GUERNSEY FINANCIAL SERVICES COMMISSION
ISLE OF MAN FINANCIAL SUPERVISION COMMISSION
JERSEY FINANCIAL SERVICES COMMISSION

DISCUSSION PAPER ON:
BASEL III: CAPITAL ADEQUACY

Issued: 17 December 2013

GLOSSARY OF TERMS

The following table sets out a glossary of terms used in this paper.

Additional Tier 1 capital	Items permitted within Tier 1 capital, other than CET1 capital
AT1	Additional Tier 1
Basel Committee	Basel Committee on Banking Supervision
Basel II	"*International Convergence of Capital Measurement and Capital Standards*", re-issued in comprehensive form in June 2006 by the Basel Committee
Basel III	collectively, a series of documents issued by the Basel Committee that either revise Basel II or establish new international standards regarding the financial management of international banks
Basel III capital adequacy standard	"*A global regulatory framework for more resilient banks and banking systems*", issued in December 2010 by the Basel Committee and revised in June 2011
Capital Disclosure Rules	"*Composition of capital disclosure requirements*", issued by the Basel Committee in June 2012
Capital FAQ	*Basel III definition of capital - Frequently asked questions*", issued in December 2011 by the Basel Committee
CDs	Crown Dependencies – Guernsey, Isle of Man and Jersey
CET1	Common Equity Tier 1
CRD IV	EU proposals to introduce Basel III requirements
DP	Discussion Paper on Basel III, issued by the Tri-party Group in September 2012.
D-SIB	domestic systemically important bank, a sub-set of all D-SIFIs
D-SIB Paper	Intended separate paper on matters related to D-SIBs
D-SIFI	domestic SIFI
DTAs	deferred tax assets
DTLs	deferred tax liabilities
DVA	debit valuation adjustment
DVA Statement	Press release issued by the Basel Committee following its consultation on the treatment of DVAs
EBA	European Banking Authority
Final Elements PR	Press release issued by the Basel Committee, containing additional criteria for AT1 and Tier 2
GFSC	Guernsey Financial Services Commission
G-SIFI	global SIFI
ICAAP	Internal Capital Adequacy Assessment Process
ICB	Independent Commission on Banking
IOMFSC	Isle of Man Financial Supervision Commission
JFSC	Jersey Financial Services Commission
PDG	Policy Development Group: a sub-committee of the Basel Committee, has a task force reporting to it
RRD	proposed new EU Bank Recovery and Resolution directive
RWAs	Risk Weighted Assets
SIFI	systemically important financial institution
TFSA	Task Force on Standardised Approaches, tasked with reporting to the PDG on the standardised approaches.

Tri-Party Group	comprises the GFSC, IOMFSC and JFSC
T2	Tier 2 capital (used in forms only)

CONTENTS

Glossary of Terms 2
Contents 4
Introduction 5
1 Background 5
2 Related international developments 6
Outline of proposals 7
3 Overview 7
4 Proposed reporting format and transitional adjustments 8
Definition of capital 11
5 Common Equity Tier 1 capital 11
6 Additional tier 1 capital elements 17
7 Tier 2 capital elements 21
Other capital adequacy considerations 25
8 Risk weighted assets, including items previously deducted from capital 25
9 Capital minima and buffers 26
10 Memoranda items 29
11 Impact of home state rule divergence 31
Summary of Questions 33
Appendix A - List of bodies who have been sent this consultation paper 35
Appendix B - Reporting format 36

INTRODUCTION

1 Background

1.1 In June 2006, the Basel Committee on Banking Supervision ("**Basel Committee**") issued, in comprehensive form, a framework for supervisory regulations governing the capital adequacy of international banks. This document, "*International Convergence of Capital Measurement and Capital Standards*", has become known as "**Basel II**".

1.2 Latterly, the Basel Committee has worked to revise Basel II. This work has resulted in a number of documents being issued that either revise Basel II or establish new international standards regarding the financial wellbeing of international banks. Collectively, this initiative is described by the Basel Committee as "**Basel III"** and it encompasses both capital adequacy and liquidity measures.

1.3 The Tri-Party Group - The Jersey Financial Services Commission ("**JFSC**"), Guernsey Financial Services Commission ("**GFSC**") and Isle of Man Supervision Commission) ("**IOMFSC**") - worked together to establish a unified approach, reflecting our similar responsibilities as host supervisors, wherever possible, to implementing Basel II during the period 2005 to 2008.

1.4 The Tri-Party Group distributed a Discussion Paper on Basel III in September 2012 (the **"DP")** to all banks that are incorporated in the Crown Dependencies ("**CDs**") – Guernsey, Isle of Man and Jersey - to provide information on Basel III and an indication of the Group's initial views and in order to solicit feedback.

1.5 This paper contains detailed proposals regarding capital adequacy, building on those in the DP and feedback received to the DP. In the main, these proposals respond to the Basel III proposals set out in "*A global regulatory framework for more resilient banks and banking systems*", issued December 2010 and revised June 2011[1], referred to herein as the "**Basel III capital adequacy standard**".

1.6 The Tri-Party Group is distributing this paper to all banks incorporated in the CDs to provide information on the proposed approach in the CDs and solicit feedback as part of the wider work on Basel III. A period of three months to 17 March 2014 has been set aside for this and banks are asked to submit feedback to their supervisor but be aware that the content of feedback will be made available to the other CD supervisors on a no-names basis.

1.7 The Tri-Party Group intends to address matters specific to domestic systemically important banks ("**D-SIBS**") in a future "**D-SIB Paper**", including proposals relating to recovery and resolution processes for such banks.

1.8 Consideration of liquidity and the other Basel III subject areas identified in the DP, such as the leverage ratio, will follow in due course. This reflects a desire to focus this (and future papers) on particular aspects, enabling focussed consideration of each element in turn.

[1] http://www.bis.org/publ/bcbs189.htm

1.9 With respect to the leverage ratio no decision has been made at this time regarding implementation in the CDs. The likely impact of the introduction of a leverage ratio must be assessed and a future paper will outline additional data reporting requirements to facilitate such an assessment. In addition, developments in international standard-setting will be monitored. The Basel Committee published a consultative document in June 2013 which makes a small number of revisions to the leverage ratio calculation but confirms that the Basel Committee's timetable for implementation remains unchanged i.e. that a regulatory minimum leverage ratio will be implemented in 2018, with regulatory reporting and monitoring of the ratio prior to implementation. At present a minimum level of 3% is proposed but both the calibration and definition of the leverage ratio remains uncertain, with the Basel Committee committing to make any final adjustments by 2017. Separately, the EBA will undertake a review of the leverage ratio framework in 2016 with a view to the European Commission introducing legislation in 2017. Irrespective of implementation of a leverage ratio, there is nothing stopping CD regulators including consideration of leverage as part of their routine supervisory approach.

1.10 It is considered that any consideration of liquidity requires an understanding of home regulators' requirements. The EU is particularly important, given the preponderance of EU banks in the CDs. However, although much of the work regarding the establishment of the EU's implementation of Basel III, in a set of proposals known as "**CRD IV**", has been completed, the European Banking Authority ("**EBA**") has been tasked with completing key aspects of the liquidity rules, creating some uncertainty.

1.11 For some of the other areas, including those relating to the Trading Book, elements are less relevant in all three islands and hence may be separately addressed, rather than through further Tri-Party DPs, but no decisions on these have been reached at this time.

1.12 As adopted in the DP, rather than considering Basel III as a block of standards that must be implemented, individual elements are considered separately in this paper on their own merits. The Tri-party Group aims to implement changes where they are appropriate to all three CDs.

1.13 The regulation of branches in the CDs does not include requirements in respect of capital or liquidity ratios, such prudential matters being the responsibility, on a whole company basis, of the home supervisor. No change is proposed in this area.

2 Related international developments

2.1 The EU (through the proposed Bank Recovery and Resolution Directive ("**RRD**")) and the UK, through its response to the Independent Commission on Banking ("**ICB**") Report, have separately proposed to go beyond Basel III, creating new definitions of loss absorbing instruments, coupled with requirements for certain classes of banks to either hold higher levels of regulatory capital or issue loss absorbing instruments to make up the shortfall.

2.2 It is intended to address those proposals in the future D-SIB Paper.

OUTLINE OF PROPOSALS

3 Overview

3.1 The Basel III capital standard creates a new, higher quality, sub-category of capital – Core Equity Tier 1 ("**CET1**"). It still allows certain instruments ineligible for CET1 to be included within Tier 1 and Tier 2 capital but the rules are tighter than before and the rules for deductions have been clarified to ensure that most deductions are from CET1 capital. Non-CET1 eligible Tier 1 instruments are referred to as "**Additional Tier 1 capital**" or "**AT1**" for short. Tier 1 now refers to the total of CET1 and AT1.

