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Implementation of the Basel III Framework: Comparison of US and EU Proposals

Basel III is intended to strengthen and harmonize standards for bank capital and liquidity around the world. The extent to which it will accomplish these objectives remains to be seen as Basel Committee member jurisdictions are still in the process of adopting Basel III into national or regional law. Both the United States and the European Union have proposed rules to implement Basel III, commencing in 2013.

The proposed US and EU rules follow many aspects of Basel III closely, but there are some major differences in approach. This client publication, and the accompanying US/EU comparison and summary table, describe how Basel III is proposed to be implemented in the US and EU, highlighting points of international consistency and divergence.

Basel III establishes a new set of global standards for capital adequacy and liquidity for banking organizations. Although principally aimed at banks, these standards will be applied to certain other types of financial institutions (e.g., EU investment firms) as well. The Basel Committee on Banking Supervision (the "**Basel Committee**") developed Basel III to supplement and, in certain respects, replace, the existing Basel II standards, the composite version of which was issued in 2006 as an update to Basel I.[1] The core elements of Basel III were finalized at the international level in 2010.

Basel I and II are widely perceived to have had various shortcomings that may have contributed to the financial crisis. The Basel Committee believes that the existing framework neither adequately accounted for risks posed by exposures to transactions such as securitizations and derivatives nor required institutions to maintain adequate levels of capital. Other perceived deficiencies included the lack of quantitative liquidity standards and the failure to take into account systemic risks associated with the build-up of leverage in the financial system. In response to these shortcomings, the Basel III framework

[1] The Basel Committee is an international supervisory group in which banking supervisors from the US, the UK and twenty-five other nations participate.

introduces higher capital requirements, new liquidity and leverage ratio requirements as well as other elements to help contain systemic risks.

Like Basel I and II, Basel III is not legally binding in any jurisdiction but rather is intended to form the general basis for national (or regional) rulemaking.[2] As with Basel I and II, Basel Committee members will take different approaches to implementation of Basel III.

The proposed US and EU rules implementing Basel III, as well as the interplay between these rules, will have a profound impact on the relative competitiveness of US and EU institutions as well as the product mix that banking institutions will offer to customers and the types of debt and equity instruments sold to investors.

This client publication lays out the current state of play of the proposals and includes a US/EU comparison table (the "**US/EU Comparison Table**") comparing and contrasting the proposals in a number of key areas.

Basel III Implementation in the United States – Current State of Play

Background: US banking institutions still currently operate largely under a Basel I-based capital system, referred to as the "general risk-based capital requirements". Approximately 20 of the largest most internationally active banks, however, are subject to a separate capital framework. These banks (referred to as "**Advanced Approaches Banks**") are subject to the general risk-based capital requirements but must also apply the internal model-driven advanced approaches of Basel II (as to be updated to reflect the Basel III reforms).[3]

US Basel III Proposals: The US proposals to implement Basel III (the "**US Basel III Proposals**") are laid out in three separate proposed rules, each published in the Federal Register on August 30, 2012.[4] The first proposal principally establishes the criteria for what constitutes regulatory capital (i.e., the numerator of the regulatory capital ratios) and sets

2 The US's selective implementation of Basel II exemplifies how a Basel Committee member country may implement only certain aspects of Basel III and/or impose the requirements on only certain institutions. A set of studies issued by the Basel Committee on October 1, 2012, found that neither the proposed regulations being considered in the US nor in the EU would fully implement Basel III. See *Basel III regulatory consistency assessment (Level 2) – United States of America (October 2012)* (the "**US Basel III Study**"); *Basel III regulatory consistency assessment (Level 2) – European Union (October 2012)*.

3 US banking groups with consolidated assets of at least $250 billion or consolidated total on-balance sheet foreign exposures of at least $10 billion qualify as Advanced Approaches Banks (other banks may obtain specific authorization to be treated as Advanced Approaches Banks). Several of these institutions are in a "parallel run" stage reporting both Basel I and Basel II regulatory capital ratios to supervisors on a quarterly basis.

US banks with significant trading activities are also currently subject to separate market risk capital rules which will be updated to incorporate improvements broadly consistent with Basel 2.5 effective January 1, 2013. See *Risk-Based Capital Guidelines: Market Risk*, 77 Fed. Reg. 53060 (Aug. 30, 2012). Banking groups with greater than $50 billion in assets are also subjected to the US Federal Reserve's "capital plan rule" (12 C.F.R. § 225.8).

4 The US Basel III proposals were jointly issued by the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation. They are largely the same as initial versions of the proposals issued in June 2012. See *Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions, and Prompt Corrective Action, 77 F.R. 52792* (Aug. 30, 2012); *Regulatory Capital Rules – Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements, 77 F.R. 52888* (Aug. 30, 2012) (the "**Standardized Approach NPR**"); *Regulatory Capital Rule: Advanced Approaches Risk-Based Capital Rules; Market Risk Capital Rule, 77 F.R. 52978* (Aug. 30, 2012) (the "**Advanced Approach NPR**").

minimum risk-based capital floors. The second and third (the so-called Standardized Approach NPR and the Advanced Approach NPR) generally lay out alternative methods for risk-weighting various classes of assets (i.e., the denominator of the regulatory capital ratios).[5]

To the surprise of many, the US Basel III Proposals apply to all US insured depository institutions, savings and loan holding companies, as well as bank holding companies with at least $500 million in assets (rather than only large, internationally active firms). This means that all US banking institutions would be subject to the same Basel III definition of regulatory capital and new minimum risk-based capital floors.

The US Basel III reforms, however, retain the distinction between the Advanced Approaches Banks and other US banks for certain purposes. For example, certain aspects of the proposals, such as a new requirement for a "counter-cyclical capital buffer", would only apply to Advanced Approaches Banks.[6] In addition, Advanced Approaches Banks would need to weigh the risks posed by their assets under both the Standardized Approach and the model-driven Advanced Approach, while smaller institutions need only apply the less sophisticated of the two approaches, i.e., the Standardized Approach.

The US Basel III Proposals would not only introduce the Basel III reforms[7] but also make other changes to the existing US capital rules consistent with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"). The Proposals only address the regulatory capital aspects of Basel III; they do not address liquidity requirements.

The comment period for the US Basel III Proposals is scheduled to end on October 22, 2012.

Industry Reaction to the US Basel III Proposals: Many institutions and industry trade groups – and even some senior regulators[8] have voiced concerns about certain aspects of the proposals as well as the overall complexity of the reforms.[9] Institutions fear that they could see a decline and/or greater volatility in capital levels due to several reforms including those relating to the treatment of cash flow hedges, deduction of mortgage servicing assets (the US version of which is stricter than the equivalent deduction being proposed in the EU), and requirement that unrealized gains and losses on certain investment securities "flow through" to regulatory capital.

5 The so-called "Standardized Approach" set out in the Standardized Approach NPR is generally similar to the Basel II Standardized Approach. The Standardized Approach would update and replace existing risk weightings based on Basel I. The "Advanced Approach" set out in the Advanced Approach NPR is the equivalent of the Internal Ratings Based Approach of Basel II updated to reflect Basel III enhancements.

6 The US/EU Comparison Table highlights other reforms that would only apply to Advanced Approaches Banks.

7 The Basel III reforms being introduced include: new criteria for what constitutes "capital" (including limitations on recognition of minority interests and adjustments and deductions to capital), higher minimum capital floors, a new capital buffer framework (i.e., broadly, the amount above the minimum capital floor that must be maintained in order to avoid restrictions on dividend payouts, share buybacks and discretionary executive bonuses), and a new leverage ratio requirement. For additional information on the Basel III reforms, see our client publication on Basel III at http://www.shearman.com/publications/Detail.aspx?publication=f4e80b99-f0a1-4e3a-90f0-3bf21c7d0ce0.

8 Thomas Hoenig, Vice Chairman of the Federal Deposit Insurance Corporation, recently voiced his concern that the new system is too complex and that banks may try to game the new system.

9 In the UK, Andy Haldane, a senior Bank of England official, has called for the complex Basel III approach to be scrapped and replaced with a few simple requirements, including a much tougher leverage ratio of 4-7%, instead of 3% as agreed under the Basel III accord.

Basel III Implementation in the European Union – Current State of Play

Background: The current capital requirements framework in the EU is based upon two capital requirements directives[10] adopted in 2006, collectively "**CRD I**", which implemented the Basel II framework. The framework was amended by two further Directives[11], the first known as "**CRD II**" in 2009 and the second known as "**CRD III**" in 2010. CRD II provided for a number of reforms including changing the requirements for hybrid capital instruments to qualify for capital purposes, a 'skin in the game' retention requirement for securitizations and changes to the large exposures regime. CRD III effectively implemented Basel 2.5 in the EU, strengthening the market risk framework in particular. Unlike the US, where rules implementing Basel 2.5 have not yet taken effect, the EU needs only to address Basel III at this stage.

EU Basel III proposals: the EU proposes to implement Basel III through two legislative acts, comprising a new Capital Requirements Regulation (the "**CRR**") and Capital Requirements Directive (the "**CRD**"), collectively known as "**CRD IV**". CRD IV will consolidate the existing framework of existing legislation and amend that framework in order to implement Basel III.

The CRR is a legislative act that, once in force, will be directly applicable in the legal systems of all Member States in the EU without the need for transposition on the Member State level. This contrasts to all the previous directives, which rely upon national implementation measures of EU Member States. The EU proposes to implement certain aspects of Basel III through a Regulation in order to have a "single rulebook", which would apply equally to all Member States, minimizing the scope for variations across Member States. The CRR will contain provisions addressing the quantity and quality of capital required (which will impact the regulatory capital base of many institutions as certain outstanding instruments will no longer qualify as regulatory capital), counterparty credit risk, liquidity, and leverage.

