

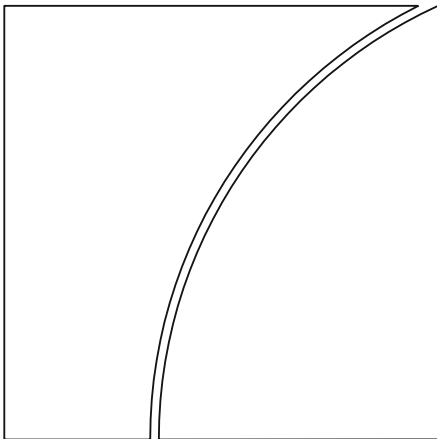
Basel Committee on Banking Supervision

Technical Amendment

Various technical amendments and FAQs

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Introduction

To promote a consistent global implementation of the Basel Framework, the Basel Committee on Banking Supervision¹ regularly monitors and reviews issues that arise from the implementation of its standards. Where necessary, it publishes clarifications and interpretative guidance. In some instances, implementation issues can be clarified in the form of answers to frequently asked questions (FAQs), without any changes to the standard. On other occasions, the issue, though minor in effect, cannot be resolved unambiguously without an amendment to the text of the standard itself. In these cases, the Committee publishes the clarification as a proposed technical amendment. Such amendments are published for a short consultation period, typically for 45 calendar days.

Set out below is one technical amendment to the Basel Framework on which the Committee would welcome feedback. It addresses an inconsistency in the treatment of rental income from investment properties under the standardised approach for operational risk.

The Committee has also finalised a set of FAQs related to the standardised approach for credit risk that have been added to the Basel Framework and are set out in the annex for information.

OPE10.2 (2023 version)

Under the standardised approach for operational risk, the business indicator (BI) is used as key input in calculating operational risk capital requirements. According to Table 1 of OPE10.2, which defines the components for the BI, "rental income from investment properties" is listed under the "typical sub-items" of "other operating income". However, "rental income from investment properties" often results from operating leases, and the description of "other operating income" states that "income from operating leases should be excluded", while the description of the "interest income" component says that it "includes interest income from financial and operating leases and profits from leased assets".

The different components of the BI reflect different risk profiles and volatility. For instance, "interest, lease and dividend income" might be less volatile compared with "services" income. Accurate categorisation of income into these components is crucial for calculating the correct BI value, which affects the business indicator component (BIC) and the internal loss multiplier (ILM) and, consequently, the overall capital requirement for operational risk.

To address this inconsistency, the following changes to Table 1 are proposed:

- remove "rental income from investment properties" from the "typical sub-items" under "other operating income"; and
- modify the description of "interest income" to "includes income from financial and operating leases and profits from leased assets".

These amendments will ensure that "income from operating leases", including rental income from investment properties arising from an operating lease, are excluded from "other operating income" and that "income from financial and operating leases and profits from leased assets" are included within "interest income".

¹ The Basel Committee on Banking Supervision is the primary global standard setter for the prudential regulation of banks. It provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

Business Indicator definitions			Table 1
BI component	Income statement or balance sheet items	Description	Typical sub-items
Interest, lease and dividend	Interest income	Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets)	<ul style="list-style-type: none"> Interest income from loans and advances, assets available for sale, assets held to maturity, trading assets, financial leases and operational leases Interest income from hedge accounting derivatives Other interest income Profits from leased assets
	Interest expenses	Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and operating leases, depreciation and impairment of, and losses from, operating leased assets)	<ul style="list-style-type: none"> Interest expenses from deposits, debt securities issued, financial leases, and operating leases Interest expenses from hedge accounting derivatives Other interest expenses Losses from leased assets Depreciation and impairment of operating leased assets
	Interest earning assets (balance sheet item)	Total gross outstanding loans, advances, interest bearing securities (including government bonds), and lease assets measured at the end of each financial year	
	Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.	
Services	Fee and commission income	Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.	<p>Fee and commission income from:</p> <ul style="list-style-type: none"> Securities (issuance, origination, reception, transmission, execution of orders on behalf of customers) Clearing and settlement; Asset management; Custody; Fiduciary transactions; Payment services; Structured finance; Servicing of securitisations; Loan commitments and guarantees given; and foreign transactions

