

The Core Principles for Effective Banking Supervision

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The financial crises in Mexico in 1994 and 1995 and in Asia in 1997 drew attention to the weakness of banking supervision in emerging markets. The Committee responded by broadening its focus from the capital of internationally active banks to the quality of supervision as such. In September 1997, it published the "Core Principles for Effective Banking Supervision", a set of twenty-five principles prepared in cooperation with supervisors from non-member countries, among them Chile, China, the Czech Republic, Hong Kong, Mexico, Russia and Thailand.¹

The Core Principles covered the preconditions for effective supervision, licensing, prudential regulations, methods of ongoing supervision, information requirements, formal powers of supervisors and cross-border banking. They required, among other things, that supervisors possess operational independence and adequate resources, that licensing criteria be clear and that supervisors be able to take corrective action. They were meant to apply to all banks in all countries. Their adoption was encouraged by the International Monetary Fund and the World Bank, which used them as the yardstick for assessments under the Financial Sector Assessment Program launched in 1999.²

The Core Principles were revised in 2006 and in September 2012, when the number of principles rose to twenty-nine and greater emphasis was placed on corporate governance, macroprudential considerations and the supervision of systemically important banks. A further revision was approved in April 2024, which added references to climate-related financial risks, operational resilience and the risks arising from the digitalisation of finance.³ Through the FSAP assessments, the Core Principles have done more to spread the Committee's influence to non-member jurisdictions than any capital standard. They also offer the clearest example of a Basel

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text that functions as a benchmark for external review, since compliance with them is regularly graded by the Fund and the World Bank.

1 Notes

1. Basel Committee, Core Principles for Effective Banking Supervision (September 1997). The list of cooperating non-member supervisors is given in the introduction to the document. To be verified. ↩
2. On the use of the Core Principles in the IMF–World Bank Financial Sector Assessment Program (FSAP), launched in 1999, see the IMF's documentation on FSAP and the assessment methodology. To be verified. ↩
3. Basel Committee, Core Principles for Effective Banking Supervision (revised September 2012) and the revision published in April 2024. Status to be verified. ↩

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