The CRD will effectively be a binding instruction upon EU Member States to promulgate compliant national legislation. A directive, unlike a regulation, gives Member States a certain amount of discretion to implement EU requirements in a form and manner that is suitable to them. The CRD contains proposals addressing prudential supervision and the new capital conservation and counter-cyclical capital buffers, as well as certain areas not covered by Basel III, but which the EU nevertheless wishes to implement, including requirements relating to sanctions that national supervisors can impose and corporate governance.

The European Banking Authority (the "**EBA**") will play a new role in implementing Basel III in the EU, a matter historically dealt with largely by national regulators. Certain provisions in CRD IV allow for the EBA to develop and publish Regulatory Technical Standards, or RTSs, which will "flesh out" certain parts of CRD IV. The EBA has already produced a number of consultation papers containing draft RTSs, covering areas such as the "CVA" capital charge and reporting requirements in relation to the proposed leverage ratio.

As with the EU's implementation of Basel II, CRD IV will generally apply to all credit institutions (such as banks and building societies) and also to investment firms (which generally encompasses broker-dealer businesses). Therefore, broadly all

[10] Directives 2006/48/EC and 2006/49/EC.

[11] Directives 2009/111/EC and 2010/76/EU.

financial institutions in the EU will be subject to the new Basel III regime, with a much wider scope than that applicable in the US. However, EU firms providing investment advice and/or executing brokerage services only and that do not hold client monies will, if currently exempt from the existing CRD, continue to be exempt under the current CRD IV proposals. In addition, firms that are subject to CRD IV but engage predominantly in advising and arranging activities would not be subject to much of the CRD IV regime by virtue of the limited credit and market risks assumed by such firms. Also EU financial institutions can select whether to be subject to the Standardized Approach or obtain permission to be subject to the Internal Ratings Based (IRB) Approach (which is equivalent to the Advanced Approach in the US).

CRD IV current status: The CRD IV proposals are yet to be finalized. Previous discussions in the EU were intended to result in an agreed position by the end of June 2012, enabling the EU Parliament to adopt the proposals in early July 2012. As at the date of this client publication, there is still no agreed text. The EU Council, a body that directly represents the national governments of EU Member States, published compromise texts on May 21, 2012 which are expected to closely resemble the final drafts of the CRR and CRD.[12] It is possible, however, that the final drafts of the CRD IV texts will contain material differences. It is currently expected that the EU Parliament will adopt final texts in October or November 2012, but this is still not certain. Verification, translation and signature of the legislation would then take place before publication in the Official Journal of the European Union, at which time CRD IV will enter into force. Many have expressed doubts that CRD IV will enter into force (and that CRD will be transposed into Member States' national laws) by January 1, 2013.[13] It is expected, however, and there is significant political pressure to ensure, that Basel III will be implemented in the EU as soon as possible in 2013, if the deadline is not met.

A key reason behind the delays is political disagreement about whether individual EU Member States should be allowed to impose higher capital requirements than applicable under the CRD IV proposals, known as "gold-plating" or super-equivalence. The UK, in particular, has pushed for the ability to impose stricter requirements on its banks, but this has been opposed by France and Germany, amongst others. The background to this policy push from the UK can be found in the Vickers Report, which the UK's coalition government is seeking to implement and which identified ways to strengthen and improve banking regulation in the UK in response to the failures of Northern Rock and other UK banks. The Vickers Report recommended that a minimum CET1 capital ratio of 10% should be established for retail banking entities. In contrast, the CRD IV proposals provide for a 7% CET1 capital ratio (including the capital conservation buffer) in line with Basel III.[14] The current draft of the CRD IV proposals, however, contains provision for a "systemic risk buffer", which could provide the basis for the UK to impose higher capital requirements on its retail banks. Nevertheless, at this stage, the degree to which the UK

12 This text has been used for the purposes of this client publication and the US/EU Comparison Table.

13 FSA statement dated 1 August 2012: http://www.fsa.gov.uk/library/communication/statements/2012/crd-iv.shtml. Germany was one of the first Member States to publish draft legislation for the transposition of CRD into national law. See http://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetzentwuerfe_Arbeitsfassungen/2012-08-22-crdiv.html

14 See our client publication on the Vickers Report, which included a recommendation to ring-fence retail banking (rather than introducing an equivalent of the Volcker Rule, as in the US) at http://www.shearman.com/the-vickers-report-and-the-uk-governments-response-what-the-recommendations-mean-for-the-future-of-banking-in-the-uk-03-06-2012/.

and other EU Member States will be permitted under European Law to impose stricter requirements under CRD IV still remains unclear.

Highlights: Points of Comparison

While US and EU proposals share many common elements, there may be divergence in implementation of Basel III due to several factors which may give rise to certain international capital arbitrage opportunities.

1. **Timing/Implementation Considerations**: Timing of implementation in the US and EU remains uncertain. There appears to be a significant risk that implementation will be delayed beyond January 2013 in the US due to the complexity of, and strong industry reaction to, the US Basel III Proposals.[15] Indeed, it is quite possible that the US regulators will be unable to finalize the Basel III rules by the end of the year. In the EU, the CRD IV proposals also remain unfinalized, as discussed above. Although it is believed likely that the text will be finalized by the end of 2012, doubts exist that the CRD IV proposals will actually be implemented by the end of 2012. There is, however, significant political pressure in the EU to implement Basel III by the deadline, and less resistance to the proposals from banks than in the US.

2. **Impact of the Dodd-Frank Act**: The Dodd-Frank Act introduced several capital related provisions unique to US financial institutions that are inconsistent with the Basel III framework. For example:

   - ***Regulatory Capital Base***: As described in greater detail in the US/EU Comparison Table, the proposed criteria for capital instruments to qualify as regulatory capital differ from – and are stricter than – existing qualification standards. Accordingly, groups subject to the new rules should evaluate outstanding instruments against the new qualification standards and phase-out schedules. In this regard, the Dodd-Frank Act (i) requires an accelerated three-year phase out schedule for certain "hybrid" capital instruments issued by large US banks that would no longer count as regulatory capital or as the same type of capital (the global and EU standard is a longer 10 years), (ii) provides permanent grandfathering treatment for certain capital investments made by the US government in banks that would not otherwise qualify, and (iii) requires mandatory deduction from capital of investments in hedge funds and private equity funds "organized and offered" by US banking entities in accordance with the Volcker Rule.[16]

   - ***Removal of References to External Credit Ratings***: Several proposed changes to US asset risk weightings were driven by the Dodd-Frank Act requirement to remove reliance on external credit ratings (e.g., in the context of investments in securitized assets or sovereign debt). The US Basel III Proposals offer several alternatives to use of these ratings. For example, Organization for Economic Cooperation and Development (OECD) "country risk classification" codes would be used for purposes of determining risk weights of exposures to non-US sovereigns and

15 The US Basel III Proposals call for the new capital floors to be phased in from January 2013 and provide additional implementation schedules for other aspects of the Proposals based on a January 2013 implementation date.

16 The definition of capital may diverge from the Basel III standard for reasons separate and apart from the Dodd-Frank Act (e.g., due to a divergence in treatment of insurance subsidiaries).

non-US banks.[17] In lieu of ratings which are used in the Basel framework, the proposed US securitization rules would, among other things, require US banks to demonstrate an understanding of the underlying exposures and conduct extensive due diligence.[18]

- ***Collins Amendment Capital Floor***: The so-called Collins Amendment of the Dodd-Frank Act (Section 171) prevents Advanced Approaches Banks from having minimum capital requirements below the general risk-based capital requirements. As a result, a non-US bank employing the advanced approaches of Basel II and pursuing a strategy of lower risk loans and investment grade assets may enjoy a competitive advantage over US institutions as the capital floor imposed under the Collins Amendment would eliminate any ultimate capital relief large US banks may otherwise obtain under the internal models approach of Basel II.

3. **New Risk Weight Calculations Included as Part of the US Basel III Proposals**: The US Basel III Proposals would significantly modify risk-weighted assets calculations under the "Standardized Approach" effective January 2015. On the other hand, the EU does not propose to effect a wholesale change to asset risk weightings. Changes in the relative capital charges applied to assets held by US institutions, as compared to those applied in the EU, would change the competitive dynamic between institutions located in those jurisdictions and potentially introduce opportunities for arbitrage.[19]

4. **US Application of the Existing Leverage Requirement as well as Proposed Adoption of the Basel III Leverage Ratio Standards for Advanced Approaches Banks**: Advanced Approaches Banks would be required to comply with the Basel III leverage ratio standards (3%) as well as the existing Tier 1 capital to assets leverage ratio (generally, 4%). The two leverage ratio requirements for the largest US banking institutions would make the US proposed version of Basel III stricter than the version proposed in the EU (which would only apply the Basel III leverage ratio requirement).

5. **Other Considerations**:

   - Market participants and regulators have expressed concerns that differences in international accounting standards could lead to competitive advantages or disadvantages. Several of the requests for comment in the US Basel III Proposals relate to the impact of these differences.

[17] This system has been criticized by the OECD itself as the classifications were not intended to measure credit risk.

[18] According to the US Basel III Study, limited data suggests that on average the proposed alternative risk-based methodologies produce higher risk weights than the Basel II ratings-based approaches, although in some potentially important cases – in particular under stressed market conditions – the resulting capital charges may fall short.

[19] Asset classes that would have higher risk weights under the US Basel III Proposals include: (i) many loans that are 90 days past due or on non-accrual status, (ii) non-traditional residential real estate loans, like interest-only, balloon or negative amortization mortgages, (iii) residential real estate loans with loan-to-value ratios of greater than 80%, (iv) certain "high volatility" commercial real estate loans, (v) loan commitments of not more than a year that are not unconditionally cancelable by the bank, and (vi) residential real estate loans the bank sells to investors with representations to repurchase if the borrower defaults within a set period of time.