3.2 The Basel III capital standard provides an extended implementation timescale, with grandfathering rules, in respect of the changes to CET1, AT1 and Tier 2 capital. Most ineligible items are phased out over 5 years from 2014, except that issued capital (AT1 and Tier 2) that no longer meets the applicable criteria is instead phased out over ten years.

3.3 In response to the DP, several banks sought confirmation that Basel III would be adopted, with respondents pointing out that compliance with a different local standard would be more burdensome, as Basel III would be adopted at group level. Only a small number of banks opposed the change on costs grounds, both for existing banks and so as to offer a competitively cheaper environment to potential new entrants.

3.4 The Tri-party Group considers that none of the specific proposed changes is without merit, none were singled out as being unwarranted and that using the definitions set out in Basel III would reduce compliance costs.

3.5 The potential long-term cost savings of non-compliance would probably be limited for banks that are part of a group subject to Basel III, as it is unlikely that any reduction in consolidated capital requirements or compliance costs would result from such local circumstances. It is anticipated that most banks incorporated in the CDs would be part of such a group.

3.6 Given that the balance of opinion of banks favours adoption and that no specific obstacles have been identified, the following sections set out detailed proposals for a set of Basel III compliant rules for the calculation and reporting of capital, which would, if implemented, be applicable to all banks incorporated in the CDs.

3.7 In order to ease the introduction of revised reporting requirements, the decision has been taken to utilise, to the extent possible, the templates contained in the Basel Committee paper "Composition of capital disclosure requirements", ("C**apital Disclosure rules**"), issued in June 2012. This sets out a disclosure framework for internationally active banks regarding capital composition. The framework appears to be adequate for regulatory purposes and many of the banks incorporated in the CDs will be subject to either it or similar disclosure requirements, on a consolidated level.

3.8 This framework has been used, with minimal amendment, as the basis for CD reporting requirements (Section 4) and the structure has then been utilised to set out in a structured fashion the detailed Tri-Party Group proposals for the calculation and reporting of each element of CET1 (Section 5), AT1 capital (Section 6) and Tier 2 capital (Section 7), plus risk weighted assets (Section 8), capital minima and buffers (Section 9) and memoranda items (Section 10).

3.9 Each Section provides a comprehensive assessment of all elements. The proposals on capital minima and buffers (the whole of Section 9) will affect all banks, whereas the AT1 and Tier 2 Sections (6 and 7) are only likely to have a significant impact on banks that issue non-equity capital. The rules around CET1 are relevant to all banks but for most banks the adjustments required are likely to have only a modest impact on total capital.

3.10 Timescales for implementation are uncertain at this time, principally due to practical constraints. The DP asked about transitional adjustments and feedback was strongest for implementation in line with CRD IV. However, the Group considers that a January 2014 timeline is not practical for banks or the supervisors. Instead, the Group intends to aim to begin transition before the end of 2015, set out in this paper. However, it is not intended that this delay should have an impact on the end date for the transitional period and hence it is proposed that the transitional adjustments allowed in Basel III for each year should apply as stated in Basel III, without any alteration to reflect any delay in starting the local transitional period.

3.11 As an indication, it is envisaged that, initially at least, reports on Basel III would be required separately from current reports and that ICAAPs would be required to consider the impact of Basel III from a specified date. Local timescales for introduction, both in Pillar 1 and Pillar 2, would be established by the relevant supervisor, with local-only consultation, in order to ensure practical issues are addressed.

3.12 ***Question 1: Do you have any comments on the aim to introduce the proposed Basel III compliant measures for the assessment of capital adequacy, including transitional adjustments, by the end of 2015?***

4 Proposed reporting format and transitional adjustments

4.1 The Tri-party Group proposes to use a reporting format closely based on the format contained within Annexes 1 and 4 to the Capital Disclosure Rules.

4.2 Whilst many banks will only find a minority of items to be relevant, the full form is a commonly available reporting framework and it was considered that retaining as much as possible might ease completion, if group reporting also requires these items to be identified, and that the additional cost is minimal.

4.3 The proposed layout is contained in Appendix B to this document.

4.4 ***Question 2: With regard to the reporting format (Appendix B), are there any changes that you consider would improve clarity or otherwise make it easier to complete?***

4.5 The most significant difference between the layout set out in Appendix B and that set out in Annex 4 to the new Capital Disclosure Rules is that two columns (in some cases, split into two rows) are utilised in Appendix B to provide information on transitional items, whereas Annex 4 to the Capital Disclosure Rules utilised only a single column.

4.6 It is proposed to utilise the additional two columns to more fully show the impact of transitional adjustments. Specifically, it is proposed that banks will be required to report:

4.6.1 The full amount allowed (including due to transitional adjustments) in the column headed “Value”;

4.6.2 The full amount of the item (without any adjustment) to which transitional adjustments apply in the column headed "Transitional"; and

4.6.3 The relevant percentage in the column headed "Transitional cap".

4.7 For example, if an item was £100 million and the transitional adjustment was 60% in 2014 then the adjustment would be £60 million, reported as:

4.7.1 Value: £60 million;

4.7.2 Transitional: £100 million; and

4.7.3 Transitional cap: 60% (the 2014 cap).

4.8 The treatment of AT1 and Tier 2 transitional items is more complicated as the amount permitted is not simply reduced; instead it is capped at an amount equal to the relevant (reducing over time) transitional cap percentage multiplied by a fixed amount, being the amount included in capital at a fixed date - 1 January 2013. In this case, the layout provides an additional cell so that full data can be provided.

4.9 For example, if a bank's capital included £100 million of preference shares at 1 January 2013 (and this would become ineligible under Basel III) then this amount would be the initial cap. If the transitional cap percentage was 60% in 2016, then up to £60 million could be included. Thus, assuming no change in the item itself, the bank would report, in 2016:

4.9.1 Value: £60 million (lower of 2016 cap and 2016 amount);

4.9.2 Transitional: £100 million (2016 amount); and

4.9.3 Transitional cap: £100 million in the (new) upper cell, 60% in the lower cell (from which the 2016 cap can be seen to be £60 million).

4.10 As, for these items, the cap is derived from the original amount, it follows that in the case that the item in the above example reduced from £100 million to £75 million (say, due to a maturity) by 2016, the amount allowed, after transitional adjustments are applied, would not change as this lower value still exceeds the cap. The amounts reported would then be:

4.10.1 Value: £60 million (lower of 2016 cap and 2016 amount);

4.10.2 Transitional: £75 million (2016 amount); and

4.10.3 Transitional cap: £100 million in the upper cell, 60% in the lower cell (from which the 2016 cap can be seen to be £60 million).

4.11 In the case that the item in the above example had instead reduced from £100 million to £50 million by 2016, the amount allowed after transitional adjustments are applied would decrease, as this lower value is below the cap, resulting in the full amount being eligible to be included in capital. The amounts reported would then be:

4.11.1 Value: £50 million (lower of 2016 cap and 2016 amount);

4.11.2 Transitional: £50 million (2016 amount); and

4.11.3 Transitional cap: £100 million in the upper cell, 60% in the lower cell (from which the 2016 cap can be seen to be £60 million).

4.12 Finally, in the above case where the item reduced from £100 million to £50 million by 2016, if it remained at that level until 2018, the amount allowed after transitional adjustments are applied would decrease as this lower value would then exceed the cap again. The amounts reported would then be:

4.12.1 Value: £40 million (lower of 2018 cap and 2018 amount);

4.12.2 Transitional: £50 million (2018 amount); and

4.12.3 Transitional cap: £100 million in the upper cell, 40% in the lower cell (from which the 2018 cap can be seen to be £40 million).

4.13 ***Question 3: Are the proposals regarding the calculation and reporting of transitional adjustments clear? If not, do you have any proposals for improvement?***

DEFINITION OF CAPITAL

5 Common Equity Tier 1 capital

Items 1 to 29 in the proposed reporting form, see Appendix B

5.1 The Basel III capital standard specifies criteria for CET1 capital that start from a base of common share capital (and related share premium reserves) plus retained earnings.

5.2 Various deductions apply, some of which are new, or previously applied only at the level of total capital. Ineligible items and deductions are not usually eligible for inclusion in another category and hence the changes affect total capital, not just CET1.

5.3 Banks were asked in the DP whether using the tighter Basel III rules would have a significant impact on capital planning. The majority raised no issues, with a minority saying that they would be materially affected but did not oppose the introduction of the changes, whilst a smaller minority opposed introduction on complexity grounds. The Tri-Party Group considers that the changes are appropriate at both solo and consolidated level and that adopting them will limit differences between group and local requirements and hence restrict the overall increase in complexity.

5.4 It is proposed to require that:

5.4.1 Item 1, "*Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus*", be used to report common share capital plus related share premium;

5.4.2 Item 2, "*Retained earnings*", be used to report retained earnings from prior years, net of current year losses but only including auditor certified profits; and

5.4.3 Item 3, "*Accumulated other comprehensive income (and other reserves)*", be used to report other reserves, net of any reduction in the current year but only including increases that are auditor certified.

