Core principles for effective banking supervision – Executive Summary

The *Core Principles for effective banking supervision*, also known as the Basel Core Principles (BCPs), are the minimum global standards for the sound prudential regulation and supervision of banks and banking systems. Initially published by the Basel Committee on Banking Supervision (BCBS) in 1997, the BCPs have been updated three times. There are 29 principles applicable to all banks in all jurisdictions. Prudential authorities use the BCPs as a benchmark to assess the quality of their regulatory and supervisory frameworks and to help identify future work to achieve a baseline level of sound supervisory practices. They are also used by the International Monetary Fund and the World Bank to evaluate the effectiveness of countries' banking supervision systems as part of the Financial Sector Assessment Program (FSAP).

The most recent update, in 2024, reflects regulatory and supervisory developments (eg the post-Great Financial Crisis reforms introduced by the BCBS), structural changes in banking (eg the digitalisation of finance) and lessons learnt from prior FSAP assessments.

The concept of proportionality underpins all principles. Proportionality allows supervisors to tailor applicable rules and practices to the systemic importance and risk profiles of banks and the broader characteristics of their respective financial systems.[1] As such, proportionality facilitates the universal applicability of the BCPs to a wide range of banks and banking systems.

This Executive Summary outlines the preconditions for effective supervision and the 29 principles.

Preconditions for effective banking supervision

The BCPs identify six preconditions that can have a bearing on the conduct of supervision. While these preconditions are generally outside the control of supervisory authorities, supervisors should work with the government and relevant authorities to address any identified concerns.

Preconditions	Implications for supervision
Sound and sustainable macroeconomic policies	Without sound macroeconomic (mainly fiscal and monetary) policies, imbalances may arise and affect the stability of the financial system.
A well established framework for financial stability policy formulation	An assessment of risks to the financial system as a whole complements the work of banking supervisors.
A well developed public infrastructure	If the public infrastructure is not well developed, it can contribute to the weakening of financial systems. For example, if the external audit profession is not independent, it can have a bearing on the integrity of banks' published financial statements.
A clear framework for crisis management	Effective crisis management frameworks help to mitigate potential disruptions to financial stability arising from failing or troubled banks.
An effective level of systemic protection	An effective level of systemic protection (eg deposit insurance) promotes confidence in the banking system and limits any contagion from banks in distress.
Effective market discipline	Market participants' assessment of a bank's risk profile supplements the work of prudential supervisors. Effective market discipline depends on timely, accurate and meaningful flows of information to market participants.

[1] The objective of proportionality is not to dilute prudential standards but to reflect jurisdictions' circumstances and supervisory capacity.

Powers, responsibilities and functions of supervisors (BCPs 1–13)

BCPs 1–13 focus on what supervisors themselves do, covering their powers, responsibilities and functions. BCPs 1–7 set out the relevant legal powers, institutional arrangements and requirements for bank activities, licensing and ownership. BCPs 8–13 address various tools and techniques to facilitate robust on- and off-site supervision of banks and banking groups.

Powers, responsibilities and institutional arrangements

BCP	Key elements
1 – Responsibilities, objectives and powers	The supervisory authority has sufficient powers to license banks, set and enforce rules, conduct supervision and take action to address safety and soundness (S&S) concerns. If the supervisory authority has objectives beyond promoting the S&S of banks, they should be subordinate to, and not be in conflict with, the S&S mandate.
2 – Independence, accountability, resourcing and legal protection	The supervisor is operationally independent, accountable and transparent in the exercise of its duties and has sufficient resources and legal protection to discharge its responsibilities.
3 – Cooperation and collaboration	Laws, regulations or other arrangements provide a framework for cooperation with relevant domestic and foreign authorities.
4 – Permissible activities	The term "bank" and permissible activities are clearly defined in laws or regulations, and use of the word "bank" is limited to licensed and supervised institutions.
5 – Licensing criteria	The licensing authority has power to set licensing criteria and to assess applications considering a bank's ownership structure and governance, strategic and operating plans, internal controls, risk management and projected financial condition. The authority has the power to reject applications that do not meet the criteria.
6 – Transfer of significant ownership	The supervisor has the power to review, reject and impose conditions on proposals to transfer significant ownership or controlling interests in banks to other parties.
7 – Major acquisitions of banks	The supervisor has the power to approve, reject and impose conditions on major acquisitions or investments by a bank, against prescribed criteria.

