

BASEL IV IMPLICATION IN INDIA

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Abstract

The Basel IV framework, a casual industry nomenclature to the 2017 full implementation of the Basel III reforms, is the biggest change in the global banking regulation since the 2008 financial crisis. Although, the main aim of Basel Committee on Banking Supervision (BCBS) was to decrease the excessive volatility in Risk-Weighted Assets (RWA) and make the capital ratings of banks credible again, the introduction of these finalized standards have experienced special structural and legal opposition in the Indian context. The current research article explores the complex factors that led to the gradual, and in many cases, slow implementation of Basel IV standards in India. This research paper assesses the conflict between international regulatory convergence and national economic priorities by conducting a qualitative analysis of the Banking regulation Act, 1949, and the Reserve bank of India Act, 1934. This paper states that the so-called Output Floor, the highlight of Basel IV that restricts the capital-saving qualities of internal risk models, presents a unique threat to Indian Public Sector Banks (PSBs). The institutions, which already have been out of a 10-year span of Non-Performing Assets (NPAs) and aggressive recapitalization, have received a capital tax that might unwillingly suffocate the flow of credit to important sectors like Infrastructure and Micro, Small, and Medium Enterprises (MSMEs). Moreover, the study emphasizes the role of the Reserve Bank of India (RBI), which is not only a passive recipient of international norms, but also a proactive, so-called, macro-prudential architect. The RBI has chosen to implement in a gradual implementation roadmap by using its statutory powers under Section 21 and Section 35A of the Banking Regulation Act, emphasising on a concept of Regulatory Smoothing, rather than direct compliance. It is concluded in this paper that though India is adamant about Basel framework to retain its world credit rating, the non-implementation so far was an orchestrated defensive move aimed at saving the domestic credit cycle of the pro-cyclicality of standardized international risk weights. The results imply that in the case of an emerging economy such as India, the Basel IV is a fine balancing act between the goal of attaining global "Gold Standard" and the goal of making capital requirements a stumbling block to sovereign economic development.

Introduction

Global Banking Standards Evolution. The international financial system is dictated with an intricate system of rules that are set to make sure that banks have sufficient capital to withstand the economic shocks. The Basel Accords is located at the top of this architecture. The so-called Basel IV as defined by the industry is actually the Finalization of the

Basel III post-crisis reforms of December 2017. Before one could come up with the reason why India is maneuvering this implementation with such particular care, it is best to first look at the definition of these norms and the institutional relationship between the global regulator and the Indian state.

What is Basel IV

The Finalization of Basel III. Although the first Basel III reforms were aimed at raising the amount and quality of capital (the introduction of higher Common Equity Tier 1 requirements and liquidity buffers), it still resulted in an unaddressed critical vulnerability, which is the subjectivity of risk measurement. The big banks in the world were employing the advanced Internal Ratings-Based (IRB) models to determine their Risk-Weighted Assets (RWA). This gave rise to the model cherry-picking, in which two banks having the same portfolio might report very different capital requirements merely by changing their internal formulas. Basel IV came in to regain the confidence in these calculations. The first technical goal is to decrease the disparity in RWAs across the international banking industry. The "finalization" package brings a number of changes to the regulatory environment that amount to earthquakes: The Output Floor: This is a required safety net so that the total RWA of a bank, as determined by its internal models, cannot be less than 72.5 percent of the RWA of the bank as determined by the more conservative of the two methods, the Standardized Approach. Amended Standardized Approach to Credit Risk: A more detailed approach to credit risk assessment of loan to corporates, SMEs and real estate, no longer a percentage of a size fits all. The Standardized Measurement Approach (SMA) to Operational Risk: Replacing all the past approaches (including the Basic Indicator Approach adopted by most Indian banks) with one, data-driven formula that takes into account the past operational losses of the bank. Leverage Ratio Buffer: An extra cushion to Global Systemically Important Banks (G-SIBs).

The Basel Committee on Banking Supervision (BCBS) Role.