5.5 The qualifying criteria are set out in paragraph 53, "*Common shares issued by the bank*", of the Basel III capital adequacy standard. No issues are evident regarding the calculation and reporting of these items.

5.6 Item 4, "*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)*" and item 4a, "*Public sector capital injections grandfathered until 1 January 2018*" are subject to limits laid out in the Basel III capital standard. The limits mean these items would be phased out over time but the base for the limits is the amount issued as at 1 January 2013. The Tri-Party Group is not aware of any relevant balances and hence is of the view that no amounts would be eligible to be reported on these lines at any time. It is intended to explicitly prohibit entry here to ease completion.

5.7 ***Question 3: Have you issued, before 1 January 2013, any capital item that would fall into items 4 or 4a? If so please provide details.***

5.8 It is proposed that item 5, "*Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)*", be used by banks that own subsidiaries and have issued common share capital that is held by third parties, and only then in the case of prudential reporting submitted on a consolidated basis. The amount allowed

would be limited to the amount required to meet regulatory requirements in respect of CET1 capital, with transitional adjustments applying to any excess. See paragraphs 62, "*minority interests*", and 94(e), "*transitional arrangements*", in the Basel III capital adequacy standard for full details.

5.9 Briefly, the transitional caps applying for this item are: (1) 80% in 2014, (2) 60% in 2015, (3) 40% in 2016 and (4) 20% in 2017. No transitional adjustment applies in 2018 and later years.

5.10 Item 6, "*Common Equity Tier 1 capital before regulatory adjustments*", would then be computed as the sum of items 1 to 5.

5.11 ***Question 5: Would use of the proposed definition of Common Equity Tier 1 capital (before making adjustments) have a significant impact on your capital planning? If so, please describe the impact and any suggestions regarding alternatives.***

5.12 As noted at the start of this section, Basel III requires that some capital items are deducted where they are not of a sufficiently high quality. It also tightens up rules for adjustments currently allowed/required by many supervisors, including those within the Tri-Party Group, and requires many current deductions made from total capital to be made from CET1 capital instead.

5.13 Transitional arrangements are set out in paragraph 94 of the Basel III capital adequacy standard. Briefly, these require that the amount deducted (where there is a change from the pre-Basel III rules) is: (1) 20% in 2014, (2) 40% in 2015, (3) 60% in 2016 and (4) 80% in 2017. No transitional adjustment applies in 2018 and later years

5.14 In a small number of cases, deductions currently required are, under Basel III, replaced with a requirement to instead treat them as very high risk exposures to which a 1250% risk weight applies. These are further dealt with in Section 8.

5.15 Item 7, "*Prudential valuation adjustments*", concerns assets held at fair value but which are illiquid. This, therefore, is unlikely to be relevant to most banks in the CDs, as few local banks hold such exposures. The Tri-Party Group proposes that banks would be required to consider the guidance contained in section VIII, "*Treatment for illiquid positions*", of the Basel Committee paper titled "*Revisions to the Basel II market risk framework*", issued July 2009. This expands the scope for such adjustment to the banking book; in Basel II, they were only required for items in the trading book (as set out in paragraphs 698 to 701 of Basel II). The change recognises that, under current accounting standards, this may not be sufficient. It is proposed that any such deductions would be reported here. Transitional adjustments would apply.

5.16 It is proposed that items 8, "*Goodwill (net of related tax liability)*" and 9, "*Other intangibles, other than mortgage-servicing rights (net of related tax liability)*", be used to report items falling into these categories, where the new treatment (deduction) is broadly the same as currently imposed. The rules, set out in paragraph 67, "*Goodwill and other intangibles*", of the Basel III capital adequacy standard, are therefore not expected to have any adverse impacts. No transitional adjustments would apply.

5.17 It is proposed that item 10 "*Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)*", be used to report a new category of deductions. As the description implies, it is proposed that all deferred tax assets ("**DTAs**") that rely on future profitability of the bank be deducted when

calculating CET1 capital. For this purpose, deferred tax assets may be netted with associated deferred tax liabilities ("**DTLs)"** but only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by that taxation authority. Transitional adjustments would apply.

5.18 Where DTAs relate to temporary differences, the proposed amount to be deducted is set out in Item 21 below. For full details of the proposal, see paragraph 69, "*Deferred tax assets*", of the Basel III capital adequacy standard.

5.19 It is proposed that Item 11, "*Cash-flow hedge reserve*", be used to show adjustments to the amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) and hence it is proposed should be derecognised in the calculation of CET1 capital. This means that positive amounts should be deducted and negative amounts should be added back. The rules, set out in paragraphs 71-72, "*Cashflow hedge reserve*", of the Basel III capital adequacy standard, are not expected to have a material adverse effect, as the amounts tend to be small. It is proposed that no transitional adjustments would apply.

5.20 Item 12, "*Shortfall of provisions to expected losses*" concerns banks using advanced approaches. The rules are broadly unchanged and this is, therefore, unlikely to be relevant to most banks in the CDs and, where relevant, unlikely to have significant impact. The proposed rules are set out in paragraph 73, "*Shortfall of the stock of provisions to expected losses*", of the Basel III capital standard. No transitional adjustments would apply.

5.21 Item 13, "*Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)*" concerns banks that issue securitised debt instruments and relates to any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income. The proposed rules are broadly unchanged and this is, therefore, both unlikely to be relevant to most banks in the CDs and, where relevant, would not have any significant impact. The proposed rules are set out in paragraph 74, "*Gain on sale related to securitisation transactions*", of the Basel III capital standard. No transitional adjustments would apply.

5.22 It is proposed that Item 14, "*Gains and losses due to changes in own credit risk on fair valued liabilities*", be used to back out any gains or losses resulting from revaluation of own fair valued liabilities that arise due to own-credit related factors. This means that gains would be deducted and losses would be added back. The rules, set out in paragraph 75 of the Basel III capital adequacy standard, are not expected to have a material adverse effect, as the amounts tend to be small. It is proposed to not permit transitional adjustments generally, but see the following re derivative related liabilities.

5.23 Valuation adjustments on derivative related liabilities relating to own credit factors must therefore be reversed in Item 14. The part of a derivative valuation that relates to own-credit risk is referred to as a "debit valuation adjustment, or "**DVA**", and hence gains and losses that result from changes in the DVA for any derivative must be reversed here.

5.24 In July 2012, the Basel Committee issued a press release[2] (the "**DVA statement**"), which stated that, following consultation, it had decided that all DVAs should be removed when calculating regulatory capital. It is therefore proposed that banks also reverse any DVA recognised at the inception of the contract. For the avoidance of doubt, offsetting or netting the impact of own-credit risk with the impact of the counterparty's credit risk is not permitted.

5.25 It is considered that this further change would have little impact on banks in the CDs, with transitional adjustments applying to ease the position of the small number of banks where this may be more material, as set out in the DVA statement.

5.26 Consequently, all DVAs would be deducted when calculating Item 14 and the amount relating to DVAs that arose on origination would be subject to transitional arrangements. It is further proposed to require that the latter be shown separately, in Item 14a, "*of which: amount relating to DVAs recognised on origination",* which represents a small divergence from the layout specified in the Capital Disclosure Rules.

5.27 Item 15, "*Defined-benefit pension fund net assets*", concerns banks that have a defined benefit asset on their balance sheets. The proposed rules for such assets are broadly unchanged and this is, therefore, where relevant, unlikely to have any impact. The proposed rules are set out in paragraph 76 and 77, "*Defined benefit pension fund assets and liabilities*", of the Basel III capital standard. No transitional adjustments would apply. For the treatment of liabilities, see Item 26a.

5.28 Item 16, "*Investments in own shares (if not already netted off paid-in capital on reported balance sheet)*", concerns treasury shares. Such holdings should be deducted under current rules and as such no substantive change is proposed and no transitional adjustments would apply except that the amount is deducted here, rather than being deducted when calculating capital and reserves.

5.29 Item 17, "*Reciprocal cross-holdings in common equity*", concerns banks that have reciprocal cross holdings in common equity issued by banking, financial and insurance entities. Current rules require such holdings to be deducted from capital and hence the only proposed change is that this item should be used to separately report the element that relates to reciprocal holdings. No transitional adjustments would apply.

5.30 Item 18, "*Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)*", concerns banks that have holdings of common equity issued by banking, financial and insurance entities. Current rules require all such holdings to be deducted, whilst the proposed change establishes that less significant holdings (those below 10% of the issuing entity's issued share capital) do not require deduction (but see Items 19 and 23); but if the total of all such amounts exceeds 10% of total CET1 then the excess must be deducted here. No transitional adjustments will apply. Full rules are set out in paragraphs 80 to 83 of the Basel III capital standard. The approach used where the bank also holds Tier 1 or AT1 instruments issued by such entities is to deduct the amount above 10%, divided in the same proportions as the relevant holdings.

[2] http://www.bis.org/press/p120725b.htm

5.31 Item 19, "*Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)*", would apply where:

5.31.1 an individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entity's issued share capital; or

5.31.2 the entity is an associate, which includes all subsidiaries of the CD bank.