- Many institutions and regulators note that although having common rules is evidently an important starting point, the manner in which those rules are implemented is, in practice, crucial. National regulators are given broad authority to exercise discretion in setting standards for individual banks.
- The US Basel III Proposals do not address the Basel III liquidity requirements. The US requirements are being left for a future proposal that should be issued after the Basel Committee has finalized its approach to the requirements. In contrast, the EU proposals incorporate the Basel III liquidity standard but have yet to prescribe precise quantitative standards. Earlier this year, the US Federal Reserve Board Governor, Daniel Tarullo, called for the liquidity requirements to be eased. It remains to be seen whether the liquidity requirements will be implemented in the US and the EU in a like manner.
- Additional Basel III and Dodd-Frank Act requirements – including the capital “surcharge” for the largest banks (the G-SIB surcharge) – are also expected to be implemented into law in the US through subsequent rulemakings over the next couple of years.

Conclusion

The US and EU Basel III proposals would, when implemented, significantly overhaul existing capital adequacy frameworks in the US and EU. While they have many similarities, they differ in important respects for various reasons, including prior, hard-wired constraints imposed by the Dodd-Frank Act in the US. The breadth and impact of the relative cost advantages stemming from divergence in the rules will differ by asset class. The resulting scope of the competitive differences will not become entirely clear until the rules have been finalized. Questions posed to the industry for comment suggest that US regulators will attempt to address a number of concerns related to competitive issues as well as the complexity of the proposals prior to finalization of the rules. The final shape of the EU proposals will, on the other hand, depend on the outcome of potentially fraught political negotiations between individual EU Member States, and between the EU Council and EU Parliament, in the coming months.

US/EU Comparison Table: Proposed Implementation of Basel III

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Glossary

TERM	DEFINITION	US OR EU-RELATED TERM
AT1	Additional Tier 1 capital.	Both
Advanced Approaches Banks	Refers to those US banks required to apply the internal model-driven advanced approaches of Basel II (as updated to reflect the Basel III reforms once implemented).	US
BIS	The Bank for International Settlements.	Both
CCP	Central Counterparty. An entity that interposes itself as the counterparty to both the buyer and seller (or intermediaries thereof). Such transactions are considered to have a lower credit risk than transactions entered into bilaterally with FIs.	Both
CDO	Collateralized Debt Obligation.	Both
CEIO	Credit Enhancing Interest Only Strip.	US
CET1	Common Equity Tier 1 Capital.	Both
CIS	Collective Investment Scheme.	EU
CRC	Country Risk Classification Codes assigned by the Organization for Economic Cooperation and Development.	Both
CRD	Capital Requirements Directive.	EU
CRD I	The First Capital Requirements Directive, which implemented the Basel II framework in the EU.	EU
CRD II	The Second Capital Requirements Directive, which amended the CRD I framework by strengthening requirements in relation to, *inter alia*, securitization, large exposures and liquidity risk.	EU
CRD III	The Third Capital Requirements Directive, which further amended the CRD I framework and implemented Basel 2.5 in the EU and included further amendments relating to securitization, remuneration of FI employees and aspects of the market risk framework (including an Incremental Risk Charge and Stressed VaR).	EU
CRD IV	The current proposals, comprising CRD and CRR, are collectively referred to as CRD IV.	EU
CRR	Capital Requirements Regulation.	EU
CVA	Credit Valuation Adjustment. CVA risk is the risk that a firm will need to make an adjustment to the market value of an over-the-counter (OTC) derivative contract to take into account the deterioration in the creditworthiness of a counterparty.	Both
DTA	Deferred Tax Asset.	Both
DTL	Deferred Tax Liability.	Both
DVP	Delivery-Versus-Payment. Securities or commodities transaction in which the buyer is obligated to make payment only if the seller has made delivery of the securities or commodities and the seller is obligated to deliver the securities or commodities only if the buyer has made payment.	Both
EBA	European Banking Authority.	EU

TERM	DEFINITION	US OR EU-RELATED TERM
ECAI	External Credit Assessment Institution, i.e. a credit rating agency.	EU
ECB	European Central Bank.	EU
Eligible Credit Derivatives	Refers to recognized credit derivatives for credit mitigation purposes under the US proposed rules. Criteria includes: (i) for CDS or nth-to-default swap, the contract includes certain designated credit events, (ii) if the contract allows for cash settlement, the contract incorporates a robust valuation process, and (iii) if the credit derivative is a credit default swap or nth-to-default swap, the contract clearly identifies the parties responsible for determining whether a credit event has occurred.	US
Eligible Guarantees	Refers to recognized guarantees for credit mitigation purposes under the US proposed rules. Criteria include: (i) direct claim against the protection provider; (ii) protection provider makes payment to the beneficiary on the occurrence of a default (as defined in the guarantee) of the obligated party in a timely manner; (iii) does not increase the beneficiary's cost of credit protection on the guarantee in response to deterioration in the credit quality of the reference exposure; and (iv) is not provided by an affiliate (subject to certain exceptions).	US
Eligible Guarantors	Refers to recognized guarantors for credit mitigation purposes under the US proposed rules including: sovereign entities, Basel Committee, International Monetary Fund, European Central Bank, European Commission, Federal Home Loan Banks, Farmer Mac, a multilateral development bank, a depository institution, a bank holding company, a thrift holding company, a foreign bank, or an entity other than an special purpose entity that has investment grade debt, whose creditworthiness is not positively correlated with the credit risk of the exposures for which it provides guarantees and is not a monoline insurer or reinsurer.	US
EMIR	European Markets Infrastructure Regulation.	EU
ESCB	European System of Central Banks.	EU
FI	Financial Institution (i.e., EU credit institutions and EU investment firms).	EU
Financial Collateral	Refers to recognized collateral for credit mitigation purposes under the US proposed rules. Includes, cash on deposit at the banking organizations (or 3rd party custodian); gold; investment grade securities (excluding resecuritizations); publicly-traded equity securities; publicly-traded convertible bonds; money market mutual fund shares; and other mutual fund shares if a price is quoted daily. In all cases the banking organization must have a perfected, 1st priority interest.	US
FX	Foreign Exchange.	Both
GAAP	Generally Accepted Accounting Principles.	Both
GSE	Government Sponsored Entity.	Both
HAMP	US Home Affordable Modification Program.	US
HVCRE Loans	High Volatility Commercial Real Estate Loans.	US
IRB approach	Internal Ratings Based Approach. This is a method by which certain FIs calculate their own risk weightings using their own quantitative models. This is the EU equivalent of the "Advanced Approach" in the US.	EU
LCR	Liquidity Coverage Ratio.	Both
LGD	Loss Given Default. This is a variable used as part of the IRB Approach. This variable reflects the amount the FI would lose on a counterparty default.	Both

TERM	DEFINITION	US OR EU-RELATED TERM
LTV	Loan-to-Value Ratio.	Both
MiFID	Markets in Financial Instruments Directive.	EU
MSRs	Mortgage Servicing Rights.	Both
NSFR	Net Stable Funding Ratio.	Both
OTC	Over The Counter. A transaction in an instrument that is negotiated and executed bilaterally, contrasting with exchange trading.	Both
PD	Probability of Default. This is a variable used as part of the IRB Approach and is the probability of default on a particular exposure.	EU
Private Sector Credit Exposures	In the US proposed rules, refers to an exposure to a company or an individual that is included in credit risk-weighted assets, not including an exposure to a sovereign, the Basel Committee, the European Central Bank, the European Commission, the International Monetary Fund, a multilateral development bank, a public sector entity, or a government sponsored enterprise.	US
PSE	Public Sector Entity.	Both
PVP	Payment-versus-Payment. Foreign exchange transaction in which each counterparty is obligated to make a final transfer of one or more currencies only if the other counterparty has made a final transfer of one or more currencies.	US
Qualifying Master Netting Agreements	Refers to a written, legally enforceable netting agreement that meets certain criteria required for recognition of netting under the US proposed rules. Criteria include: (i) single legal obligation for all individual transactions covered, (ii) the banking organization has the right to accelerate, terminate, and close-out on a net basis all transactions under the agreement, (iii) sufficient legal review is performed to conclude enforceability, (iv) procedures are in place to monitor possible changes in relevant law and to ensure that the agreement continues to satisfy the requirements, and (v) the agreement does not contain a “walkaway” clause.	US
RTS	Regulatory Technical Standards. These are technical standards developed and published by the EBA which “fleshes out” certain technical aspects of CRD IV.	EU
RWA	Risk-Weighted Asset.	Both
SPV	Special Purpose Vehicle.	Both
SSFA	Simplified Supervisory Formula Approach. An approach to calculating risk weights for securitization positions. The risk weight is based on the risk weight applicable to the underlying exposures, the relative position of the securitization position in the structure (subordination), and measures of delinquency and loss on the securitized assets.	US
T2	Tier 2 capital.	Both
TARP	Troubled Asset Relief Program.	US