The BCBS is the leading international standard-setting body of the prudential regulation of banks. It was formed in 1974 by the Group of Ten (G10) governors of the Central Banks and offers a platform through which the banking supervisory issues are regularly co-operated. More importantly, the BCBS lacks any formal

supranational supervisory power; its rulings are not legally enforceable. Rather, it develops generic supervisory standards and guidelines and leaves the implementation of these standards to individual national authorities in the form of domestic legislation. In the case of the BCBS, the last chapter in the response of the 2008 Great Financial Crisis is the Finalization of Basel III. The idea behind the committee is to make sure that the Risk-Weighted Assets reflect the risk underlying it so that the banks do not game the system to show higher capital levels than they are actually.

Membership of India and the Dynamic of Comply or Explain

In 2009, India joined the BCBS, an action that marked the beginning of its rise as a global financial giant. It is not just a ceremonial membership and imposes upon the Reserve Bank of India (RBI) the duty of harmonizing domestic laws with Basel standards. But traditionally the RBI has pursued a plus-one strategy - in most cases, the Basel norms have been implemented more strictly than the international minimum. As an illustration, Basel III had a minimum Capital Adequacy Ratio (CAR) of 8% whereas RBI had 9% on Indian banks. The Basel IV relationship of India is defined as Calibrated Compliance philosophy. The Indian banking system is largely Standardized unlike in advanced economies where banks are fully dependent on the complex IRB models. Thus, the most debatable element of Basel IV, the Output Floor, does not affect India as it does Europe or the US. In the case of India, Basel IV is not the issue of curbing the model gaming, but rather the capital cost of the new, more granular standardized risk weights at a time when the infrastructure is in high demand.

Indian Regulatory Landscape: Strategy and Law

International banking standards such as Basel IV are not law binding in the Indian constitutional and administrative system until they have been domesticated. This is a

strategic practice of sovereign power in which the Reserve Bank of India (RBI) is a macro-prudential architect, bending global rules to the Indian credit market specifics.

Legislative Power

The Architecture of Enforcement. Although technically the Basel IV is a set of non-binding standards of the BCBS, in India, the standards are converted into statutory Directives through the following pillars: Banking Regulation Act, 1949 (The Principal Statute): Section 21 (Power to Control Advances): This section is the most important one to utilize in revising the Credit Risk. Through this power, the RBI is able to impose certain risk weights of the various sectors. An example is that should the Basel IV propose that 100 percent of risk weight be on unrated corporates, the RBI can under Section 21, establish a sub-category of Indian MSMEs with a lower risk weight to avoid a domestic credit freeze. Section 35A (Power to Give Directions): This is the "Omnibus Provision. It permits the RBI to make orders in the interest of banking policy. Basel III and the forthcoming Basel IV all Master Directions on Capital Adequacy have their legal validity as a result of this section. It also guarantees that any violation of Basel norms will not only be a lapse in regulation, but also a violation of the Law of the Land that is subject to the penalty of Section 46 of the Act. The Reserve Bank of India Act, 1934: Section 45L (Power to Call for Information/Issue Directions to NBFCs): The issue of Shadow Banking in India is one of the unique challenges in the country. Section 45L of the RBI is applied to guarantee "Regulatory Convergence." Through imposing Basel-type capital requirements on NBFCs of a large size, the RBI eliminates the so-called regulatory arbitrage, according to which the risk does not disappear but shifts to non-regulated shadow entities.

The "Standardized Approach" as a Fortification Barrier

The cornerstone of Basel IV, the 72.5% Output Floor, was meant to penalize the model gaming

in Western banks (such as Deutsche Bank or Barclays) who employed internal models to make their risk artificially low. The story is the opposite in India. The So-called Standardized Status Quo: Traditionally, the RBI has been doubtful of the Internal Ratings-Based (IRB) models in India because there are no high quality, long term credit data available. As a result, a majority of Indian banks (all PSBs) are already under the Standardized Approach (SA). The "Safe Haven" Effect: Since Indian banks are already practicing the more conservative "standardized" math, they are automatically in a better place to sit, or, to put it differently, above the floor. Whereas, the Western banks are now scurrying to raise capital to fulfil the 72.5% requirement, the Indian banks are technically already on track with the spirit of the Output Floor. This has protected the Indian banking system against the enormous "Regulatory Shock" being experienced in the Eurozone.