5.32 In both cases, such items would currently be required to be deducted but, under Basel III, it is proposed to require that the amount of common shares/CET1 instruments be deducted in full but that up to 10% (in total) of CET1 capital after deductions may be excluded from the deduction. No transitional adjustments would apply. Full rules are set out in paragraphs 84 to 86 of the Basel III capital standard.

5.33 Item 20, "*Mortgage servicing rights (amount above 10% threshold)*", relates to intangible assets that arise in connection with providing mortgage servicing, typically in connection with the mortgage assets transferred to a securitisation vehicle. The current treatment would be to deduct the full amount and the expectation is that amounts are currently not material. It is proposed that, following Basel III, only the amount in excess of 10% of CET1 would be deducted. No transitional adjustments would apply. Full rules are set out in paragraph 87 of the Basel III capital standard.

5.34 Item 21, "*Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)*", relates to deferred tax assets that do not rely on future profitability (see Item 10). It is proposed that only the amount in excess of 10% of CET1 would be deducted. Transitional adjustments will apply. Full rules are set out in paragraph 87 of the Basel III capital standard.

5.35 Item 22, "*Amount exceeding the 15% threshold*", relates to the sum of the exposures connected to the above three Items (19, 20 and 21), for which the amount over 10% of CET1 must be deducted. It is proposed that under Basel III, the amount by which the sum of all three exposures is in excess of 15% of CET1 would be deducted. Transitional adjustments would only apply to the amount of the deduction that relates to DTAs. For example, if DTAs totalled 9% and the other two items totalled 12% then the deduction required would be 6% (21% minus 15%), all of which could be said to relate to DTAs and hence all would be subject to transitional adjustments. Full rules are set out in paragraph 88 of the Basel III capital standard.

5.36 It is further proposed that all exposures of these natures (19, 20 and 21) that are not deducted (here or in Items 19, 20 and 21) would be risk weighted at 250% (see Section 8). This is as set out in paragraph 89 of the Basel III capital standard.

5.37 It is proposed that three Items be used to break down the amount reported in Item 22 into three sub-components:

5.37.1 Item 23, "*of which: significant investments in the common stock of financials*";

5.37.2 Item 24, "*of which: mortgage servicing rights*"; and

5.37.3 Item 25, "*of which: deferred tax assets arising from temporary differences*".

5.38 It is proposed that Item 26, "*National specific regulatory adjustments, including Pillar 2 deductions applied to CET1 capital*", be used where deductions are required by the local supervisor. No items have been identified at this time as being generally applicable to all CD banks. In the event of deductions being required in connection with Pillar 2, they would typically be required to be reported here, since most such deductions are intended to protect against future losses arising from stress events, which would impact CET1 capital.

5.39 Item 26a, "*Regulatory adjustments applied to CET1 capital in respect of amounts subject to pre-Basel III treatment: pension liabilities*", concerns banks that have a defined benefit liability on their balance sheets. The Basel III rules for such liabilities do not accommodate current regulatory practices of all CD supervisors, which have historically permitted adjustments to be made to reflect only funding commitments. The proposed rules are set out in paragraphs 76 and 77, "*Defined benefit pension fund assets and liabilities*", of the Basel III capital standard.

5.40 It is therefore proposed to phase out the currently permitted adjustments, i.e. banks would be required to report an unadjusted capital and balance sheet position but then be allowed to add back a percentage of the difference between the amount permitted under the current rules and the new rules, applying the following percentages: (1) 80% in 2014, 60% in 2015, 40% in 2016 and 20% in 2017. No adjustment would be made in 2018 and later years.

5.41 Item 26b, "*Regulatory adjustments applied to CET1 capital in respect of amounts subject to pre-Basel III treatment: available-for-sale reserves*", concerns banks that have designated assets as fair-value but not through profit and loss. The Basel III rules (see footnote 10 to paragraph 52 of the Basel III capital adequacy standard) specifically rule out current regulatory practices of all CD supervisors which have historically permitted adjustments to be made to back out gains and losses reflected in respect to such assets.

5.42 It is therefore proposed to phase out currently permitted adjustments, i.e. banks would be required to report an unadjusted capital and balance sheet position but then allowed to add back a percentage of any net loss (that is, the amount that currently could be reversed, resulting in an increase in capital), applying the following percentages: (1) 80% in 2014, 60% in 2015, 40% in 2016 and 20% in 2017. No adjustment would be made in 2018 and later years (and no adjustment applies where currently a net profit is required to be backed out).

5.43 Item 27 "*Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions*" would be used where deductions would ordinarily be eligible to be deducted from lower quality capital but could not be, due to the deduction exceeding the amount of such capital. Where transitional adjustments apply to those items, they also apply to the excess deducted here.

5.44 ***Question 6: Are there any issues regarding the proposed required adjustments to Common Equity Tier 1 capital?***

5.45 Item 28, "*Total regulatory adjustments to Common equity Tier 1*", would then be computed as the sum of items 7 to 27, excepting those relating to sub-categories.

5.46 Item 29, "*Common Equity Tier 1 capital (CET1)*", would then be computed as Item 6, "*Common Equity Tier 1 capital before regulatory adjustments*", minus Item 28, "*Total regulatory adjustments to Common equity Tier 1*".

6 Additional tier 1 capital elements

Items 30 to 45 in the proposed reporting form, see Appendix B

6.1 The requirements for items that are permitted within Tier 1 capital, other than CET1 capital ("**Additional Tier 1 capital**"), and Tier 2 capital provide a more robust (and detailed) set of definitions that are considered to be in keeping with the spirit of the original Basel I/Basel II guidance. Tier 3 capital is no longer permitted.

6.2 The eligibility requirements for Additional Tier 1 capital are set out in paragraph 55 of the Basel III capital standard and it is proposed that all would apply in the CDs. The main eligibility conditions are:

6.2.1 The instrument must be subordinated to depositors, general creditors and subordinated debt of the bank;

6.2.2 It must be perpetual i.e. there is no maturity date and there are no step-ups or other incentives to redeem nor any ability for the holder to redeem through a "put" option;

6.2.3 Any repayment of principal (e.g. through repurchase or redemption through a call) must be with prior supervisory approval;

6.2.4 The bank must have full discretion at all times to cancel distributions or payments;

6.2.5 Cancellation of distributions or payments must not be an event of default nor impose restrictions on the bank except in relation to distributions to common stockholders; and

6.2.6 Instruments classified as liabilities for accounting purposes must have principal loss absorption through either (i) conversion to common shares at an objective pre-specified trigger point or (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects:

- reduce the claim of the instrument in liquidation;
- reduce the amount repaid when a call is exercised; and
- partially or fully reduce coupon/dividend payments on the instrument.

6.3 The Basel Committee issued a press release titled "*Final elements of the reforms to raise the quality of regulatory capital*"[3] (the "**Final Elements PR**") , on 13 January 2011 that added further eligibility criteria for AT1 and Tier 2. For AT1 (and Tier 2), the impact is that instruments must be capable of being written down or converted to common equity at the point of non-viability.

6.4 Two routes are permitted – either instruments can have contractual provisions for write-down at the point of non-viability, as determined by the authorities, or the

[3] http://www.bis.org/press/p110113.htm

jurisdiction must have a statutory power to write down such instruments. It is intended to address this matter in the future D-SIB Paper but at this time the Tri-Party Group considers that contractual provisions are required. This is likely to mean that all existing (non-CET1) issued Tier 1 capital would become ineligible unless terms are altered (but transitional provisions would apply).

6.5 The Basel Committee has issued a paper "*Basel III definition of capital - Frequently asked questions*", issued December 2011[4] ("**Capital FAQ**") that clarifies and expands the definitions in the standard. It is proposed that banks would be required to comply with paragraph 6.2.6, amended to take into account the proposal that, as per Section 9, any local minima are set at a higher level.

6.6 Therefore, it is proposed that Additional Tier 1 instruments accounted for as liabilities should at least comply with the following minimum standards:

6.6.1 The trigger level for write-down/conversion of loss absorbing instruments classified as liabilities must be at least the minimum for Common Equity Tier 1 capital.

6.6.2 The write-down/conversion must generate CET1 under the relevant accounting standards and the instrument will only receive recognition in Additional Tier 1 up to the minimum level of CET1 generated by a full write-down/conversion of the instrument.

6.6.3 The aggregate amount to be written-down/converted for all such instruments on breaching the trigger level must be at least the amount needed to immediately return the bank's CET1 ratio to the minimum ratio required or, if this is not possible, the full principal value of the instrument.

6.7 It is proposed that transitional adjustments would apply, based on those set out in paragraph 94g "*transitional arrangements*", in the Basel III capital adequacy standard. These would have the effect of phasing out existing Tier 1 (and Tier 2) instruments that are no longer eligible. In order to provide some certainty, given that the date of implementation is uncertain, it is proposed to use the transitional adjustments allowed in the Basel III capital standard, without making any change.