Scope of Application

ISSUE	PROPOSED APPROACHES: US APPROACH	PROPOSED APPROACHES: EU APPROACH
General coverage of the Basel framework	**Institutions covered**: · US banks. · US thrifts. · US bank holding companies (with over $500 million). · US savings & loans holding companies. Rules apply on a consolidated basis.	**Institutions covered**: · all EU credit institutions (deposit-taking banks). · all EU investment firms. Requirements generally apply on both a solo and consolidated basis with discretion for national regulators to waive solo capital, leverage and liquidity requirements in certain limited circumstances.
	Key differences / comments · EU requirements apply to investment firms in addition to banking groups, continuing the EU approach to implementing previous Basel requirements. · "Investment firms" in the EU would include institutions that conduct securities brokerage/dealing activities and advisory firms. In general, the CRD IV regime would apply to a much lesser extent to advisers and brokers as such firms do not generally assume credit or market risks against which capital must be held.	
Application to the largest/most complex banks	Must comply with all general requirements; in addition, the following only apply to Advanced Approaches Banks: · Advanced Approaches method of risk weighting. · "Supplementary Leverage Ratio". · Countercyclical capital buffer. · Special disclosure requirements relating to AT1 and T2 regulatory capital instruments. · Advanced Approaches Banks will never be permitted to hold less capital than would similarly-situated banks that are not Advanced Approaches Banks ("Collins Amendment"). Special disclosure requirements related to regulatory capital instruments only apply to institutions with over US $50 billion assets.	Broadly, all firms to comply with all requirements set out in CRD IV. Certain smaller investment firms will be subject to a much lighter capital regime (see immediately below). Additional capital buffers will vary across EU Member States, with the largest, most complex banks expected to be subject to more stringent requirements. The countercyclical capital buffer will in practice generally only apply to banks. An optional exemption from capital buffers will be available for small and medium investment firms. The EU Council has proposed an amendment to the current draft of the CRD IV which will provide for a "Systemic Risk Buffer" of up to 3% CET1.
	Key differences / comments · EU requirements generally do not differentiate according to size (although some exemptions are optional for individual Member States to implement, such as an optional exemption for small and medium investment firms from additional capital buffers). · In the EU, the level of the countercyclical capital buffer will be at the discretion of national regulators.	
Application to other (smaller) institutions	Institutions (other than Advanced Approaches Banks), must comply with general US Basel III requirements (but not Advanced Approaches Bank-specific requirements). In general, bank holding companies with *pro forma* consolidated assets of less than $500 million are not covered by the US Basel III requirements.	Certain investment firms that do not assume principal risk can hold capital by reference to credit and market risk components or 12.5 x quarter of the preceding year's fixed overheads. Other firms without a license to deal on their own account or underwrite on a firm commitment basis are required to hold capital in an amount of sum of those two measures.

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	Key differences / comments • In the EU, only investment firms that (broadly speaking) do not assume principal risk benefit from a lower measure of capital (for example, advisory firms or executing brokers). • Certain firms in the EU, broadly "investment advice only" firms that do not hold client money, may be excluded from the current CRD regime by virtue of an optional exemption from MiFID available to individual EU Member States (the definition of "investment firm" in the CRD is shared with MiFID). Such firms will likely be subject to a different regime, dependent upon the rules of individual EU Member States. These optional exemptions are also currently present in the EU Commission's MiFID II proposals.	
Form of implementation of Basel III in US and EU	The capital rules will be implemented through three US proposals (or NPRs). **The "Basel III NPR":** • Minimum capital requirements. • Minimum leverage capital requirements. • Capital buffers. • Regulatory capital. • Revised prompt corrective action framework. **The "Standardized Approach NPR":** • Standardized total RWAs. **The "Advanced Approaches and Market Risk NPR":** • Calculation of advanced approaches total RWAs.	Basel framework to be implemented in the EU via two legislative acts: the Capital Requirements Regulation (the "**CRR**") and a Capital Requirements Directive ("**CRD**", collectively "**CRD IV**") both of which amend and consolidate existing EU legislation. **CRR:** Legislation applicable across EU in exactly the same form; a "single rule book". The CRR will contain provisions implementing capital, liquidity and leverage requirements. **CRD:** Legislation taking the form of a binding "instruction" to EU Member States to implement certain requirements by a deadline (to be set). This confers greater flexibility on EU Member States in implementing certain Basel III requirements, including as to capital conservation and countercyclical capital buffers, prudential supervision and certain leverage requirements.
	Key differences / comments • Legislation in EU Member States implementing CRD IV is expected not to deviate from the EU text, but it is possible that there will be latitude for EU Member States to "goldplate" requirements, resulting in more stringent standards than set out in Basel III and the potential for regulatory arbitrage between EU Member states.	
Integration of the Basel framework into the national supervisory framework	Ratios are widely used as triggers/qualification criteria as part of the supervisory framework: • "prompt corrective action" requirements; • "financial holding company" election; • establishment of a financial subsidiary; and • M&A regulatory approvals. US federal banking agencies reserve the authority to require a banking organization to hold a different amount of regulatory capital than otherwise would be required under the minimum capital requirements.	Under the current regime in the EU and under CRD IV proposals, national supervisors are generally responsible for prudential supervision of FIs in their jurisdiction. This may change, however, if the ECB is made prudential supervisor of banks in the Eurozone.
	Key differences / comments • In the EU there is a proposed EU Recovery and Resolution Directive whereby firms experiencing distress will be subject, if triggers are breached, to bail-in of debt, capital raising or other measures. In addition, national regulators are able to impose more stringent capital requirements in certain circumstances (including through the countercyclical capital buffers, and any systemic risk and Pillar 2 buffers).	

Definition of Regulatory Capital

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	Capital Components/Eligibility Criteria	
Common equity tier 1 capital	· Ordinary common equity capital instruments (net of treasury stock) that satisfy 13 specified criteria and related surplus. · Retained earnings. · Accumulated other comprehensive income. · Qualifying CET1 minority interests in consolidated subsidiaries.	· Capital instruments satisfying specified criteria, typically ordinary shares or the equivalent thereof and related share premium accounts. · Retained earnings. · Accumulated other comprehensive income. · Other reserves. · Funds for general banking risk. · Qualifying CET1 minority interests in consolidated subsidiaries.
	Key differences / comments · The above are subject to regulatory adjustments and deductions, but the constituent parts of CET1 are materially the same under US and EU approaches. · Basel Committee has criticized the EU definition of CET1 in that the EU proposals allow instruments issued by cooperative banks that are redeemable at option of the holder to count as CET1.	

Additional tier 1 capital	· AT1 capital instruments that satisfy 14 specified criteria and related surplus (generally, non-cumulative perpetual preferred stock).
	  · Specifically, such instruments are required to be perpetual instruments subordinated to Tier 2 instruments, in general, with restricted right of redemption only after five years from point of issue, but with no incentive to redeem; dividends cancelable and non-cumulative and with no dividend pushers/stoppers (except dividend stoppers with respect to common stock).
	· Qualifying AT1 minority interest that is not included in a banking organization's CET1 capital.
	· <u>No</u> requirement to write-off or convert to common equity at the point of "non-viability".
	· Advanced Approaches Banks must disclose that holders may be subordinated to US taxpayers under US law.
		· Capital instruments satisfying certain criteria (generally, non-cumulative perpetual preferred stock) and related retained earnings and share premium accounts.
		  · Specifically, such instruments are required to be perpetual instruments subordinated to T2 instruments with restricted right of redemption after five years from point of issue, but with no incentive to redeem; dividends cancelable and non-cumulative, and with no dividend pushers/stoppers (except dividend stoppers with respect to common stock).
		· Instruments subject to writedown or conversion into CET1 when CET1 capital falls below 5.125% or higher percentage specified in AT1 instrument.
		· Qualifying AT1 minority interests in consolidated subsidiaries are also included.

	Key differences / comments · The proposed criteria differ from – and are stricter than – the existing tier 1 capital qualification standards. Recognition of outstanding instruments that no longer qualify as tier 1 capital will generally be phased out over time. Outstanding tier 1 instruments in the US and EU should be evaluated against the new qualification standards. · The US/EU AT1 requirements set out above are subject to regulatory adjustments and deductions, for example,	

<table>
<tr><th></th><th colspan="2">PROPOSED APPROACHES</th></tr>
<tr><th>ISSUE</th><th>US APPROACH</th><th>EU APPROACH</th></tr>
<tr><td></td><td colspan="2">own holdings in AT1 instruments.
• In the US, the paid-in amount must be classified as “equity” for GAAP accounting purposes.
• US considering a requirement that would require a banking organization to have the ability to cancel or substantially reduce dividend payments when a banking organization is paying a penny dividend to common shareholders.
• US-style trust preferred securities will no longer qualify as AT1 capital.
• In the US, instruments need not include a mandatory write-off or conversion provision triggered at the point of “non-viability”, unlike in the EU where there will be a mandatory write-down or conversion provision.
• In the US, AT1 instruments issued under the TARP program are grandfathered permanently.
• In the EU, AT1 instruments are subject to fewer requirements relating to dividends.</td></tr>
<tr><td>Tier 2 capital</td><td>• Capital instruments that satisfy 11 criteria and related surplus (principally subordinated debt and certain preferred instruments with a minimum original maturity of at least five years).
  • T2 instruments are required to be subordinated, with maturity in excess of five years, no incentive to redeem and redemption permitted only in limited circumstances after five years from date of issue; dividend/interest payments not to be modified based on credit standing of issuer/issuers’ parent; and instruments qualification for T2 purposes reduces pro rata in the final five years of maturity.
• Qualifying minority interests of consolidated subsidiaries not included in a banking organization’s tier 1 capital.
• Limited amounts of allowance for loan and lease losses (Advanced Approaches Banks <u>may instead</u> include a limited amount (0.06 of credit risk weighted assets) of the excess of eligible credit reserves over its total expected credit losses).
• Advanced Approaches Banks must disclose that holders may be subordinated to US taxpayers under US law.</td><td>• T2 instruments are required to be subordinated, with maturity in excess of five years, no incentive to redeem and redemption permitted only in limited circumstances after five years from date of issue; dividend/interest payments not to be modified based on the credit standing of FI/FI’s parent; and instruments qualification for T2 purposes reduces pro rata in the final five years of maturity.
• Qualifying T2 capital and related retained earnings and share premium accounts of consolidated subsidiaries.
• T2 instruments not subject to requirement for write-down to CET1 (although EU has proposed powers for bail in, which would allow EU regulators to write-down or convert T2 instruments into CET1).</td></tr>
<tr><td></td><td colspan="2">Key differences / comments
• The proposed criteria differ from – and are stricter than – the existing T2 capital qualification standards. Recognition of outstanding instruments that no longer qualify as T2 capital will generally be phased out over time. Outstanding T2 instruments in the US and EU should be evaluated against the new qualification standards.
• In US, instruments need not include a mandatory write-off or conversion provision triggered at the point of “non-viability”. Similarly, in the EU, the CRR does not require that T2 instruments have a write-off or conversion provision, but note that bail-in requirements under the proposed EU Recovery and Resolution Directive will apply to such instruments.
• Consistent with Basel III, sub-categories of “T2” capital are eliminated under both US and EU proposed rules.
• The foregoing is subject to regulatory adjustments and deductions, for example, own holdings in T2 instruments.</td></tr>
<tr><td>Tier 3 capital</td><td>Eliminated.</td><td>Eliminated.</td></tr>
</table>

