

# Basel 3.1 loading

PRA-defined priorities for banks and investment firms brought under the traded-risk lens

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**Analytical contacts:**

**Sunay Jain**

Global Head of Risk and Finance Transformation Practice  
sunay.jain@crisil.com

**Madhur Jaju**

Lead Analyst - Risk Finance  
madhur.jaju@crisil.com

**Bindu Labhala**

Senior Analyst - Risk Finance  
bindu.labhala@crisil.com

## **PRA supervisory priorities for 2026**

The Prudential Regulation Authority (PRA) has, in its supervisory priorities for 2026, set out expectations for international banks and designated investment firms in the United Kingdom (UK). The watchdog re-emphasised safety and soundness while increasing resilience, so that firms stay on the path of sustainable growth.

The PRA has underscored priorities across strategic risk management and controls, with particular focus on counterparty credit risk (CCR), especially exposures to non-bank financial institutions (NBFIs), enhanced risk monitoring (including intra-day dynamics), remediation against its model risk management expectations, and careful adoption of new technologies under robust governance and operational resilience standards.



It reiterated the need to align traded risk management and broader risk frameworks with expectations around the implementation of Basel 3.1, driving more consistent measurement and capital outcomes, supported by strong governance, well-controlled model use, and high-quality data for risk decisions and regulatory reporting. It further signals a more streamlined supervisory approach, including moving Periodic Summary Meetings of more firms to a two-year cycle.



We interpret these priorities through a traded risk and market intermediation lens connecting supervisory expectations on CCR, NBFi connectivity, intraday exposure growth and data governance to front-to-back trading controls and measurable risk outcomes.


We bring risk optimisation and artificial intelligence (AI) / data science-enabled analytics to help firms build a “complete picture” across prime/clearing/financing, understand stress and margin dynamics in fast markets, and operationalise intraday risk appetite, limits and escalation while strengthening resilience across critical trading services (market data, execution, risk engines and collateral workflows).



## What has changed

2026 strategic priority	Senior management supervisory asks	Why the change and its impact on banks	Actionable transition: Basel 2.5 to Basel 3.1 (strategic and practical methods)
 <p><b>Strategic risk management</b></p>	<ul style="list-style-type: none"> <li>• <b>Proactively identify complex risk interactions</b> across silos</li> <li>• Elevate <b>CCR</b> management for NBFIs, with a focus on private markets and hedge funds</li> <li>• Remediate shortcomings of <b>model risk management</b> and manage <b>intraday exposures</b> for low-latency liquidity providers</li> </ul>	<p><b>Why the change</b></p> <ul style="list-style-type: none"> <li>• Fragmented risk systems failed to capture <b>concentration risk</b>, especially <b>across NBFIs</b></li> <li>• Past crises showed <b>limited visibility</b> of senior management into <b>cross-desk exposures</b></li> <li>• Basel 3.1 aims to <b>reduce modelling discretion</b>, enforce <b>consistent exposure measurement</b> and ensure <b>earlier identification of systemic risk</b></li> </ul> <p><b>Impact on banks</b></p> <ul style="list-style-type: none"> <li>• Counterparty exposures and risk-weighted assets (RWAs) are likely to increase</li> <li>• Reduced capital benefits lead to <b>higher pricing and tighter limits</b></li> <li>• Senior management and boards become <b>directly accountable</b> for CCR oversight</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Under Basel 2.5:</b> Pillar 1 for enhanced securitisation; provide supplemental Pillar 2 guidance on risk oversight</li> <li>• <b>Under Basel 3.1:</b> Mandatory adoption of <b>Standardised Approach for CCR (SA-CCR)</b> for all derivatives</li> <li>• <b>Practical “how-to”:</b> Establish <b>cross-functional risk-data hubs</b> and implement <b>automated sensitivity (delta/vega) analytics</b></li> </ul>
 <p><b>Financial resilience</b></p>	<ul style="list-style-type: none"> <li>• Boards must oversee accurate <b>RWA</b> calculations using forward-looking liquidity and capital metrics, with rigorous stress-testing</li> <li>• Prioritise the <b>January 2027 implementation</b> of Basel 3.1 and the Strong and Simple Framework for eligible firms</li> <li>• Firms must prioritise the remediation of identified model shortcomings</li> </ul>	<p><b>Why the change</b></p> <ul style="list-style-type: none"> <li>• Excessive <b>RWA variability</b> across banks undermined confidence in internal models</li> <li>• Regulators want <b>capital outcomes anchored to standardised risk level</b>, especially in stress</li> <li>• Basel 3.1 improves <b>capital predictability and comparability</b></li> </ul> <p><b>Impact on banks</b></p> <ul style="list-style-type: none"> <li>• <b>Reduced</b> capital optimisation benefits from internal models</li> <li>• Portfolios with high RWAs become <b>less attractive economically</b></li> <li>• Banks must reassess <b>business mix, pricing and portfolio strategy</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Under Basel 2.5:</b> Focus was on higher risk weights for securitisations and liquidity risks</li> <li>• <b>Under Basel 3.1:</b> Phased in <b>72.5% output floor</b>. The <b>1.06 scaling factor</b> for Internal Rating Based is removed</li> <li>• <b>Practical “how-to”:</b> Conduct <b>“parallel runs”</b> between now and 2027 to calculate RWAs under both legacy and 3.1 rules. This allows the board to visualise the <b>capital impact of the output floor</b> before the cliff-edge</li> </ul>