6.8 The transitional adjustment rules fix the base at the nominal amount of such instruments outstanding on 1 January 2013. Recognition would then be capped (notionally) at 90% from 1 January 2013, with the cap reducing by 10 percentage points in each subsequent year. This cap would be applied to AT1 and Tier 2 separately and refers to the total amount of instruments outstanding that no longer meet the relevant criteria. To the extent an instrument is redeemed, or its recognition in capital is amortised, after 1 January 2013, the nominal amount serving as the base would not be reduced. For example, if reporting started in 2015, recognition would be capped at 70% for that year, 60% in 2016 etc.

6.9 Paragraph 94g also limits transitional provisions when dealing with instruments that have incentives for the bank to redeem but it is not believed that banks have issued Tier 1 capital with such features in the CDs.

[4] http://www.bis.org/publ/bcbs211.htm

6.10 It is proposed that Item 30, "*Directly issued qualifying Additional Tier 1 instruments plus related stock surplus*", be used to report amounts of qualifying instruments that had been issued by the bank itself.

6.11 It is proposed that Items 31, "*of which: classified as equity under applicable accounting standards*" and 32, "*of which: classified as liabilities under applicable accounting standards*", be used to report the breakdown of Item 30 into equity and liability items. See paragraph 55 of the Basel III capital standard. It might be the case that a CD bank has already issued preference shares or other instruments that meet the criteria but this will not always be the case.

6.12 It is proposed that Item 33, "*Directly issued capital instruments subject to phase out from Additional Tier 1*", would apply to banks that have issued ineligible preference shares (or other formerly eligible Tier 1 capital). The impact could be avoided by replacing the ineligible instruments with qualifying instruments. As such instruments are typically issued internally within group by CD banks and hence it is likely that there are few barriers to replacement, the impact is expected to be limited. Transitional adjustments apply, as set out in paragraphs 6.5 and 6.6 above.

6.13 Item 34, "*Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1*)", applies to banks that own subsidiaries that have issued:

6.13.1 AT1 instruments that are held by third parties; or

6.13.2 Common share capital that is held by third parties but exceeds the amount eligible in Item 5 (i.e. the amount needed to meet regulatory requirements in respect of CET1 capital).

6.14 It only applies in the case of prudential reporting submitted on a consolidated basis. It is proposed that the amount allowed is limited to the amount required to meet regulatory requirements in respect of Tier 1 capital (so would only apply to a regulated bank), with transitional adjustments applying to any excess. See paragraphs 62, "*minority interests*", and 94(e), "*transitional arrangements*", in the Basel III capital adequacy standard for full details.

6.15 As per Item 5, the transitional caps permitted for this item are: (1) 80% in 2014, (2) 60% in 2015, (3) 40% in 2016 and (4) 20% in 2017. No transitional adjustment applies in 2018 and later years.

6.16 It is proposed that the same transitional rules for ineligible instruments would apply and Item 35, "*of which: instruments issued by subsidiaries subject to phase out*", would be used to report the amounts relating to this (see also Item 33). As per Item 33, the impact is expected to be limited.

6.17 Item 36, "*Additional Tier 1 capital before regulatory adjustments*", would then be computed as the sum of Item 30, "*Directly issued qualifying Additional Tier 1 instruments plus related stock surplus*", Item 33, "*Directly issued capital instruments subject to phase out from Additional Tier 1*", and Item 34, "*Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1*)".

6.18 The proposed deductions from AT1 capital are not expected to cause any significant impact; in all cases, they either reflect current rules or could have, in theory, a positive impact. In practice, no impact is expected for most CD banks.

6.19 Item 37, "*Investments in own Additional Tier 1 instruments*", concerns holdings of instruments issued, including any held through consolidated subsidiaries. Such holdings should be deducted under current rules. No change is proposed and no transitional adjustments apply except that now the amounts will be shown gross, rather than after netting.

6.20 Item 38, "*Reciprocal cross-holdings in Additional Tier 1 instruments*", concerns banks that have reciprocal cross holdings in AT1 instruments issued by banking, financial and insurance entities. Current rules require such holdings to be deducted and hence the only change proposed is that this item should be used to separately report the element that relates to reciprocal holdings. No transitional adjustments will apply.

6.21 Item 39, "*Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)*"concerns banks that have holdings of AT1 issued by banking, financial and insurance entities. Current rules require such all holdings to be deducted and hence the proposed change is that that now less significant holdings (those below 10% of the issuing entity's issued share capital) do not require deduction but if the total of all such amounts exceeds 10% of total CET1 then the excess must be deducted here. No transitional adjustments will apply. Full rules are set out in paragraphs 80 to 83 of the Basel III capital standard. This uses a proportionate approach – if the investments are a mix of CET1, AT1 and Tier 2 instruments, the amount deducted is the excess of the total above 10%, divided in the same proportions as the holdings.

6.22 Item 40, "*Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)*", applies where:

6.22.1 an individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entities issued share capital; or

6.22.2 the entity is an associate, which includes all subsidiaries of the CD bank.

6.23 In both cases, it is proposed to require that the amount of AT1 instruments be deducted in full. No transitional adjustments will apply. Full rules are set out in paragraphs 84 to 86 of the Basel III capital standard. If a bank does not have enough AT1 capital to satisfy the deduction, the shortfall will be deducted from CET1 capital.

6.24 It is proposed that Item 41, "*National specific regulatory adjustments, including Pillar 2 deductions applied to Additional Tier 1 capital*", be used where deductions are required by the local supervisor. No items have been identified at this time as being generally applicable to all CD banks. In the event of deductions being required in connection with Pillar 2, they would typically be required to be deducted from CET1 capital, since most such deductions are intended to protect against future losses arising from stress events, which would impact CET1 capital.

6.25 It is proposed that Item 42, "*Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions*", be used where deductions would ordinarily be

eligible to be deducted from Tier 2 capital but could not be, due to the deduction exceeding the amount of such capital. Where transitional adjustments apply to those items, they also apply to the excess deducted here.

6.26 ***Question 7: Are there any issues regarding the proposed definition of and required adjustments to Additional Tier 1 capital?***

6.27 Item 43, "*Total regulatory adjustments to Additional Tier 1 capital*", would then be computed as the sum of Items 37 to 42.

6.28 Item 44, "*Additional Tier 1 capital (AT1)*", would then be computed as Item 36, "*Additional Tier 1 capital before regulatory adjustments*", minus Item 43, "*Total regulatory adjustments to Additional Tier 1 capital*".

6.29 Item 45, "*Tier 1 capital (T1 = CET1 + AT1)*", would then be computed as Item 29, "*Common Equity Tier 1 capital (CET1)*", plus Item 44, ""*Additional Tier 1 capital (AT1)*".

7 Tier 2 capital elements

Items 46 to 59 in the proposed reporting form, see Appendix B

7.1 As noted in 6.1, the new requirements for items that are permitted within Tier 2 capital provide a more robust (and detailed) set of definitions that are considered to be in keeping with the spirit of the original Basel I/Basel II guidance.

7.2 The eligibility requirements for Tier 2 capital are set out in paragraphs 57 to 61 of the Basel III capital standard and it is proposed that all would apply in the CDs. The main eligibility conditions are:

7.2.1 Issued instruments:

- The instrument must be subordinated to depositors and general creditors;
- Minimum original maturity of at least five years;
- Recognition in regulatory capital in the remaining five years before maturity will be amortised on a straight line basis; and
- There are no step-ups or other incentives to redeem.

7.2.2 General provisions/general loan-loss reserves:

- For a bank that uses the standardised approaches: maximum of 1.25 percentage points of credit risk-weighted risk assets calculated under the standardised approach; or
- For a bank that uses an advanced approach for credit risk: Where the total expected loss amount is less than total eligible provisions, as explained in paragraphs 380 to 383 of Basel II, banks may recognise a maximum of 0.6% of credit risk weighted assets calculated under the IRB approach.

7.3 In addition, as noted in Section 6, the Final Elements PR added further eligibility criteria for Tier 2 instruments, the impact of which is that they must be capable of being

written down or converted to common equity at the point of non-viability, with the same contractual or statutory routes applying as for AT1. This is likely to mean that existing Tier 2 capital might become ineligible unless terms are altered or the statutory regime is changed (but transitional provisions would apply).

7.4 As stated in Section 6, it is proposed that transitional adjustments would apply, based on those set out in paragraph 94g "*transitional arrangements*", in the Basel III capital adequacy standard. See paragraphs 6.5 and 6.6 for full details.

7.5 It is proposed that Item 46, "*Directly issued qualifying Tier 2 instruments plus related stock surplus*", be used to report amounts of qualifying instruments that had been issued by the bank itself.

7.6 It is proposed that Item 47, "*Directly issued capital instruments subject to phase out from Tier 2*", be used by banks that have issued subordinated debt (or other formerly eligible Tier 2 capital) and would hence face transitional adjustments (see also Item 49). The impact could be avoided by replacing the ineligible instruments with qualifying instruments. As such instruments are typically issued internally within group by CD banks, the impact is expected to be limited.