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
CET1, AT1 and T2 instruments issued by subsidiaries held by non-consolidated entities (minority interests)	<u>**CET1**</u>: · The issuing entity must be a depository institution or foreign bank. · The amount of recognized CET1 is limited – would not be permitted to include the portion of the "surplus" CET1 held by third party investors. <u>**AT1 and T2**</u>: · The amount of recognized AT1/T2 is limited – would not be permitted to include the portion of the "surplus" AT1/T2 held by third party investors. · May include certain REIT preferred capital instruments (where the issuer is an operating company and the instruments otherwise qualify as AT1/T2).	· The issuing entity must be a FI. · Such minority interests to comprise CET1, AT1 and T2 as applicable if: the subsidiary is an undertaking subject to CRD IV, is consolidated, and the relevant instruments are owned by persons other than those included within the consolidation. · Minority interests funded directly or indirectly through SPVs of any parent or subsidiary undertaking of the FI will not qualify as consolidated CET1, AT1 or T2. · Amount of recognized minority interest is *pro rata* CET1 of the subsidiary minus surplus above minimum CET1 levels (including the capital conservation and countercyclical capital buffers, and any systemic risk and Pillar 2 buffers).
	Key differences / comments · Both US and EU approaches are broadly consistent with Basel III. However, Basel Committee has criticized the EU approach in that the Systemic Risk Buffer, the Pillar 2 buffer and countercyclical buffer are taken into account when calculating the minority interest to be recognized, deviating from Basel III (the US approach was criticized as well for including the countercyclical buffer).	

Qualifying holdings outside the financial sector	· No generally applicable deduction for holdings in companies outside of the financial sector (as is the case under existing US law). Holdings to be treated as equity exposures subject to varying risk weights (<u>see</u> Equity Exposures below).
	· Special deduction for investments in subsidiaries of thrifts that engage in activities impermissible for national banks.
		· National supervisors in EU Member States to be given the flexibility to either apply a 1250% risk weight to (or alternatively deduct) the greater amount of the following (or to prohibit such holdings):
		  · the amount of any holding in a non-FI above 15% of the FI's capital; and
		  · the total amount of holding in non-FIs that exceed 60% of the FI's capital.
		· For smaller holdings, the risk weight is determined according to the Standardized Approach or IRB Approach for equity exposures.

	Key differences / comments · The EU approach generally follows Basel II which is unchanged in this respect under Basel III.	
Grandfathering of existing capital instruments that would no longer qualify as the same type of regulatory capital	<u>**For banks with less than $15 billion in assets as of December 31, 2009**</u>: Limited grandfathering of non-qualifying AT1 and T2 capital instruments issued prior to December 9, 2010 – 10-year phase out (decreasing in 10% increments per year) ending December 31, 2021. <u>**For banks with at least $15 billion in assets as of December 31, 2009**</u>: Limited grandfathering of non-qualifying AT1 and T2 capital instruments issued prior to May 19, 2010 – accelerated 4-year phase-out (decreasing in 25% increments per year) ending December 31, 2015. · Investments by the US government in banking groups	<u>**All FIs**</u>: CET1, AT1 and T2 non-qualifying capital instruments issued prior to December 31, 2011, to be phased out commencing on January 1, 2013 and decreasing in 10% increments per year on January 1 every succeeding year, ending December 31, 2021.

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	are grandfathered permanently. • No grandfathering for non-qualifying CET1.	
	Key differences / comments • For large banks, US has adopted much shorter timeframe (4 years) than the EU to phase-out "hybrid" capital instruments. • The US approach to permanently grandfather capital investments made by the US government is a departure from the Basel III approach.	
Approval of new capital elements	Banks may request agency review/approval for inclusion of a new capital element in regulatory capital (whether CET1, AT1 or T2 capital).	No ability in the CRR to recognize capital instruments that do not meet prescribed criteria as regulatory capital.
	Key differences / comments • In theory, the US approach is more flexible and goes beyond Basel III.	
	Deductions from Capital and Other Adjustments	
Losses for current financial year	Losses are reflected in retained earnings, and thus, CET1 as well.	Deducted from CET1. EBA to publish RTSs to specify further detail.
	Key differences / comments • No material difference between the US and EU approaches.	
Intangible assets	Required to deduct (other than MSRs which are subject to separate rules) and amount deducted is reduced by associated deferred tax liabilities.	Required to deduct. Amount deducted to be reduced by associated deferred tax liabilities that would be extinguished due to impairment or being derecognized under applicable accounting standards.
	Key differences / comments • Both US and EU approaches are broadly consistent with Basel III. However, note that the EU proposals do not address MSRs as a constituent of capital or as a deduction.	
Negative amounts arising from expected credit loss amounts (for Advanced Approaches / IRB banks)	**Advanced Approaches Banks only**: Required to deduct the amount of expected credit loss that exceeds its eligible credit reserves. Expected credit loss includes expected credit losses on wholesale and retail exposures.	**IRB banks only**: Required to deduct negative amounts resulting from the calculation of expected loss amounts under the IRB Approach. Expected loss amounts not to be reduced by a rise in DTAs that rely on future profitability, or other additional tax effect, that could occur if provisions were to rise to a certain level.
	Key differences / comments • Both US and EU approaches are generally consistent with Basel III. • The US definition of expected credit loss deviates from the Basel definition of expected loss as regards wholesale and retail exposures.	
Deferred tax assets reliant on future profitability	Required to deduct from CET1. Deduction may be reduced by associated deferred tax liabilities in relation to the same taxation authority subject to certain limitations.	Required to deduct from CET1 subject to deduction threshold (together with significant investment holdings deduction, see further below). Deduction may be reduced by associated deferred tax liabilities if there is a legally enforceable right under national law to set off

ISSUE	PROPOSED APPROACHES: US APPROACH	PROPOSED APPROACHES: EU APPROACH
		such liabilities. Tax overpayments and current year tax losses referable to previous years are not deductible.
	Key differences / comments · The US approach is consistent with Basel III and the EU approach has certain differences (see threshold exemptions from deductions below).	
Deferred tax assets arising from temporary differences	**<u>DTAs that can not be realized through net operating loss carrybacks</u>**: Limited recognition subject to "threshold deduction" caps (together with significant financial investment holdings and MSRs); may be reduced by associated deferred tax liabilities in relation to the same taxation authority subject to certain limitations. Where recognized, a risk weighting of 100% is to be applied until January 1, 2018, at which point a risk weighting of 250% is to be applied. **<u>DTAs that can be realized through net operating loss carrybacks</u>**: No deduction – 100% risk-weighting.	Recognition in limited circumstances: (i) where automatic tax credit in the event of loss; (ii) permitted to offset tax credit against tax liability; and (iii) if tax credits exceed tax liabilities, a direct claim on central government is available. Where recognized, a risk weighting of 100% is to be applied, otherwise deducted. Note that this deduction is subject to the threshold exemption set out below (where the threshold is exceeded, a risk weighting of 250% applies).
	Key differences / comments · Both US and EU approaches are generally consistent with Basel III. · To the extent DTAs that cannot be realized through net operating loss carrybacks are recognized, US would apply a greater risk weighting commencing in 2018.	
Defined benefit pension fund assets	(For an institution that is not an insured depository institution), required to deduct unless the institution has unrestricted/unfettered access to the assets; amount to be deducted to be reduced by the amount of associated deferred tax liabilities.	Deducted, but reduced by the amount that is subject to unrestricted use and by the amount of associated deferred tax liabilities due to impairment or being derecognized under the applicable accounting standard.
	Key differences / comments · Both US and EU approaches are generally consistent with Basel III.	
Holdings of own capital instruments	Required to deduct all direct, indirect and synthetic holdings in CET1, AT1 and T2 including in relation to index securities. May calculate on the basis of net long position if certain conditions have been met.	Net long position in CET1, AT1 and T2 instruments deductible including holdings through positions in index securities.
	Key differences / comments · Both US and EU approaches are generally consistent with Basel III.	
Significant investments in financial institutions	· Limited recognition of CET1 investments with recognition capped at 10% CET1 of the investing bank and aggregate limitation of 15% CET1 of the investing bank (when aggregated together with certain deferred tax assets and MSRs); amounts not deducted are subject to 250% risk weighting. · There is a significant investment where a banking organization owns more than 10% of the outstanding CET1 of an unconsolidated financial institution.	· Required to be deducted. Amounts not deducted are subject to a 250% risk weighting (see threshold exemption below). · There is a significant investment in an unconsolidated financial institution where a holding exceeds 10% of the CET1 instruments issued by that financial institution or where there are "close links" (a 20% interest) with the FI and such FI is part of accounting but not prudential consolidation.

