Basel III and Basel IV Capital Adequacy: ICAAP, Stress Testing and Pillar 3 Disclosure

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Technical depth: Conceptual · **Practical mode:** Case study

Introduction

Capital rules now shape strategy, pricing and growth as much as compliance. The finalised Basel III reforms, often called Basel IV, bring an output floor, revised standardised approaches and a new operational risk measure that change how much capital each business consumes, while supervisors expect boards to own the internal capital assessment and the disclosures published under Pillar 3. This Core Concept course equips executives to challenge capital numbers, stress tests and disclosures with confidence. Participants test each concept on bank case material and leave with a Board Capital Adequacy Oversight Brief.

Course Objectives

- Interpret the structure of the Basel Framework and the effect of the finalised reforms on capital ratios, business mix and pricing
- Evaluate the capital, leverage and liquidity metrics reported to the board and the assumptions behind risk-weighted assets
- Challenge the ICAAP, including risk identification, capital planning and alignment with risk appetite
- Oversee stress testing and capital contingency planning against the Basel Committee stress testing principles
- Assure the quality, consistency and governance of Pillar 3 disclosures and the risk data behind them
- Produce a Board Capital Adequacy Oversight Brief with challenge questions and priorities for management

Target Audience

- Board members and risk and audit committee members of banks and banking groups
- Chief executives and executive committee members accountable for capital strategy
- Chief financial and chief risk officers responsible for capital planning and ICAAP ownership
- Treasury and balance sheet executives setting capital allocation and funding strategy
- Heads of regulatory affairs and internal audit reporting to the board on prudential matters

Course Outline

Day 1: The Capital Adequacy Landscape and the Board's Role

- Basel Framework Structure: Pillar 1, Pillar 2 and Pillar 3
- Regulatory Capital Composition: CET1, Additional Tier 1 and Tier 2
- Capital Buffers: Conservation, Countercyclical and Systemic Buffers
- Board Accountability for Capital Under the BCBS Corporate Governance Principles for Banks
- Current Capital Position Review Using the KM1 Key Metrics Template

Day 2: Basel III Final Reforms and Risk-Weighted Assets

- Revised Standardised Approach for Credit Risk
- Constraints on Internal Ratings-Based Approaches and the 72.5% Output Floor
- Fundamental Review of the Trading Book and the Revised CVA Framework
- Standardised Approach for Operational Risk and the Business Indicator Component
- Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio

Day 3: ICAAP and Capital Planning Oversight

- ICAAP Components: Risk Identification, Materiality and Capital Quantification
- Pillar 2 Risks: Concentration, IRRBB Under the 2016 Standard and Business Model Risk
- Risk Appetite Statement Linkage to Capital Targets and Limits
- Forward-Looking Capital Plan and Management Buffer Setting
- Supervisory Review Process Dialogue and Pillar 2 Add-On Findings

Day 4: Stress Testing, Disclosure Risk and Data Integrity

- BCBS Stress Testing Principles 2018: Scenario Design and Governance
- Reverse Stress Testing and Capital Contingency Plan Triggers
- Pillar 3 Disclosure Requirements: Templates, Frequency and Assurance
- BCBS 239 Risk Data Aggregation and Risk Reporting Principles
- Climate-Related Financial Risk Disclosure Under the BCBS 2025 Voluntary Framework

Day 5: Case Work and the Board Capital Adequacy Oversight Brief

- Retail Bank Case Study: Output Floor Impact on Mortgage Pricing
- Corporate and Investment Bank Case Study: Stress Test Challenge Session
- Board Challenge Question Set for an ICAAP Submission
- Board Capital Adequacy Oversight Brief Drafting
- Peer Challenge Panel and Brief Defence

Skills You Will Gain

- Prudential Capital Oversight
- Risk-Weighted Asset Interpretation
- Capital Planning Governance
- Stress Test Challenge
- Risk Appetite Alignment
- Disclosure Governance
- Risk Data Oversight
- Liquidity and Leverage Awareness

Why Attend This Course

- Return with a Board Capital Adequacy Oversight Brief and a tested set of challenge questions for the next ICAAP cycle
- Understand how the output floor and revised approaches change the capital consumed by each business line
- Ask management the questions that expose weak stress scenarios, optimistic capital plans or fragile disclosure data
- Compare board oversight practice with executives from banks in other countries and at different stages of implementation

Conclusion

Capital adequacy is a board decision about how much risk a bank can carry and how it will survive stress, not a calculation left to specialists. This course moves from the structure of the Basel Framework and the composition of capital, through the finalised reforms to risk-weighted assets, to ICAAP oversight, stress testing and the disclosures that markets read. The final day turns that material into a Board Capital Adequacy Oversight Brief that participants take back to their institution, giving them a structured basis for challenging the next capital plan.