Supervisory tools and techniques

BCP	Key elements
8 – Supervisory approach	The supervisor develops and maintains a forward-looking assessment of the risk profile of individual banks, proportionate to their systemic importance; identifies, assesses and addresses risks from banks and the banking system; and has a framework in place for early intervention.
9 – Supervisory techniques and tools	The supervisor uses an appropriate range of techniques and tools to implement its supervisory approach and deploys supervisory resources, considering the risk profile and systemic importance of banks.
10 – Supervisory reporting	The supervisor collects, analyses and independently verifies prudential returns from banks.
11 – Corrective actions	The supervisor acts early – using an appropriate range of tools – to address unsafe and unsound practices that could pose risks to banks or to the banking system.
12 – Consolidated supervision	Banking groups are adequately monitored and supervised on a consolidated and group-wide basis.
13 – Home-host relationships	Home and host supervisors of cross-border banking groups share information and cooperate to facilitate effective supervision and handling of crisis situations.

Prudential regulations and requirements for banks (BCPs 14–29)

BCPs 14–29 cover supervisory requirements and expectations for banks, which can be grouped into three subcategories.

Corporate governance, risk management and internal controls

BCP	Key elements
14 – Corporate governance	Supervisors determine that banks have robust corporate governance policies and processes that are commensurate with their risk profile and systemic importance.
15 – Risk management process	Supervisors determine that banks have a comprehensive risk management process to identify, measure, monitor and control all material risks and to assess the adequacy of their capital and liquidity and the sustainability of their business models.
26 – Internal control and audit	Supervisors determine that banks have adequate internal control frameworks.

Capital, liquidity and other material risk requirements

BCP	Key elements
16 – Capital adequacy	Supervisors set prudent capital requirements that reflect the risks undertaken and the relevant markets and macroeconomic conditions in which banks operate.
24 – Liquidity risk	Supervisors set prudent liquidity requirements that reflect the liquidity needs of banks and determine that banks have prudent policies and processes to control liquidity risk.
17 – Credit risk	Supervisors determine that banks have adequate credit risk management processes that cover the full credit life cycle.
18 – Problem exposures, provisions and reserves	Supervisors determine that banks have adequate frameworks to identify and manage problem exposures and to maintain adequate provisions and reserves.
19 – Concentration risk and large exposure limits	Supervisors determine that banks adequately manage concentration risk and set prudential limits to restrict exposures to single or connected counterparties.
20 – Transactions with related parties	Supervisors require banks to enter into transactions with related parties on an "arm's length" basis and to monitor and take appropriate steps to control the risks.
21 – Country and transfer risks	Supervisors determine that banks adequately manage country and transfer risk.
22/23 – Market risk & interest rate risk in the banking book	Supervisors determine that banks have adequate market risk and (banking book) interest rate risk management policies and processes to control the risks.
25 – Operational risk operational resilience	Supervisors determine that banks have adequate operational risk management frameworks and operational resilience approaches that consider their risk profiles.
29 – Abuse of financial services	Supervisors determine that banks have adequate policies and processes to prevent banks from being used intentionally or unintentionally for criminal activities.

Financial reporting and disclosure

BCP	Key elements
27 – Financial reporting and external audit	Supervisors determine that banks prepare and publish financial statements, which are subject to external audits.
28 – Disclosure and transparency	Supervisors determine that banks provide relevant disclosures that reflect their financial condition, risk exposures and corporate governance.

This Executive Summary and related tutorials are also available in FSI Connect, the online learning tool of the Bank for International Settlements.