ISSUE	PROPOSED APPROACHES	
	US APPROACH	**EU APPROACH**
	· Underwriting positions held for five business days or fewer are exempt from the deduction. · Investments subject to the deduction include direct, indirect and synthetic holdings of capital instruments (e.g., banks are required to look through holdings of index securities and investments in unconsolidated entities to determine their underlying holdings of capital). · Generally includes short-term ("trading book") and long-term ("banking book") shareholdings in FIs. · Also required to deduct AT1 and T2 holdings.	· Underwriting positions held for five business days or fewer are exempt from the deduction. · Includes direct, indirect and synthetic holdings. · Generally includes short-term ("trading book") and long-term ("banking book") shareholdings in FIs. · Also required to deduct AT1 and T2 holdings.
	Key differences / comments · The CRR includes an alternative of consolidation rather than deduction from CET1 in relation to significant investments in insurers. The Basel Committee has highlighted that there is no requirement in the current draft of the CRR for the consolidation alternative to be as stringent as the deduction option. · US: The US employs a broad definition of "financial institutions" including companies predominantly engaged in certain financial activities (i.e., 85% or more of the consolidated total assets or gross revenues are derived from financial activities). There is some uncertainty as to the types of asset management activities covered. The US has asked the industry whether this definition should be modified. The method through which indirect exposures are to be calculated does not appear to be entirely clear – the US has asked for industry comment on this point as well. · EU: The specific meaning of the term "financial institution" for these purposes is to be determined by each Basel member country; CRD IV includes a wide variety of financial institutions including banks, broker-dealers, hedge fund managers and other asset managers.	
Holdings of capital instruments of financial institutions where there is a reciprocal cross-holding designed to inflate regulatory capital	Gross long positions of such holdings are deducted in the case of CET1, AT1 and T2 instruments.	Gross long positions of such holdings are deducted in the case of CET1, AT1 and T2 instruments.
	Key differences / comments · US and EU approaches are generally consistent with Basel III.	
Holdings of non-significant investments in financial institutions	· Banking organizations are required to deduct if aggregate holdings of CET1, AT1 and T2 in financial institutions (where there is no significant investment) exceed 10% of the investing institution's CET1. · A non-significant investment in an unconsolidated financial entity is where a banking organization owns 10% or less of the outstanding CET1 of such entity. · A corresponding deduction approach is to be applied, e.g. *pro rata* amount of AT1 holdings should be deducted from the financial institution's AT1. · Underwriting positions held for five business days or fewer are exempt from the deduction. · Investments subject to the deduction include direct, indirect and synthetic holdings of capital instruments (e.g., banks are required to look through holdings of index securities to determine their underlying holdings of capital). · Both short-term ("trading book") and long-term ("banking book") shareholdings of financial	· Required to deduct if aggregate holdings of CET1, AT1 and T2 in financial institutions (where there is no significant investment) exceed 10% of the investing FI's CET1. · A non-significant investment in an unconsolidated entity is where an institution owns 10% or less of the outstanding CET1 of such entity. · A corresponding deduction approach is to be applied, e.g. *pro rata* amount of AT1 holdings should be deducted from the financial institution's AT1. · Underwriting positions held for five business days or fewer are exempt from the deduction. · Investments subject to the deduction include direct, indirect and synthetic holdings of capital instruments (e.g., banks are required to look through holdings of index securities to determine their underlying holdings of capital).

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	institutions are generally included.	
	Key differences / comments · The US and EU approaches largely follow the Basel III approach which is unchanged from Basel II. · See "Significant investments in financial institutions" above for additional considerations.	
Investments in hedge/private equity funds	Required to deduct investments in private funds "organized and offered" by the investing banking institution pursuant to the Volcker Rule.	See risks weighting applied to "high risk" items.
	Key differences / comments · Final Volcker Rule regulations implementing the deduction have yet to be issued.	
Threshold deductions	· Items subject to threshold deduction include: Significant investments (i.e., more than 10%) in financial institutions, MSRs and DTAs that arise from temporary differences that cannot be realized through net operating loss carrybacks. · Mandatory deduction to the extent any of the items individually exceed 10% CET1 <u>and</u> mandatory deduction to the extent <u>in the aggregate</u> these items exceed 15% of CET1. · Items not deducted are to be given a 250% risk weighting.	· Items subject to threshold deduction include: Significant investments in financial institutions and DTAs that arise from temporary differences. · Exemption from deduction to the extent these items individually are equal to or less than 10% CET1 of the FI <u>and</u> to the extent <u>in the aggregate</u> these items are equal to or less than 15% of CET1. · Items exempt from deduction are to be given a 250% risk weighting. · MSRs are not included within the threshold exemption (and are not otherwise referred to in the CRR).
	Key differences / comments · In the EU, MSRs are not included within the threshold deduction and DTAs reliant upon future profitability are included with the exemption. The EU proposals differ from Basel III in both these respects.	
Gain-on-sale associated with a securitization exposure	Deducted (other than increase in equity capital resulting from receipt of cash).	Deducted. Any gain in equity capital is subject to deduction, according to draft RTSs published for consultation by the EBA.
	Key differences / comments · Both US and EU approaches are consistent with Basel III.	
Changes in the banking organization's creditworthiness	· Required to deduct any unrealized gain from and add back any unrealized loss due to changes in a banking organization's creditworthiness. · <u>**Advanced Approaches Banks**</u>: Deduct from CET1 any unrealized gains associated with derivative liabilities resulting from the widening of a banking organization's credit spread premium over the risk-free rate.	· FIs are not permitted to include any gains or losses on their liabilities resulting from changes in the creditworthiness of that FI, except where such gains and losses are offset by changes in the value of another financial instrument measured at fair value resulting from changes in own credit standing of FI.

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	Key differences / comments • The EU approach in allowing recognition of certain gains and losses deviates from Basel III and has been criticized by the Basel Committee as potentially being material for a firm in financial difficulty that has attempted to hedge its own credit position.	
Adjustment – requiring unrealized gains and losses on investment securities to flow through to capital	Unrealized gains and losses on "available-for-sale" securities are reflected in CET1.	The EBA has released draft RTSs setting out how unrealized gains and losses in relation to various items, including unrealized gains and losses on "available-for-sale" securities, will be reflected in capital.
	Key differences / comments • The US agencies have requested comment on an approach that would not include in regulatory capital unrealized gains and losses on US government and agency debt obligations, US GSE debt obligations and other sovereign debt obligations that would qualify for a 0% risk weight. They have also requested comment on whether unrealized gains and losses on general obligations issued by states or other political subdivisions of the US should receive similar treatment. Adoption of this approach would create differences between US and EU.	
Adjustment – treatment of cash flow hedges	Required to deduct any unrealized gain and add any unrealized loss on cash flow hedges to CET1, net of applicable tax effects, which related to hedging of items that are not recognized at fair value on the balance sheet.	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value (including projected cash flows) **not** to be included in any element of capital.
	Key differences / comments • Both US and EU approaches are consistent with Basel III.	
	Effective Date/Phase-In	
Non-qualifying capital instruments	New definitions of CET1, AT1 and T2 to come into force on January 1, 2013, with grandfathering provisions for certain non-qualifying existing capital instruments (as indicated above).	New definitions of CET1, AT1 and T2 to come into force on January 1, 2013, with grandfathering provisions for certain non-qualifying existing capital instruments.
	Key differences / comments • In the US, there is an accelerated phase out schedule for non-qualifying instruments issued by large banks and permanent grandfathering of investments in banking groups held by the US government.	
Deductions from capital and other adjustments	All regulatory capital adjustments and deductions fully phased in by January 1, 2018. Different transitional measures apply for different deductions. Goodwill will be deducted from CET1 immediately upon implementation.	All regulatory capital adjustments and deductions fully phased in by January 1, 2018. Certain transitional measures apply, e.g. losses for the current financial year and intangible assets are subject to 15% cap until December 31, 2017.
	Key differences / comments • In the US, the full deduction for goodwill (net of any associated DTLs) is stricter than that under Basel III, which transitions the goodwill deduction from CET1 in line with the rest of the deductible items. In the EU, the deduction for goodwill is transitioned consistent with Basel III.	

Risk-Based Capital Requirements

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	Minimum Capital Ratios	
Common equity Tier 1 capital ratio	Introduces a minimum requirement of 4.5% (phase in 2013 (3.5%), 2014 (4%) and 2015 (4.5%)).	CET1 to increase from 2% to 4.5% (phase in 2013 (3.5%), 2014 (4%) and 2015 (4.5%)).
	Key differences / comments ▪ Both US and EU approaches are consistent with Basel III.	
Overall Tier 1 capital ratio	Increases the minimum requirement from 4% to 6% (by 2015).	Overall T1 minimum requirement to increase from 4% to 6% (2013 (4.5%), 2014 (5.5%) and 2015 (6%)).
	Key differences / comments ▪ Both US and EU approaches are consistent with Basel III.	
Tier 2 capital ratio	No specific requirement imposed.	No specific requirement imposed.
	Key differences / comments ▪ Both US and EU approaches are consistent with Basel III.	
Total capital ratio (Tier 1 and Tier 2)	Minimum unchanged (remains at 8%).	Minimum unchanged (remains at 8%).
	Key differences / comments ▪ Both US and EU approaches are consistent with Basel III.	