2026 strategic priority	Senior management supervisory asks	Why the change and its impact on banks	Actionable transition: Basel 2.5 to Basel 3.1 (strategic and practical methods)
 <p><b>Data risk</b></p>	<ul style="list-style-type: none"> <li>Put in place <b>strong data governance</b> to support regulatory calculations and AI adoption</li> <li>Proactively invest in <b>modern data architecture</b> to address legacy information technology (IT) gaps and ensure “right-first time” regulatory submissions</li> </ul>	<p><b>Why the change</b></p> <ul style="list-style-type: none"> <li><b>Poor data quality and weak lineage</b> are driving capital miscalculation</li> <li>Supports <b>automation, supervisory analytics and AI adoption</b></li> </ul> <p><b>Impact on banks</b></p> <ul style="list-style-type: none"> <li>Banks should <b>streamline data infrastructure</b> to enhance the visibility of data lineage</li> <li>Legacy platforms and manual processes become <b>regulatory risks</b></li> <li>Increased regulatory scrutiny on <b>data accuracy, traceability and consistency</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Under Basel 2.5:</b> Data requirements were primarily for MIS transparency and tracking performance data for asset pools</li> <li><b>Under Basel 3.1:</b> New Standardised Credit Risk Assessment requires highly granular data to grade unrated banks (Grades A, B, or C). Covered bonds now require semi-annual portfolio data</li> <li><b>Practical “how-to”:</b> Adoption of <b>optical character recognition and machine learning platforms</b> to support scalable reporting</li> <li>Implement <b>cloud-native data lakes</b> to automate the 10% nominal over-collateralisation checks required for covered bond risk-weighting eligibility</li> </ul>
 <p><b>Facilitating competition and growth</b></p>	<ul style="list-style-type: none"> <li>Streamline reporting through the <b>Future Banking Data</b> programme</li> <li>Utilise the <b>Strong and Simple framework Small Domestic Deposit Takers (SDDTs)</b> to reduce the regulatory burden on smaller firms and accelerate senior manager application timelines</li> </ul>	<p><b>Why the change</b></p> <ul style="list-style-type: none"> <li><b>Improve transparency and comparability</b> for investors and supervisors</li> <li><b>Reduce the regulatory burden on smaller banks</b> without compromising stability</li> <li>Standardised disclosures enhance <b>market discipline</b></li> </ul> <p><b>Impact on banks:</b></p> <ul style="list-style-type: none"> <li>Large banks face <b>greater disclosure consistency and scrutiny</b></li> <li>Smaller banks benefit from <b>simplified capital and reporting requirements</b></li> <li>Increased effort required to maintain <b>ongoing eligibility and disclosure accuracy</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Under Basel 2.5:</b> Market discipline was achieved through non-standardised, flexible Pillar 3 disclosure templates</li> <li><b>Under Basel 3.1:</b> Mandatory <b>standardised Pillar 3 disclosure templates</b></li> <li><b>Practical “how-to”:</b> Conduct an <b>eligibility audit</b> for SDDT status to drastically reduce RWA complexity</li> <li>Shift towards <b>API-driven regulatory submissions</b> and reduced Excel-based processes</li> </ul>

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 <p><b>Operational resilience</b></p>	<ul style="list-style-type: none"> <li>• Improve <b>resilience testing</b> for important business services and integrate these metrics into board-level decision-making</li> <li>• Maintain <b>cyber-robustness</b> (CBEST/STAR-FS) and manage <b>third-party concentration risks</b>, specifically regarding sub-outsourcing and exit plans</li> </ul>	<p><b>Why the change</b></p> <ul style="list-style-type: none"> <li>• The PRA's review of firms' readiness for <b>the SS1/21</b> milestones indicates more enhancements</li> <li>• <b>Cyberattack and geopolitical uncertainties</b> are cited as the most frequent and challenging risks</li> <li>• <b>Increased third-party dependency</b> heightens disruption risk and the need to prepare for service failure</li> </ul> <p><b>Impact on banks:</b></p> <ul style="list-style-type: none"> <li>• <b>More robust and frequent scenario testing</b> focused on important business services</li> <li>• <b>Increased investment in monitoring/response tooling</b> and recovery processes</li> <li>• More <b>robust third-party failure playbooks</b> and regular exercises</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Under Basel 2.5:</b> Management relied on Pillar 2 qualitative guidance and general internal control testing</li> <li>• <b>Under Basel 3.1:</b> All legacy approaches are <b>abolished</b>. Capital is now driven by the <b>business indicator</b> and a 10-year <b>internal loss multiplier</b></li> <li>• <b>Practical "how-to":</b> Transition from qualitative assessment to a <b>quantitative 10-year loss database</b> -Use <b>AI-driven anomaly detection</b> to identify and categorise operational loss events</li> </ul>

Reference:  
 International Banks Supervision: 2026 Priorities  
 BASEL 2.5  
 BASEL 3.1

## About Crisil Integral IQ (formerly Global Research & Risk Solutions)

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