Operational Risk Standardized Measurement Approach (SMA)

Assuming that the Credit Risk forms the Shield, the new SMA of Operational risk is the Sharp end of Basel IV of Indian banks. Stamping out the BIA: Indian banks had been using the Basic Indicator Approach (BIA) in the past that merely demanded maintenance of capital equivalent to 15 percent of their average gross income. It was a blind measure- it did not matter whether the bank was well-managed or full of fraud. International Loss Multiplier (ILM): Basel IV presents the SMA, which is determined with the help of the Business Indicator (BI) and Internal Loss Multiplier. The Legal Implication: In the instances of banks which have experienced massive losses in their operations (including the high-profile cases of fraud in 2018-2020), the ILM will serve as a Capital Penalty. Smoothing Strategy of RBI: According to the updated guidelines of 2025, the RBI has been generous to adjust the ILM to 1.0 in the meantime. This legal smoothing will stop an abrupt, destabilizing spike in capital requirements of banks which continues to absorb the remnants of its operational problems, and will basically provide

such banks with a grace period to tighten their internal controls.

Strategic Calibration: The Indian Flavor

Finally, India has the strategy of Selective Adoption. RBI has adopted the liquidity requirements of Basel IV (LCR and NSFR) earlier than due, but has postponed the more capital-intensive changes to RWA to April 2027. This will make the Indian banking system to be both globally compatible to international investors and domestically supportive to Indian borrowers. Difficulties to Full Implementation in India. The switch of Basel III to the completed Basel IV regulations is not a simple software upgrade of the banking sector, but a restructuring. The move by the Reserve Bank of India (RBI) to ensure that the full implementation is achieved by April 1, 2027, is a practical reaction to three systemic points of friction which when overlooked would lead to a contraction of domestic credit.

Triadic Architecture Of Basel IV: Technical Extension

The Basel IV framework (the 2017 Finalization) does not alter the three-pillar format of its predecessors but essentially retrofits them to eliminate any loopholes that permitted global capital arbitrage. To the Indian banking sector that is mostly Standardized, these pillars mean the pendulum swinging to extreme granularity and data driven supervision.

Minimal Capital Requirement stipulates the mathematical foundations of measuring the adequacy of capital of a bank. The most radical and debatable aspect of Basel IV is the establishment of the Aggregate Output Floor.

A. The Mechanics of the Production Floor. Output Floor is a safety net, which will restrict the benefit banks can gain out of the use of Internal Ratings-Based (IRB) models. The global banks in the past have estimated risk using their own algorithms, which tend to have low Risk-Weighted Assets (RWA) in comparison with the Standardized Approach (SA) established by

the regulators. The Global Mandate: Basel IV stipulates that the total RWA of a bank as determined by internal models must not be less than 72.5% of the RWA as determined by the revised Standardized Approach. Indian Context: Traditionally the Reserve Bank of India (RBI) was conservative in India and most Scheduled Commercial Banks (SCBs) are obliged to apply the Standardized Approach. Indian banks are therefore, naturally above the floor. Nevertheless, in the case of New Era Indian banks and the State Bank of India (SBI), which are heading towards sophisticated modelling, this floor serves as a serious form of Capital Ceiling to their capacity of maximizing capital in their expansion to other parts of the world.

- B. Revised Standardized Approach of credit risk Basel IV substitutes the single risk-weighted system with the more detailed system. As an illustration, banks now have to differentiate between General Corporates and Investment Grade when all corporate loans have a weight of 100 percent. This will necessitate a colossal upgrade of Credit Bureau integration and real time rating assessments in India.
- C. The Operational Risk Standardized Measurement Approach (SMA) Basel IV does away with the Basic Indicator Approach (BIA) and the Advanced Measurement Approach (AMA) and introduces the SMA. The Business Indicator (BI): Capital has been connected with gross income of a bank during three years. The Internal Loss Multiplier (ILM): This applies to those banks with a record of high operational losses (e.g., fraud, cyber-attacks or legal settlements). The SMA is a kind of Capital Penalty to the Indian Public Sector Banks (PSBs) which have had a history of laying down the groundwork of inefficiencies in their operations.