7.7 Item 48, "*Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)*", applies to banks that own subsidiaries that have issued:

7.7.1 Tier 2 instruments that are held by third parties; or

7.7.2 Common share capital or AT1 instruments that are held by third parties but exceed the amount eligible in Items 5/33 (i.e. the amount needed to meet regulatory requirements in respect of CET1 capital/AT1 capital).

7.8 It is only proposed to apply this in the case of prudential reporting submitted on a consolidated basis. It is proposed that the amount allowed is limited to the amount required to meet regulatory requirements in respect of total capital, with transitional adjustments applying to any excess. See paragraphs 62, "*minority interests*", and 94(e), "*transitional arrangements*", in the Basel III capital adequacy standard for full details.

7.9 As per Item 5, the transitional caps permitted for this item are: (1) 80% in 2014, (2) 60% in 2015, (3) 40% in 2016 and (4) 20% in 2017. No transitional adjustment applies in 2018 and later years.

7.10 The same transitional rules for ineligible instruments apply and item 49, "*of which: instruments issued by subsidiaries subject to phase out*", would be used to report the amounts relating to this (see also Item 47). As per Item 47, the impact is expected to be limited.

7.11 It is proposed that Item 50, "*Provisions*", be used to report the amount of provisions allowed, according to rules that are unchanged. These are set out in paragraph 60 (for banks using the standardised approach) and paragraph 61 (for banks using advanced approaches) of the Basel III capital standard. Amounts allowed are as per paragraph 7.2.2 above.

7.12 Item 51, "*Tier 2 capital before regulatory adjustments*", would then be computed as the sum of Item 46, "*Directly issued qualifying Tier 2 instruments plus related stock surplus*",

Item 47, "*Directly issued capital instruments subject to phase out from Tier 2*", Item 48, "*Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)*", and Item 50, "*Provisions*".

7.13 The proposed deductions from Tier 2 capital are not expected to cause any significant impact; in all cases, they either reflect current rules or could have, in theory, a positive impact. In practice, no impact is expected for most CD banks.

7.14 Item 52, "*Investments in own Tier 2 instruments*", concerns holdings of instruments issued, including any held through consolidated subsidiaries. Such holdings should be deducted under current rules; no change is proposed and no transitional adjustments apply except that now the amounts will be shown gross, rather than after netting.

7.15 Item 53, "*Reciprocal cross-holdings in Tier 2 instruments*", concerns banks that have reciprocal cross holdings in AT1 instruments issued by banking, financial and insurance entities. Current rules require such holdings to be deducted and hence the only change proposed is that this item should be used to separately report the element that relates to reciprocal holdings. No transitional adjustments will apply.

7.16 Item 54, "*Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)*", concerns banks that have holdings of Tier 2 capital issued by banking, financial and insurance entities. Current rules require all such holdings to be deducted; the proposed change is that now less significant holdings (those below 10% of the issuing entity's issued share capital) do not require deduction but if the total of all such amounts exceeds 10% of total CET1 then the excess must be deducted here. No transitional adjustments will apply. Full rules are set out in paragraphs 80 to 83 of the Basel III capital standard. This uses a proportionate approach – if the investments are a mix of CET1, AT1 and Tier 2 instruments, the amount deducted is the excess of the total above 10%, divided in the same proportions as the holdings.

7.17 Item 55, "*Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)*", applies where:

7.17.1 An individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entity's issued share capital; or

7.17.2 The entity is an associate, which includes all subsidiaries of the CD bank.

7.18 In both cases, it is proposed that the amount of Tier 2 instruments be deducted in full. No transitional adjustments will apply. Full rules are set out in paragraphs 84 to 86 of the Basel III capital standard. If a bank does not have enough Tier 1 capital to satisfy the deduction, the shortfall will be deducted from AT1 capital (and CET1 capital if there is insufficient AT1 capital).

7.19 It is proposed that item 56, "*National specific regulatory adjustments, including Pillar 2 deductions applied to Tier 2 capital*", be used where deductions are required by the local supervisor. No items have been identified at this time as being generally applicable to all CD banks. In the event of deductions being required in connection with Pillar 2,

they would typically be required to be deducted from CET1 capital, since most such deductions are intended to protect against future losses arising from stress events, which would impact CET1 capital. Exceptions might include matters relating to Tier 1 instruments held or issued by the bank.

7.20 ***Question 8: Are there any issues regarding the proposed definition and required adjustments to Tier 2 capital?***

7.21 Item 57, "*Total regulatory adjustments to Tier 2 capital*", would then be computed as the sum of Items 52 to 56.

7.22 Item 58, "*Tier 2 capital (T2)*", would then be computed as Item 51, "*Tier 2 capital before regulatory adjustments*", minus Item 57, "*Total regulatory adjustments to Tier 2 capital*".

7.23 Item 59, "*Total capital (TC = T1 + T2)*", would then be computed as Item 45, "Tier 1 capital (T1 = CET1 + AT1)", plus Item 58, "*Tier 2 capital (T2)*".

OTHER CAPITAL ADEQUACY CONSIDERATIONS

8 Risk weighted assets, including items previously deducted from capital

Items 60, 60a and 60b in the proposed reporting form, see Appendix B

8.1 This paper does not cover most of the proposed changes to risk weightings. Most of the changes proposed would only have a significant impact on banks with trading books or those involved in securitisation, the local impact of which is expected to be extremely limited. It may be that these are only considered relevant to banks in certain of the CDs, in which case it might be the case that the Tri-Party Group does not address these, leaving such matters to the relevant supervisor.

8.2 As set out in Section 5, the amount by which three items – (1) significant investments in the common stock of banking, financial and insurance entities, (2) mortgage servicing rights and (3) DTAs arising from temporary differences – are above individual or joint thresholds should be deducted from capital. Any residual exposures below the thresholds will be required to be risk weighted at 250%.

8.3 In addition, as stated in the DP, for a small group of items previously treated as deductions, including significant investments in commercial entities, the Basel III capital standard instead requires that such items are treated as exposures with a 1250% risk weight. This has a similar impact on the total capital requirement for such items, where a minimum RAR of 8% applies, but has a less severe impact if the minimum ratio is lower and a more severe impact if it is higher.

8.4 The Tri-Party Group is conscious that this creates an adverse impact in the CDs, where the minimum RAR is higher, but notes that the Basel III capital standards impose minimum ratios and buffers that greatly exceed 8%, through the G-SIFI, D-SIFI and capital conservation rules. As such, this impact appears to be intentional on the part of the Basel Committee; the impact on CD banks is likely to be modest as banks have not historically reported significant levels of deductions in these areas.

8.5 The rules are set out in paragraph 90, "*Former deductions from capital*", which states:

8.5.1 The following items, which under Basel II were deducted 50% from Tier 1 and 50% from Tier 2, will receive a 1250% risk weight from 2014:

- Certain securitisation exposures;
- Certain equity exposures under the PD/LGD approach;
- Non-payment/delivery on non-DvP and non-DvP transactions; and
- Significant investments in commercial entities.

8.6 The first of these relates to items that, under current rules, would be a capital deduction arising out of holdings of equity tranches of securitisations.

8.7 The second relates to banks using advanced approaches only, for which this treatment is mandated in Basel II for certain exposures.

8.8 The third relates to items that, under current rules, would be a capital deduction due to settlement risk.

8.9 The fourth relates to items that, under current rules, would be a capital deduction relating to significant (minority and/or majority) investments in commercial entities (those which exceed materiality levels). Materiality levels (unchanged) are:

8.9.1 15% of the bank's capital for individual investments in commercial entities; and

8.9.2 60% of the bank's capital for the aggregate of such investments.

8.10 The amount to be deducted will be that portion of the investment that exceeds the materiality level.

8.11 ***Question 9: Are there any questions regarding the use of the 1250% risk weight for some items currently deducted from capital, as set out in section 8?***

8.12 It is proposed that:

8.12.1 The sum of all risk weighted assets ("**RWAs**") is reported in Item 60, "*total risk weighted assets*";

8.12.2 Item 60a is utilised to report the amount of RWAs that relates to items now afforded a risk weight of 250%; and

8.12.3 Item 60b is utilised to report the amount of RWAs that relates to items previously deducted from capital but now afforded a risk weight of 1250%.

9 Capital minima and buffers

Items 61 to 71 in the proposed reporting form, see Appendix B

9.1 The DP proposed the establishment of an appropriate minimum for CET1 capital (perhaps similar to the current local capital minima rather than Basel III levels), and the use of Pillar 2 to establish appropriate buffers, some of which might be permitted to be in the form of Additional Tier 1 or Tier 2 capital. This would be documented in the bank's ICAAP and subject to the normal Pillar 2 oversight of the relevant supervisor.

