governance strengthens board oversight of operational risk and newly introduces board responsibilities for overseeing the operational resilience approach—EC2 • Critical operations include expectations for banks and supervisors related to identifying and mapping critical operations, including the people, processes, technologies, data, facilities, and third-parties, or intragroup entities, and the interconnections and interdependencies among them that are necessary for the delivery of critical operations through disruption—EC3 • Business continuity enhances requirements for incident response, recovery plans, and business continuity testing—EC4 and EC5 • Information and communication technology (ICT) risk and cybersecurity resilience expectations expands the role of ICT and cybersecurity, requiring banks to establish and maintain ICT risk management frameworks that are aligned with their operational risk framework and operational resilience approaches—EC6 • Board and senior management oversight requires the board to regularly oversee, and senior management to evaluate, the design, implementation, and effectiveness of ICT risk management—EC6 • Protection, detection, response, and recovery of ICT expects that banks maintain resilient ICT systems with tested protection, detection, response, and recovery processes, supported by timely risk information and awareness of vulnerabilities to sustain critical operations—EC6 • Service providers require due diligence, contractual safeguards, and ongoing monitoring of outsourced arrangements, including exit strategies and contingency plans—EC9 • Change management requires senior management to establish a well-structured change management process to assess potential impacts on the delivery of critical operations and their interdependencies—EC10 • Systemic operational risk assessment broadens the scope from outsourcing to overall reliance on common service providers, adds new exposure categories such as physical and geopolitical events, and introduces a new criterion focused on assessment of concentration risk-related arrangements and potential systemic risks arising from the concentration of services providers—AC1 and new AC2
Systemic Risk and Macroprudential Supervision	CP3, CP8, AND CP16 • Cooperation and coordination require arrangements to be in place for coordination with macroprudential authorities—CP3/EC2 • Systemic risks broaden integration of systemic risk analysis into supervisory frameworks—CP8/EC1, EC5 • Domestic systemically important banks (D-SIBs) require supervisors to establish a process to assess and identify on a regular basis systemically important banks in a domestic context, as well as to disclose them—CP8/EC2 • Capital buffers authorities are permitted by laws or regulations to require banks to maintain additional capital, including sectoral capital requirements that can be released when system-wide risk crystallizes or dissipates—CP16/AC3

CATEGORY	KEY UPDATES / FOCUS AREAS
Corporate Governance	CP14 • Culture and values emphasize embedding sound corporate culture and values into corporate governance policies (caput) • Board composition strengthens expectations related to board composition, requiring, among other things, a balanced mix of skills, experience, diversity, and expertise among members, who are expected to collectively possess the qualifications suited to the size, complexity, and risk profile of the bank—EC3 • Board independence and adaptability introduces the requirement for a sufficient number of experienced independent directors—EC3 • Board performance assessment and renewal includes expectations for boards to perform regular assessment of the board as a whole, its committees, and individual members (including suitability), with periodic renewal to refresh skills and the independence of board membership—EC3 • Enhanced board responsibilities expand the boards' responsibilities for setting fit and proper standards for the heads of the control functions and requires boards to establish clear internal accountability processes—EC6 • Notification or disclosure of fitness and propriety concerns upgrades from AC to EC requires prompt notification or public disclosure about any information that may impact the fitness and propriety of board members or senior management—EC9
Risk Management	CP15 • Business model sustainability assessment expands supervisory expectations by requiring banks to assess the sustainability of their business models in relation to risk appetite, risk profile, and forward-looking planning—EC5 • Requirements on risk data aggregation requires banks have risk data aggregation and reporting capabilities aligned with their risk profile and systemic importance—EC8 • Forward-looking stress testing programs covering all material risks enhances focus on stress testing that requires, at a minimum, coverage of credit, market, interest rate (banking book), liquidity, country and transfer, operational risks, and major risk concentrations to enable for early vulnerability detection—EC14
Related Party Transactions (RPTs)	CP20 • Definition of related parties strengthens the definition of related parties, by explicitly incorporating beneficial owners and parties that can exert significant influence on board members and senior management; footnote 56 requires supervisors' definition of related parties to, at minimum, cover the those listed in the definition—EC1 • Credit process strengthens approval processes to exclude all individuals with conflicts of interest from RPT decisions—EC4 • Material exposures require supervisors to obtain information on material RPTs—EC7

CATEGORY	KEY UPDATES / FOCUS AREAS
Non-bank Financial Intermediation	CP1, CP10, CP15, and CP17 • Legal powers and group-wide supervision requires legal powers and access to group-wide information required for consolidated group-wide supervision—CP1/EC7 • Group-wide risk assessment reinforces authority to assess risks from all material parts of banking groups, including affiliated or related non-bank financial intermediaries (NBFIs) by requiring supervisors to have power to request and receive group-wide information—CP10/EC6 • Step-in risk upgrades step-in risk from Additional to Essential Criterion by setting explicit expectations for managing the risk of providing support to affiliated entities even in the absence of contractual obligations, thereby elevating step-in risk to a material risk category—CP15/EC2 • Counterparty credit risk enhances focus on counterparty credit risk from exposures to NBFIs by making explicit reference to NBFIs' counterparty credit risk—CP17
Legal Protection for Supervisors	CP2 • Legal protection clarifies the scope of legal protection by defining “supervisor and its staff” to explicitly include the head of the authority, governing body members, employees, professional service providers, and any individuals supporting supervisory functions, with protection that extends beyond their tenure—EC9

Source: BCBS (Basel Committee on Banking Supervision), “Core Principles for Effective Banking Supervision (Bank for International Settlements, April 2024).