Supervisory Review Process (SRP) provides the RBI with discretionary authority to deal with risks

that the Pillar 1 formulas have not been able to precisely measure. The Supervisory Review under Basel IV has changed its periodical examination to Continuous Monitoring Framework.

- A. Interest rate risk in the Banking book (IRRBB). Since the Indian banks have huge accounts in Government Securities (G-Secs), they are very sensitive to interest rate volatility. Basel IV has a stricter standardized structure of IRRBB. The RBI exercises its authority under Section 35A of the Banking Regulation Act to conduct so-called Stress Tests, so that a sudden increase of 200 basis points in the rates would not cause an insolvency crisis.
- B. The Supervisory Overlay and SREP. Pillar 2 Add-ons can be imposed by the Supervisory Review and Evaluation Process (SREP). In case the RBI finds that the internal governance of a bank is poor- irrespective of its capital ratio - it is legally allowed to impose an extra capital buffer. This is commonly applied to deal with concentration risk (excessive exposure to a particular industrial house or industry such as Real Estate) in the Indian context. Pillar 3: Market Discipline and Improved Disclosures.

Pillar 3 seeks to minimize the existence of information asymmetry through exposing banks. Provided that the actual risk of a bank is revealed to the "Market" (investors and depositors), the market will punish the bank by correcting the stock prices or withdrawing the money.

- A. The "Granularity" Mandate Basel IV is a drastic disclosure requirement. Banks are required to now issue almost 60 standard tables such as: Comparison Tables: Presenting RWA in the Internal and Standardized models. Prudential Filters: Reporting any of the concealed changes in capital. Counterparty Credit Risk (CCR): Readings about derivative exposures.

- B. Digital Transparency in India. According to the RBI, the disclosures should be machine-readable, as stated in its Roadmap (2025 2027). This will enable the Central Repository of Information on Large Credits (CRILC) part of the RBI to identify systemic risk prior to its occurrence with the help of Artificial Intelligence.

Pillar 3 is the most crucial one to the Indian researcher because it will give the raw data that will be used to evaluate the health of the financial engine of Viksit Bharat. Technical Abstract to the Paper. The switch to Basel IV under these three pillars is a shift between the Capital Quantity (having a big pile of money) and the Quality of Measurement (the money being the real risk). In the case of India, Pillar 1 is a technical issue, Pillar 2 is a supervisory instrument and Pillar 3 is a revolution of transparency. The combination of the two is the Steel Frame of Indian banking in the present times.

Full Implementation Problems in India

The move to complete the implementation by April 1, 2027, is a practical reaction to some structural areas of friction that characterize the Indian banking environment. The capital adequacy of Public Sector Banks (PSBs) is the greatest challenge. Since PSBs are the largest shareholders of the Indian banking assets, it is inherently connected to Union Budget and sovereign fiscal policy. Sudden, hard-and-fast application of Basel IV would require an extreme capital injection by the government to cover the increased capital requirements of the new risk-weighting requirements. This would compel the state to redirect billions of dollars of its necessary social expenditure and infrastructure investments into bank capitalization. The Reserve Bank of India (RBI) enables these banks to enhance their own internal profitability and directly issue capital in the equity markets through Qualified Institutional Placements (QIPs) or Follow-on Public Offers (FPOs) so that the move can be made fiscally sustainable by the sovereign without causing a credit squeeze.