9.2 Banks were asked whether they would support a move to using a single CET1 ratio for Pillar 1, instead of a framework of minima and buffers and, if so, the level that was considered appropriate. Responses were positive but views diverged as to the appropriate level. There was also some opposition to such a move, pointing out the attractions of our current regimes, which permit all types of capital to be used, provided that at least 50% is Tier 1.

9.3 The Tri-Party Group considers that the focus should be on CET1 capital but considers that there is a role for AT1 and Tier 2 capital, recognising the tighter definitions. It is therefore proposed, as an end-goal, to require:

9.3.1 A minimum total capital ratio of 10%[5], in line with current effective requirements; and

9.3.2 Minima of 8.5%[6] for both the Tier 1 capital ratio and the CET1 capital ratio, in line with the minimum for Tier 1 capital set in Basel III, after applying the capital conservation buffer (but requiring that it is all met by CET1 capital).

9.4 Most banks already predominantly use CET1 capital and those that have significant non-CET1 capital are part of larger groups. It is considered that, in such cases, capital could be improved by the issuance of shares in return for the cancellation of lower tier instruments, without any impact on the consolidated position or on the total amount deducted on a solo basis, albeit with some impacts on costs and solo capital positions within groups.

9.5 ***Question 10: Would the imposition, over time, of the proposed requirements for higher quality capital, within an unchanged effective total requirement, present a significant issue for your business? If so, are there any changes that could be made that would reduce the impact?***

9.6 Banks were also asked what timescale was required to enable a smooth transition. Responses indicated a mix of views, with the majority of banks that were most impacted indicating that they saw most value in following the Basel III timeline. This seems sensible but the minimum capital ratios and the starting point are different, hence it is proposed to use the transitional matrix shown below, which combines the local goals with the Basel III time-line.

Minima (from 1 January)	2015	2016	2017	2018	2019 & beyond
CET 1	5%	6%	7%	8%	8.5%
Tier 1	6.5%	7%	7.5%	8%	8.5%
Total	10%	10%	10%	10%	10%

9.7 These minima would be reported as Items 69 to 71 in the prudential reporting form – the values that would apply from 2019 have been entered in Appendix B.

9.8 ***Question 11: Would the timeline for the introduction of revised capital minima adequately mitigate the impact on your business? If not, please provide an alternative that you consider would appropriately reduce the impact.***

9.9 The Tri-Party Group does not consider that formal (i.e. statutory) capital conservation buffers should be adopted locally, taking into account the proposed higher statutory minima shown in 9.3 and 9.6 above and the existing powers to set increased capital requirements for banks or set of banks, under Pillar 2. At group level, on consolidation (i.e. where Basel III's scope applies), this decision will have little or no impact.

[5] The minimum per Basel III is 10.5%, made up of 8% and 2.5% capital conservation buffer. Each CD will separately consider any buffer or notification trigger level that may be applied above a minimum total capital ratio of 10% in order to demonstrate compliance with at least the 10.5% limit.

[6] The minimum tier 1 ratio per Basel III is 8.5% (6% plus 2.5% capital conservation buffer) and the minimum CET1 ratio is 7% (4.5% plus 2.5% capital conservation buffer).

9.10 Counter-cyclical buffers (that are imposed by regulators through a formal notification mechanism related to market events such as overheating economies or sectors) are intended to limit the need to raise capital at times of stress. Locally, most banks do not raise capital externally, instead sourcing capital increases from group. It is considered that consolidated application, as set out in Basel III, is therefore appropriate, and not at solo level locally. (Any departure from this approach would be dealt with on an individual bank basis.)

9.11 The Basel Committee also proposed that higher levels of capital are held by systemically important financial institutions ("**SIFIs**"). These have been divided by the Committee into those that are global SIFIs ("**G-SIFIs**") – those where the failure would have a detrimental effect internationally due to their global scale and interconnectedness – and domestic SIFIs ("**D-SIFIs**"), where the failure would have a significant impact in one country, though these may overlap.

9.12 The rules set for G-SIFI buffers are considered to only be relevant at consolidated level. It is also considered that the higher capital levels set for all banks in the CDs, as set out above, mitigate the need to also impose G-SIFI buffers locally and that no G-SIFI is currently or ever likely to be headquartered in the CDs. Those banks that made comments on G-SIFI buffers also thought that such buffers should not apply locally.

9.13 The rules for D-SIFIs, and in particular the rules for D-SIBs, might be relevant locally and the Tri-Party Group intends to address them in the future D-SIB paper.

9.14 Because of the above decisions, five items (64 to 68) set out in the Capital Disclosure Rules that relate to these buffers would therefore not be relevant for local banks:

Item	Description	Value
	Capital ratios	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	
65	*of which: capital conservation buffer requirement*	
66	*of which: bank specific countercyclical buffer requirement*	
67	*of which: G-SIB buffer requirement*	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	

9.15 Removing the lines or blocking entry was considered but, instead, it is proposed to diverge from the Capital Disclosure Rules by instead utilising the line numbers, with new definitions, in order to capture data that is relevant locally.

9.16 Two of the Tri-Party Group members currently require buffers to be maintained as part of their approach to Pillar 2 and / or other capital requirements and all three consider that the minimum capital could be increased through the application of Pillar 2.

9.17 The Group considers that Items 64 to 66 could be used to reflect increased minima resulting from Pillar 2, with the Pillar 1 minimum being entered if no increase has been required. It is considered that increased minima are likely to equally increase all ratios, since any actual losses would impact CET1 capital (in Guernsey, the capital ratios reporting section may be modified to reflect the use of an ICG approach).

9.18 Similarly, it is also proposed to use Item 67 to report any buffer set (it should be noted that such buffers are not a feature of the regime in Guernsey and Item 67 would not be used for Guernsey banks). Currently, where buffers are set, they apply at the level of total capital but, with the introduction of a minimum for CET1 capital, this will typically need to be changed. This is because, to be effective, the buffer must ensure that losses do not cause a breach in the event that a stress event occurs.

9.19 It is therefore proposed to use Item 68 to reflect the amount of CET1 capital available above the Pillar 2 minimum, which would aid comparison with the buffer amount reported in Item 67.

9.20 These ideas around the reporting of Pillar 2 requirements are subject to potential change, as Pillar 2 matters are further considered. They are intended to reflect the early thoughts of the Tri-Party Group, both regarding reporting and how the changed definition of capital has consequences for required minima and buffer setting.

9.21 ***Question 12: Do you consider that there are any alternatives to the proposal that Pillar 2 minima and buffers should, typically, be required to be met out of CET1 capital? If so, please outline them, together with a supporting rationale.***

10 Memoranda items

Items 72 to 85 in the proposed reporting form, see Appendix B

10.1 Memoranda items do not impact on the calculation of regulatory capital but are intended to be of use in verifying correct completion and to provide prudential information on key risks.

10.2 The first four items requested relate to amounts below the thresholds for deduction (before risk weighting). These are high risk items that would be deducted if the amount exceeded the thresholds for deduction set out in section 5:

10.2.1 Item 72, "*Non-significant investments in the capital of other financials*";

10.2.2 Item 73, "*Significant investments in the common stock of financials*";

10.2.3 Item 74, "*Mortgage servicing rights (net of related tax liability)*": and

10.2.4 Item 75, "*Deferred tax assets arising from temporary differences (net of related tax liability)*".

10.3 The next four relate to the applicable caps on the inclusion of provisions in Tier 2, which are not considered to require further explanation, given coverage in Section 7:

10.3.1 Item 76, "*Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)*";

10.3.2 Item 77, "*Cap on inclusion of provisions in Tier 2 under standardised approach*";

10.3.3 Item 78, "*Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)*"; and

10.3.4 Item 79, "*Cap for inclusion of provisions in Tier 2 under internal ratings-based approach*".

10.4 The last six items relate to capital instruments subject to phase-out arrangements. Again, all are explained in the relevant parts of sections 5, 6 and 7. The amounts requested are:

10.4.1 Item 80, "*Current cap on CET1 instruments subject to phase out arrangements*";

10.4.2 Item 81, "*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*";

10.4.3 Item 82, "*Current cap on AT1 instruments subject to phase out arrangements*";

10.4.4 Item 83, "*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*";

10.4.5 Item 84, "*Current cap on T2 instruments subject to phase out arrangements*"; and

10.4.6 Item 85, "*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*".

10.5 ***Question 13: Would reporting the memoranda items described in Section 10 pose any issues?***

OTHER CONSIDERATIONS

11 Impact of home state rule divergence

11.1 One particular issue mentioned in feedback (risk weights for short term exposures to banks) is covered here because it is part of a wider issue of how much weight to give to home state rules that implement Basel II/III but only after making changes not contained within the national discretions set out in Basel II.