	PROPOSED APPROACHES	
ISSUE	**US APPROACH**	**EU APPROACH**

Capital Buffers

Issue	US Approach	EU Approach
Capital conservation buffer	**Size**: Must be in an amount of CET1 greater than 2.5% of total RWAs to avoid pay-out restrictions following phase in : 2016 (0.625%), 2017 (1.25%), 2018 (1.875%) and 2019 (2.5%); for Advanced Approaches Banks calculated using Advanced Approaches total RWAs. **Elements subject to pay-out restriction**: Discretionary bonus payments for executive officers and the following capital distributions restricted if capital conservation buffer does not exceed 2.5%: • repurchase of T1 or T2 instruments; • dividend declaration on T1 capital instrument; • discretionary dividend declaration or interest payment on T2 capital; and • any similar transaction that the agencies determine to be in substance a distribution of capital. **Method to determine maximum pay-out amount on bonuses/distributions**: Determined by reference to the amount by which the banking organization's CET1 exceeds the minimum CET1 requirement and the banking institution's capital conservation buffer in the previous quarter and "eligible retained income"; i.e., adjusted net income for the four calendar quarters preceding the current calendar quarter.	**All FIs**: To be implemented under CRD IV. Capital conservation buffer to be 2.5% CET1 when fully implemented. Phase in: 2016 (0.625%), 2017 (1.25%), 2018 (1.875%) and 2019 (2.5%). Measures to be applied in the event that FIs fail to meet the capital conservation buffer requirement will extend to restrictions in dividends, bonuses and distributions on AT1 instruments, and will ultimately depend on the approach taken by national supervisors in individual EU Member States. The maximum amount available for distribution for bonuses and dividends is determined by a formula based upon the extent to which the FI's CET1 exceeds the minimum CET1 requirement (minimum includes the capital conservation and countercyclical capital buffer).
	Key differences / comments • In the EU, where a buffer falls below the prescribed minimum, restrictions on distributions and bonuses would depend on the individual approaches of EU Member States. • In the US, the US banking agencies have discretion (which is not provided under the Basel III framework) to allow exceptions to pay out restrictions if the agency determines that the distribution is not contrary to the purposes of the capital conservation buffer framework or to the safety and soundness of the bank.	
Countercyclical capital buffer	**Application**: US buffer may apply only to Advanced Approaches Banks; Advanced Approaches Banks with Private Sector Credit Exposures outside of the US, are potentially subject to countercyclical capital buffers imposed by other jurisdictions as well.	**All FIs**: Also to be implemented as part of CRD IV.
	Size: 0-2.5% of CET1.	**Size**: 0-2.5%, of CET1, although a buffer of greater than 2.5% may be imposed in certain scenarios.
	Application Trigger: For the US, Federal Reserve, OCC and FDIC make joint determinations based on the condition of the overall US financial system (no one factor is determinative).	**Application Trigger**: Buffer will be set by national supervisors in EU Member States and imposed in the event of perceived excessive credit growth within the financial system.

<table>
<tr><th></th><th colspan="2">PROPOSED APPROACHES</th></tr>
<tr><th>ISSUE</th><th>US APPROACH</th><th>EU APPROACH</th></tr>
<tr><td></td><td><u>Elements subject to pay-out restriction and determination of maximum pay-out amount</u>: Elements subject to pay out restriction are the same as for the capital conservation buffer. An Advanced Approaches Bank’s maximum payout ratio would vary depending on its capital conservation buffer and countercyclical buffer amount.</td><td><u>Small and medium investment firm exemption</u>: Under the current proposals, an option is given to EU Member States to include an exemption for small and medium investment firms, as long as such exemption would not result in any threat to the financial stability of that EU Member State.</td></tr>
<tr><td></td><td colspan="2">Key differences / comments
US agencies have asked for comment on which approaches should be considered for purposes of determining whether/when to impose the countercyclical buffer (including whether a formula-based approach might be appropriate).
EU approach mirrors Basel III but buffer requirement is left to individual EU Member States and can therefore vary across the EU.</td></tr>
<tr><td>Systemic risk buffer</td><td>Not addressed to date.</td><td>A Systemic Risk Buffer has been proposed by the EU Council allowing national supervisors in EU Member States to introduce an additional CET1 buffer across the financial sector or a subset of it. Systemic Risk Buffers of up to 3% CET1 for all exposures and up to 5% CET1 for domestic and third country exposures, permitted without having to seek prior EU Commission approval, and higher buffers permitted but with approval.</td></tr>
<tr><td></td><td colspan="2">Key differences / comments
EU is ahead of the US in setting out measures for a Systemic Risk Buffer.
The UK government has committed to applying higher capital requirements to retail banks than required under Basel III. It is generally believed that the Systemic Risk Buffer may provide flexibility for the UK government and other EU Member States to apply such higher capital requirements. However, the degree to which individual EU Member States will have flexibility to apply higher capital requirements remains unclear at this time.</td></tr>
<tr><td>G-SIB (Global Systemically Important Banks) surcharge</td><td>Not addressed to date.</td><td>A buffer specifically for G-SIBs is not present in the current EU Council proposals, although the EU Parliament has proposed including measures addressing G-SIBs and the EU Council’s latest proposals include a Systemic Risk Buffer (see above) which could be the vehicle through which the EU implements the Basel III requirement for an additional G-SIB capital buffer.</td></tr>
<tr><td></td><td colspan="2">Key differences / comments
EU is ahead of the US in setting out measures for a Systemic Risk Buffer.</td></tr>
<tr><td colspan="3">Asset Risk Weightings – General</td></tr>
<tr><td>Alternative approaches</td><td><u>All Banks</u>: All banks must apply the Standardized Approach.

<u>Advanced Approaches Banks</u>: Must apply and meet minimum risk-based capital standards under <u>both</u> the Standardized Approach <u>and</u> the Advanced Approach to risk weighting.</td><td><u>All FIs</u>: FIs to apply the Standardized Approach, unless permission is given by a national supervisor to apply the IRB Approach (equivalent to the Advanced Approach) instead.</td></tr>
</table>

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	Key differences / comments • Standardized and IRB Approaches are alternatives in the EU, whereas in the US, the Standardized Approach effectively operates as a floor to capital requirements for credit risk.	
References to external credit ratings	Not permissible under US law (Dodd-Frank Act). Section 939A of the Dodd-Frank Act requires all federal agencies to remove references to and requirements of reliance on credit ratings from their regulations and replace them with appropriate alternatives for evaluating creditworthiness.	Reliance on external ratings to be permitted under CRD IV, but with an approach aimed at significantly reducing reliance on external ratings and increasing reliance on internal ratings.
	Key differences / comments • US prohibition on the use of credit ratings is a divergence from the Basel III accord.	

Asset Risk Weightings – The Standardized Approach to Credit Risk

On-Balance Sheet Assets		
Cash in hand	0%	0%
	Key differences / comments • Both US and EU approaches are consistent with Basel III.	
Exposures to sovereigns/central banks	**US government/agencies/Federal Reserve**: 0% or 20% if a conditional claim. **Non-US sovereigns**: Risk weight depends on CRC applicable to the sovereign and ranges between 0% and 150%. 100% for sovereigns that do not have a CRC. 150% for a sovereign that has defaulted within the previous five years.	**EU central governments and central banks (same currency)**: Exposures to central governments and central banks of Member States denominated and funded in the domestic currency of that central government and central bank: 0%. Until 2018, exposures denominated in another Member State currency will also be treated as a 0% exposure; in 2018, exposures will increase to 100% of risk weighting based on ECAI assessment (see below). **Non-EU central governments and central banks**: Exposures to other central governments and central banks: 0% to 150% depending on credit assessment by ECAI. If no ECAI rating exists, risk weighting is 100%. **European Central Bank**: 0%.
	Key differences / comments • EU generally follows the Basel II approach, which is unchanged. The US relies upon CRCs for non-US sovereign and its approach differs from Basel II.	
Exposures to non-central government sector entities (PSEs)	**US PSEs**: 20% for general obligations; 50% for revenue obligations. **Non-US PSEs**: Risk weight depends on the home country's CRC and ranges between 20% and 150% for general obligations, and between 50% and 150% for revenue obligations. • 100% for exposures to a PSE in a home country that does not have a CRC	**Regional governments or local authorities** EU regional governments are treated the same as central governments (where no difference in risk). Third party regional governments and local authorities in jurisdictions with supervisory regimes equivalent to the EU's to be treated the same as central government exposures. Exposures to regional governments or local authorities not within the scope of the foregoing to be assigned a risk weight of 20%.

PROPOSED APPROACHES		
ISSUE	**US APPROACH**	**EU APPROACH**
	• 150% for a PSE in a home country with a sovereign default.	**PSEs** PSEs in the EU to be given a risk weighting of between 20% and 150% depending on their credit rating assessment by a nominated ECAI or the rating of their central government. Exposures to PSEs with no rating (or sovereign rating) to be assigned a 100% risk weighting. All public sector entity exposures with an original maturity of 3 months or less to be assigned a 20% risk weighting. Non-EU PSEs may be treated as EU PSEs if the supervisory regime is equivalent to that of the EU's, otherwise a risk weighting of 100% will apply.
	Key differences / comments • US PSEs: The US risk weights do not take into account the potential downgrade of the US sovereign rating (and thus, differs from the Basel framework). • Non-US PSEs: The US approach relies on CRC codes rather than external credit ratings (and thus, differs from the Basel framework).	
Exposures to multilateral development banks	Exposures to various multilateral development banks to be given 0% risk weighting.	Exposures to various multilateral development banks (set out individually at Article 112 of the CRR) to be given 0% risk weighting.
	Key differences / comments • US rules would apply a 0% risk weight to exposures to any multilateral lending institution or regional development bank in which the US government is a shareholder or contributing member.	
Exposures to international organizations	Exposures to the following international organizations to be assigned 0% risk weighting: • The European Commission. • International Monetary Fund. • Bank for International Settlements. • European Central Bank.	Exposures to the following international organizations to be assigned 0% risk weighting: • European Union. • International Monetary Fund. • Bank for International Settlements. • European Financial Stability Facility. • "Rescue funds" created by a Member State or States for the benefit of another Member State or other Member States.
Exposures to financial institutions	**US banks**: 20%; 100% risk weight for an instrument included in the depository institution's regulatory capital (unless the instrument is an equity exposure or deduction treatment applies). **Non-US banks**: Risk weight depends on home country's CRC rating and ranges between 20% and 150%. The weight applied to the bank would be one category less favorable than that applied to the sovereign country's risk weight. • 100% for foreign bank whose home country does not have a CRC. • 150% in the case of a sovereign default in the bank's home country. • 100% for an instrument included in a bank's	**All FIs**: Exposures to FIs to be given a risk weighting of between 20% to 150% depending on the credit rating of the FI. The risk weighting will depend on the credit assessment rating of the FI according to a nominated ECAI. If an FI has no such rating, the risk weight will be based on the assessment given by a nominated ECAI in relation to the central government of the state in which the FI is incorporated. If there is no rating available, the risk weighting is 100%. Exposures to unrated FIs with an original effective maturity of three months or less to be assigned a risk weighting of at least 20% and one risk weight less than that ascribed to the sovereign of such FI.