In addition, the Unrated Corporate barrier is an enormous challenge to the larger interest of financial inclusion and industrial growth. With the globalized Basel IV regulations, exposures of unrated corporates are usually subjected to a high risk weight of 100 percent, and this may unintentionally caused a serious credit crunch to Small and Medium Enterprises (SMEs) without official credit ratings by international or national agencies. The RBI is leading the way in a Standardized Credit Risk Assessment (SCRA) framework to ensure that this regulatory barrier does not impair the make in India initiative. This specialized home structure enables Indian banks to use its own internal due diligence and past credit information to give lower and more favorable risk weighting to quality unrated borrowers. This localization adjustment makes sure that the global capital regulations are not so overwhelming to the growth of the entrepreneurship and manufacturing at home. Lastly, technical preparedness of data systems in the banking industry is also a major challenge. Basel IV is a very data intensive model, which mandates real time monitoring of real estate portfolio Loan-to-Value (LTV) ratios in granularity and the storage of a full 10-year database of operational losses to determine the new Standardized Measurement Approach (SMA). Modernization of the old IT infrastructure and Core Banking Solutions (CBS) to achieve these stringent standards is a long-term undertaking which demands capital investment and human resources, which is now the major line of operation of mid-tier and government sector banks in the country.

Current Status and Timeline

India is at an Active Adoption stage, which is marked by a heavy shift of early draft consultations to final and binding regulatory directions. The RBI has been quite prolific in releasing updates and master directions that would allow the whole banking ecosystem to be operationally ready on the effective date of April 1, 2027. In March 2026, a significant milestone was achieved with the final update of Counterparty Credit Risk (CCR). This particular

regulation completed the complicated regulation regarding derivative transactions and managed to harmonize the Indian banks with international clearing rules minimizing the chance of contagion in the financial markets. This revision was more especially significant as it established positive risk weights on exposures to Qualifying Central Counterparties (QCCPs) which is a good incentive to push banks towards other, more secure, and regulated clearing houses rather than bilateral, over-the-counter trades. The focus on regulation, as the implementation window reduces has changed the focus of regulation no longer on high-level policy formulation but on the more granular Data Plumbing that is needed to make Pillar 3 disclosures. This entails standardization of almost 60 various reporting tables which ought to be machine readable and accessible to the market players. The policy formulated by the RBI will see to it that the Indian banking sector meets the global standard of resilience and transparency and at the same time domestically supportive of long-term economic aspirations of the country as per the vision of Viksit Bharat 2047. The present phase is therefore characterized by a dual-run strategy where the banks are starting to record their capital ratios in accordance to both the current Basel III regulations and the new Basel IV amendments to determine the possible loopholes prior to the ultimate hard deadline. This systematic process brings out the interest of India in terms of international stability without jeopardizing the credit requirements of its developing economy.

Conclusion

The road to complete adoption of Basel IV in India is a measure of the role played by the reserve bank of India as an advanced macro-prudential regulator. Although the international banking community perceived the 2017 finalization as a set of strict rules that are universal, the Indian experience shows that international standards should be considered through the prism of domestic economic sovereignty. The RBI has been able to evade the

so-called regulatory shock experienced by most developed economies due to the statutory powers that it has through the Banking Regulation Act, 1949, and the Reserve Bank of India Act, 1934. The institutional lethargy was not observed in the strategic decision to postpone the hard deadline to April 1, 2027, but rather a planned move to make sure the "Output Floor" and revised risk weights do not unintentionally strangle the flow of credit to the already booming SME and infrastructure sectors in the country. Finally, the Triad of Readiness, i.e., capital adequacy, data integrity, and legal clarity, will determine the successful implementation of Basel IV. With Public Sector Banks implementing market-based recapitalization to solidify their balance sheets, and with the Indian banking system, as a whole, moving towards a more open and risk-aware environment with the implementation of Pillar 3 requirement of a more data-intensive environment, the balance sheet of the Indian banking environment will become more transparent and risk-aware. This shift is such that Indian banks are not merely Global Robust, but also Local Relevant. Although balancing the strict demands of Basel Committee with the peculiarities of the developing economy, India is establishing a world precedent of how the emerging markets can follow the high standards of international standards without foregoing the impetus of their national development goals as the vision of Viksit Bharat 2047.