11.2 In the specific example, Basel II states that the short-term bank exposure concession (i.e. one notch improvement) should only be used if the original maturity of an exposure is less than three months. It goes on to say that supervisors should ensure that claims with original maturity under three months which are expected to be rolled over (i.e. where the effective maturity is longer than three months) do not qualify for this preferential treatment for capital adequacy purposes. EU rules originally implemented this without change but, over time, the rule was changed to say "residual" instead of "original" maturity. The Tri-Party Group have adhered to the Basel II text, except without requiring intent to not-rollover to be evidenced, which reflects an assessment that the amounts could be placed elsewhere, if necessity demanded it.

11.3 The Tri-Party Group considers that, where there are differences, such as this, between home state rules and Basel II/III, this might be relevant for local consideration but only if it can be demonstrated that the problem addressed by the home state in imposing different rules is relevant locally.

11.4 Regarding the specific issue, there is no evidence in EU consultations as to the driver for the change it made. Problems were identified locally relating to the fact that this requires banks to use a different method for reporting exposures, but such reporting problems have been addressed.

11.5 The Tri-Party Group is aware that the Basel Committee is looking at credit risk measurement. Specifically, the Policy Development Group ("**PDG**")[7], a sub-committee of the Basel Committee, has a task force reporting to it, the Task Force on Standardised Approaches ("**TFSA**"). This has been given the job of reviewing the efficacy of current standardised approaches, particularly those for credit risk. At this time, it seems imprudent to change the standardised approach ahead of the outcome of the review being known.

11.6 ***Question 14: Do you consider there is any evidence that would support divergence from Basel II regarding the treatment of short-term exposures to banks? In light of the impending review by the TFSA, is this an issue that warrants immediate action?***

11.7 It is recognised that home regulators' rules, where they diverge from Basel II and III, can be problematic locally. It is impractical to try to consider all home regulators' current and proposed rules and hence the approach proposed is that the Tri-Party Group will consider matters that are brought to its attention during the period before implementation but, once implementation has commenced, the Group will not

[7] More information on the PDG (and the TFSA) is available on the Basel Committee website, at http://www.bis.org/bcbs/mesc.htm#Policy_Development_Group

ordinarily consider requests for changes based on a desire for alignment with home regulator rules.

SUMMARY OF QUESTIONS

REFERENCE		QUESTION
3.11	Question 1	Do you have any comments on the aim to introduce the proposed Basel III compliant measures for the assessment of capital adequacy, including transitional adjustments, by the end of 2015?
4.4	Question 2	With regard to the reporting format (Appendix B), are there any changes that you consider would improve clarity or otherwise make it easier to complete?
4.13	Question 3	Are the proposals regarding the calculation and reporting of transitional adjustments clear? If not, do you have any proposals for improvement
5.7	Question 4	Have you issued, before 1January 2013, any capital item that would fall into items 4 or 4a? If so please provide details.
5.11	Question 5	Would use of the proposed definition of Common Equity Tier 1 capital (before making adjustments) have a significant impact on your capital planning? If so, please describe the impact and any suggestions regarding alternatives.
5.44	Question 6	Are there any issues regarding the proposed required adjustments to Common Equity Tier 1 capital?
6.24	Question 7	Are there any issues regarding the proposed definition of and required adjustments to Additional Tier 1 capital?
7.19	Question 8	Are there any issues regarding the proposed definition and required adjustments to Tier 2 capital?
8.11	Question 9	Are there any questions regarding the use of the 1250% risk weight for some items currently deducted from capital, as set out in section 8?
9.5	Question 10	Would the imposition, over time, of the proposed requirements for higher quality capital, within an unchanged effective total requirement, present a significant issue for your business? If so, are there any changes that could be made that would reduce the impact?

REFERENCE		QUESTION
9.8	**Question 11**	**Would the timeline for the introduction of revised capital minima adequately mitigate the impact on your business? If not, please provide an alternative that you consider would appropriately reduce the impact.**
9.21	**Question 12**	**Do you consider that there are any alternatives to the proposal that Pillar 2 buffers should, typically, be required to be met out of CET1 capital? If so, please outline them, together with a supporting rationale.**
10.5	**Question 13**	**Would reporting the memoranda items described in Section 10 pose any issues?**
11.6	**Question 14**	**Do you consider there is any evidence that would support divergence from Basel II regarding the treatment of short-term exposures to banks? In light of the impending review by the TFSA, is this an issue that warrants immediate action?**

APPENDIX A - LIST OF BODIES WHO HAVE BEEN SENT THIS CONSULTATION PAPER

- Jersey Bankers' Association
- Jersey Finance Limited
- Guernsey Bankers' Association
- Isle of Man Bankers' Association
- Banks incorporated in Jersey, Guernsey and the Isle of Man

APPENDIX B - REPORTING FORMAT

Item	Description	Value	Transitional	Transitional cap
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus			
2	Retained earnings			
3	Accumulated other comprehensive income (and other reserves)			
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
4a	Public sector capital injections grandfathered until 1 January 2018			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6	**Common Equity Tier 1 capital before regulatory adjustments**	**Sum 1 to 5**	**Sum 1 to 5**	
Common Equity Tier 1 capital: regulatory adjustments				
7	Prudential valuation adjustments			
8	Goodwill (net of related tax liability)			
9	Other intangibles, other than mortgage-servicing rights (net of related tax liability)			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
11	Cash-flow hedge reserve			
12	Shortfall of provisions to expected losses			
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)			
14	Gains and losses due to changes in own credit risk on fair valued liabilities			
14a	*of which: amount relating to DVAs recognised on origination*			
15	Defined-benefit pension fund net assets			
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)			
17	Reciprocal cross-holdings in common equity			
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory			

Item	Description	Value	Transitional	Transitional cap
	consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)			
20	Mortgage servicing rights (amount above 10% threshold)			
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
22	Amount exceeding the 15% threshold			
23	*of which: significant investments in the common stock of financials*			
24	*of which: mortgage servicing rights*			
25	*of which: deferred tax assets arising from temporary differences*			
26	National specific regulatory adjustments, including Pillar 2 deductions applied to CET1 capital			
26a	Regulatory adjustments applied to CET1 capital in respect of amounts subject to pre-Basel III treatment: pension liabilities			
26b	Regulatory adjustments applied to CET1 capital in respect of amounts subject to pre-Basel III treatment: available-for-sale reserves			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions			
28	**Total regulatory adjustments to Common equity Tier 1**	**Sum 7 to 27**	**Sum 7 to 27**	
29	**Common Equity Tier 1 capital (CET1)**	**6 minus 28**	**6 minus 28**	

Item	Description	Value	Transitional	Transitional cap
Additional Tier 1 capital: instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus			
31	*of which: classified as equity under applicable accounting standards*			
32	*of which: classified as liabilities under applicable accounting standards*			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)			
35	*of which: instruments issued by subsidiaries subject to phase out*			
36	**Additional Tier 1 capital before regulatory adjustments**	**Sum 30 to 35**	**Sum 30 to 35**	
Additional Tier 1 capital: regulatory adjustments				
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	National specific regulatory adjustments, including Pillar 2 deductions applied to Additional Tier 1 capital			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43	**Total regulatory adjustments to Additional Tier 1 capital**	**Sum 37 to 42**	**Sum 37 to 42**	
44	**Additional Tier 1 capital (AT1)**	**36 minus 43**	**36 minus 43**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**29 plus 44**	**29 plus 44**	

Item	Description	Value	Transitional	Transitional cap
Tier 2 capital: instruments and provisions				
46	Directly issued qualifying Tier 2 instruments plus related stock surplus			
47	Directly issued capital instruments subject to phase out from Tier 2			
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)			
49	*of which: instruments issued by subsidiaries subject to phase out*			
50	Provisions			
51	**Tier 2 capital before regulatory adjustments**	**Sum 46 to 50**	**Sum 46 to 50**	
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments, including Pillar 2 deductions applied to Tier 2 capital			
57	**Total regulatory adjustments to Tier 2 capital**	**Sum 52 to 56**	**Sum 52 to 56**	
58	**Tier 2 capital (T2)**	**51 minus 57**	**51 minus 57**	
59	**Total capital (TC = T1 + T2)**	**45 plus 58**	**45 plus 58**	

Item	Description	Value
60	**Total risk weighted assets**	
60a	***of which: 250% risk weighted items***	
60b	***of which: 1250% risk weighted items***	
	Capital ratios	
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**29 divided by 60**
62	**Tier 1 (as a percentage of risk weighted assets)**	**45 divided by 60**
63	**Total capital (as a percentage of risk weighted assets)**	**59 divided by 60**
64	Institution specific Common Equity Tier 1 minimum ratio	
65	Institution specific Tier 1 minimum ratio	
66	Institution specific total capital minimum ratio	
67	Institution specific buffer required	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)**	**61 minus 64**
	National minima	
69	**National Common Equity Tier 1 minimum ratio**	**8.5%**
70	**National Tier 1 minimum ratio**	**10%**
71	**National total capital minimum ratio**	**10%**

Item	Description	Value
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	
73	Significant investments in the common stock of financials	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach Capital instruments subject to phase-out arrangements	
Capital instruments subject to phase-out arrangements		
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	