	Fee and commission expenses	Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (eg logistical, IT, human resources)	<p>Fee and commission expenses from:</p> <ul style="list-style-type: none"> • Clearing and settlement; Custody; Servicing of securitisations; Loan commitments and guarantees received; and Foreign transactions
	Other operating income	Income from ordinary banking operations not included in other BI items but of similar nature (income from operating leases should be excluded)	<ul style="list-style-type: none"> • Rental income from investment properties • Gains from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37)
	Other operating expenses	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events (expenses from operating leases should be excluded)	<ul style="list-style-type: none"> • Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37) • Losses incurred as a consequence of operational loss events (eg fines, penalties, settlements, replacement cost of damaged assets), which have not been provisioned/reserved for in previous years • Expenses related to establishing provisions/reserves for operational loss events
Financial	Net profit (loss) on the trading book	<ul style="list-style-type: none"> • Net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities) • Net profit/loss from hedge accounting • Net profit/loss from exchange differences 	
	Net profit (loss) on the banking book	<ul style="list-style-type: none"> • Net profit/loss on financial assets and liabilities measured at fair value through profit and loss • Realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost) • Net profit/loss from hedge accounting • Net profit/loss from exchange differences 	

Annex: FAQs that have been added to the Basel Framework

Set out below are four FAQs that have been added to the Basel Framework. FAQs are intended to clarify the intended interpretation of the standards and promote their consistent global implementation. As they do not change the standards themselves, they are issued in final form and are not subject to public consultation.

CRE20.70 (2023 version)

How shall the distinction between “regulatory residential real estate” (CRE20.77) and “regulatory commercial real estate” (CRE20.78) be applied to exposures with multiple items of collateral, some of which are residential real estate and others which are commercial real estate?

An exposure with multiple items of collateral can be split, according to the ratio of the values of the residential property and the commercial property, into a residential real estate exposure (secured by the residential real estate) and a commercial real estate exposure (secured by the commercial real estate). Both on- and off-balance sheet elements of the exposure should be split according to the same ratio.

CRE20.93 (2023 version)

Regarding the risk weight multiplier for unhedged retail and residential real estate exposures to individuals with income/lending currency mismatches according to CRE20.92 and CRE20.93, can models or proxy data be used to determine the income of the borrower, whether there is a currency mismatch and whether the hedges are sufficient?

National supervisors may permit the temporary use of models or proxy data in certain circumstances. Otherwise, it is not permitted to solely rely on models or proxy data, instead of collecting borrower-specific information, to determine the level of income of the borrower, whether a currency mismatch exists or whether the hedges are sufficient.

CRE20.93 (2023 version)

Are revolving credit facilities (eg overdrafts and credit cards) for individuals within the scope of this risk weight multiplier? If so, how should it be determined whether there is a sufficient hedge, particularly when the facility can be drawn in more than one currency?

Yes, revolving credit facilities for individuals are within the scope of this risk weight multiplier. For the purpose of determining a currency mismatch, the “lending currency” is the currency of the borrower’s payment obligation under the revolving credit facility. To determine whether there is a sufficient hedge, the loan instalments should be calculated assuming the facility is fully drawn. If the currency of the borrower’s payment obligation could be different from the currency of the borrower’s source of income, the full undrawn amount is to be treated as being in a currency different from that of the borrower’s income. The relevant repayment schedule can be assumed as the one with the lowest payments for the borrower permitted under the contract for the revolving credit facility.

CRE20.93 (2023 version)

Are derivative contracts with individuals within the scope of this risk weight multiplier? If yes, how should it be determined whether there is a sufficient hedge?

Yes, derivative contracts with individuals that qualify as retail or residential real estate exposures are in the scope of this risk weight multiplier, if a currency mismatch exists. A currency mismatch exists for all payment obligations for which the counterparty is (or might be) obliged under the contract to pay in a currency not

matching the currency of its income. A payment obligation of the derivative counterparty to the bank is to be treated as a loan instalment for the purpose of CRE20.93. A payment obligation of the bank to the counterparty, which is due at the same time and denominated in the same currency as the payment obligation of the counterparty to the bank, may be considered income for the purpose of determining whether there is a sufficient hedge.