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HOW MUCH CAPITAL, BY WHAT DATES AND TRANSPARENCY

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OVERVIEW

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- Capital Calibration – limits and minima
- Grandfathering and transitional arrangements
- Disclosure requirements

Basel III Final Rules Annex 4

Annex 4
Phase-in arrangements
(shading indicates transition periods - all dates are as of 1 January)

	2011	2012	2013	2014	2015	2016	2017	2018	As of 1 January 2019
Leverage Ratio	Supervisory monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital			Phased out over 10 year horizon beginning 2013						
Liquidity coverage ratio	Observation period begins				Introduce minimum standard				
Net stable funding ratio		Observation period begins						Introduce minimum standard	

CAPITAL CALIBRATION – LIMITS AND MINIMA

Annex 1

Calibration of the capital framework

Calibration of the Capital Framework

Capital requirements and buffers (all numbers in percent)

	Common Equity (after deductions)	Tier 1 Capital	Total Capital
Minimum	4.5	6.0	8.0
Conservation buffer	2.5		
Minimum plus conservation buffer	7.0	8.5	10.5
Countercyclical buffer range*	0 – 2.5		

**The Committee is still reviewing the question of permitting other fully loss absorbing capital beyond Common Equity Tier 1 and what form it would take. Until the Committee has issued further guidance, the countercyclical buffer is to be met with Common Equity Tier 1 only.*

TRANSITIONAL ARRANGEMENTS

The transitional arrangements for implementing the new standards will help to ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy. The transitional arrangements include:

(a) National implementation by member countries will begin on 1 January 2013. As of 1 January 2013, banks will be required to meet the following new minimum requirements in relation to risk-weighted assets (RWAs):

- 3.5% Common Equity Tier 1/RWAs;
- 4.5% Tier 1 capital/RWAs, and
- 8.0% total capital/RWAs.

TRANSITIONAL ARRANGEMENTS cont'd

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(b) The minimum Common Equity Tier 1 and Tier 1 requirements will be phased in between 1 January 2013 and 1 January 2015. On 1 January 2013, the minimum Common Equity Tier 1 requirement will rise from the current 2% level to 3.5%. The Tier 1 capital requirement will rise from 4% to 4.5%. On 1 January 2014, banks will have to meet a 4% minimum Common Equity Tier 1 requirement and a Tier 1 requirement of 5.5%. On 1 January 2015, banks will have to meet the 4.5% Common Equity Tier 1 and the 6% Tier 1 requirements. The total capital requirement remains at the existing level of 8.0% and so does not need to be phased in. The difference between the total capital requirement of 8.0% and the Tier 1 requirement can be met with Tier 2 and higher forms of capital.

(c) The regulatory adjustments (ie deductions and prudential filters), including amounts above the aggregate 15% limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, would be fully deducted from Common Equity Tier 1 by 1 January 2018.

TRANSITIONAL ARRANGEMENTS cont'd

(d) In particular, the regulatory adjustments will begin at 20% of the required adjustments to Common Equity Tier 1 on 1 January 2014, 40% on 1 January 2015, 60% on 1 January 2016, 80% on 1 January 2017, and reach 100% on 1 January 2018. During this transition period, the remainder not deducted from Common Equity Tier 1 will continue to be subject to existing national treatments. During this transition period, the remainder not deducted from capital will continue to be subject to existing national treatments.

(e) The treatment of capital issued out of subsidiaries and held by third parties (eg minority interest) will also be phased in. Where such capital is eligible for inclusion in one of the three components of capital, it can be included from 1 January 2013. Where such capital is not eligible for inclusion in one of the three components of capital but is included under the existing national treatment, 20% of this amount should be excluded from the relevant component of capital on 1 January 2014, 40% on 1 January 2015, 60% on 1 January 2016, 80% on 1 January 2017, and reach 100% on 1 January 2018.

(f) Existing public sector capital injections will be grandfathered until 1 January 2018.

TRANSITIONAL ARRANGEMENTS cont'd

(g) Capital instruments that no longer qualify as non-common equity Tier 1 capital or Tier 2 capital will be phased out beginning 1 January 2013. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition will be capped at 90% from 1 January 2013, with the cap reducing by 10 percentage points in each subsequent year. This cap will be applied to Additional Tier 1 and Tier 2 separately and refers to the total amount of instruments outstanding that no longer meet the relevant entry criteria. In addition, instruments with an incentive to be redeemed will be treated as follows:

- Capital instruments with step-ups

TRANSITIONAL ARRANGEMENTS cont’d

- Capital instruments that do not meet the criteria for inclusion in CET1 will be excluded from CET1 as of 1 January 2013. However, instruments meeting the following three conditions will be phased out by 10% each year from 1 January 2013: (1) they are issued by a non-joint stock company; (2) they are treated as equity under the prevailing accounting standards; and (3) they receive unlimited recognition as part of Tier 1 capital under current national banking law.

- Only those instruments issued before 12 September 2010 qualify for the above transition arrangements.

DISCLOSURE REQUIREMENTS

To help improve transparency of regulatory capital and improve market discipline, banks are required to disclose the following:

- A full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements;
- Separate disclosure of all regulatory adjustments;
- A description of all limits and minima, identifying the positive and negative elements of capital to which the limits and minima apply;
- A description of the main features of capital instruments issued;
- Banks which disclose ratios involving components of regulatory capital (eg “Equity Tier 1”, “Core Tier 1” or “Tangible Common Equity” ratios) must accompany such disclosures with a comprehensive explanation of how these ratios are calculated.

DISCLOSURE REQUIREMENTS Cont'd

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- Banks are also required to make available on their websites the full terms and conditions of all instruments included in regulatory capital. The Basel Committee will issue more detailed Pillar 3 disclosure requirements in 2011.

- During the transition phase banks are required to disclose the specific components of capital, including capital instruments and regulatory adjustments that are benefiting from the transitional provisions.

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Questions?