<table>
<tr><th></th><th colspan="2">PROPOSED APPROACHES</th></tr>
<tr><th>ISSUE</th><th>US APPROACH</th><th>EU APPROACH</th></tr>
<tr><td></td><td>regulatory capital (unless that instrument is an equity exposure or deduction treatment applies).

<u>Securities Firms</u>
100%

However, if the exposure is an instrument included in the capital of the securities firm, deduction treatment may apply.

<u>Other</u>
100% (for non-equity exposures)

However, if the exposure is an instrument in the capital of the financial institution, deduction treatment may apply.</td><td></td></tr>
<tr><td></td><td colspan="2">Key differences / comments
• Unlike the EU approach, the US approach does not closely correspond to the Basel III framework.
• For US banks: the US approach does not take into account the potential downgrade of the US sovereign credit rating (and thus, differs from the Basel III framework).
• For non-US banks: the US approach relies on CRC codes rather than external credit ratings (and thus, differs from the Basel III framework).</td></tr>
<tr><td>Exposures to non-financial corporates</td><td>100%.</td><td>Exposures to corporates for which a credit rating assessment by a nominated ECAI is available will be risk weighted between 20% and 150% depending on the rating.

Exposures to unrated corporates to be either 100%, or the risk weight of exposures to the central government of the jurisdiction in which the corporate is located, whichever is higher.</td></tr>
<tr><td>Loans secured by residential property</td><td><u>Standard 30 year mortgage ("Category 1")</u>: 35%, 50%, 75%, 100% depending on LTV.

<u>Junior liens, interest only loans, balloon, non-amortization loans ("Category 2")</u>: 100%, 150%, 200% depending on LTV.

<u>Multi-family properties</u>: 50% or 100% (if criteria in the proposed regulation are not met).</td><td>Exposures fully and completely secured by residential property subject to satisfying certain requirements to be assigned a 35% risk weighting.

National regulators will be required to periodically (at minimum, annually) review residential mortgage risk weightings and, if appropriate on the basis of financial stability reasons, set a risk weighting higher than 35% (up to 150%).

"<u>Non-residential" mortgages</u>
If not within the scope of the above, 100% for exposures fully secured by a mortgage on immovable property that is not commercial property or residential property.</td></tr>
<tr><td></td><td colspan="2">Key differences / comments
• The US proposals appear to be significantly stricter than those of the EU. Whereas many interests secured by residential mortgage will be assigned a 35% risk weighting in the EU, the equivalent in the US would likely be assigned a higher risk weighting depending on LTV and whether the exposure is a so-called Category 1 or Category 2 loan. The difference between the US and EU proposals may be less significant in practice, however, if national regulators in individual EU Member States exercise their discretion to increase risk weightings where deemed appropriate.</td></tr>
</table>

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
Claims on modified/restructured residential property loans	**Modified Loans**: 35% to 200%. The banking organization must determine whether the modified terms make the loan a Category 1 or a Category 2 mortgage. **HAMP Loans**: Not treated as a restructured loan.	No special rules for EU FIs.
Claims secured by commercial property	**HVCRE acquisition, development or construction loans**: 150%. **Other Loans**: 100%	Exposures fully and completely secured by commercial property within one of the following to be assigned a 50% risk weighting: · mortgage on offices or other commercial premises; · tenant under a property-leasing transaction concerning offices or other commercial premises under which the FI is lessor and tenant has an option to purchase; and · certain other requirements set out at Article 121 of the CRR are met. National regulators will be required to periodically (at minimum, annually) review commercial mortgage risk weightings and, if appropriate on the basis of financial stability reasons, set a risk weighting higher than 50% (up to 150%). If not within the scope of the above, 100% for exposures fully secured by mortgage on immovable property that is not commercial or residential property.
	Key differences / comments · For certain types of commercial real estate loans, the EU proposals assign a significantly lower risk weighting than the US. However, as with residential mortgage loans, the difference between the US and EU proposals may be less significant in practice, if national regulators in individual EU Member States exercise their discretion to increase risk weightings where deemed appropriate.	
Exposures in default/past-due	150% for the portion that is not guaranteed or secured by Financial Collateral/Eligible Guarantees/Eligible Credit Derivatives (does not apply to sovereign exposures or 1 to 4 family residential mortgage exposures).	150%, where any specific credit risk adjustment is less than 20% of the unsecured exposure value (assuming that there was no such adjustment), and 100% if the credit risk adjustment is at least 20% of such exposure value.
	Key differences / comments · EU assigns a lower risk weighting (depending on proportion of exposure subject that is secured, guaranteed or subject to other credit risk adjustment). · Under the existing US general risk-based capital rules, the risk weight of a loan does not change if it becomes past due, with the exception of certain residential mortgage loans.	
Unsettled transactions (securities, FX and commodities)	**For DVP or PVP transactions**: Capital requirement is set at the difference between the agreed settlement price for the instrument in question and its current market value multiplied by a factor dependent upon the number of days until settlement takes place. · 5-15 working days, 100%. · 16-30 working days, 625%.	Capital requirement set at the difference between the agreed settlement price for the instrument in question and its current market value multiplied by a factor dependent upon number of days until settlement takes place. · 5 – 15 working days, 8%. · 16 – 30 working days, 50%.

	PROPOSED APPROACHES	
ISSUE	**US APPROACH**	**EU APPROACH**
	· 31 to 45 working days, 937.5%. · 46 or more working days, 1,250%. **For Non-DvP or Non-PVP transactions more than five days past the settlement date**: Capital requirement is based on the current market value of deliverables owed to the bank multiplied by 1,250%. The proposed capital requirement for unsettled transactions would not apply to, among other transactions, cleared transactions that are marked-to-market daily and subject to daily receipt of variation margin.	· 31 – 45 working days, 45%. · 46 or more working days, 100%.
	Key differences / comments · In general, the US assigns significantly higher risk weightings to unsettled transactions.	
Retail exposures/consumer loans	100%.	75%.
High risk items	No special categorization of "high risk" items. Certain equity investments in private equity funds/hedge funds are to be deducted in accordance with the Volcker Rule (see also "Equity exposures" above and "Exposures to collective investment undertakings/schemes" below).	FIs required to assign a 150% risk weight to exposures associated with particularly high risks (including exposures in the form of shares or units in CISs associated with such risks). Exposures with particularly high risks deemed to include: · investments in venture capital firms; · investments in alternative investment funds that are leveraged; · investments in private equity; and · speculative immovable property financing.
Covered bonds	No special rules. Exposures are treated as if they were exposures to the issuing institution or as securitizations.	Covered bonds for which a credit assessment by a nominated ECAI is available to be assigned a risk weight between 10% and 100%. For unrated covered bonds, a risk weight will be assigned according to the risk weight assigned to senior unsecured exposures to the issuing FI as follows: · if the FI risk weight is 20%, the covered bond risk weighting is 10%. · if the FI risk weight is 50%, the covered bond risk weighting is 20%. · if the FI risk weight is 100%, the covered bond risk weighting is 50%. · if the FI risk weight is 150%, the covered bond risk weighting is 100%.
Equity exposures (other than to investment funds)	**Simple Risk-Weight Approach**: 0%: Equity exposures to a sovereign, certain supranational entities, or a (multilateral development bank) whose debt exposures are eligible for 0% risk	100% unless: already deducted, regarded as a high risk item attracting a 150% risk weight, or assigned a 250% (see "Threshold exemption from deduction" above) or 200% risk weighting (see "Qualifying holdings outside the financial sector" above).

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	weight. 20%: Equity exposures to a public sector entity, a federal home loan bank, or Farmer Mac. 100%: Equity exposures to community development investments and small business investment companies and non-significant equity investments (i.e., equity exposure to the extent that the aggregate adjusted carrying value of the exposures does not exceed 10% of the banking organization's total capital). 250%: Significant investments in the capital of unconsolidated financial institutions that are not deducted from capital pursuant to the "threshold approach". 300%: Most publicly traded equity exposures. 400%: Equity exposures that are not publicly traded. 600%: Equity exposures to certain investment funds. This category includes commitments to acquire equity and derivatives contracts referencing equity instruments (that are not subject to the market risk capital rules).	
	Key differences / comments • US approach of assigning exposures to one of seven risk weighting categories would be a significant change from the current US approach. Currently, US bank holding companies must deduct from Tier 1 capital the sum of appropriate percentages of the adjusted carrying value of all non-financial equity investments held by the holding company and its subsidiaries. Any portion of non-financial investments that is not required to be deducted from Tier 1 capital is assigned a 100% risk weight and is included in risk-weighted assets.	
Equity exposures to collective investment undertakings/schemes	Three alternative methods may be applied for each exposure to an investment fund: **Full look-through**: Risk weighted asset amount: risk weight the assets of the fund (as if owned directly) multiplied by the banking organization's proportional ownership in the fund. **Simple modified look-through**: Risk weighted asset amount: multiply the banking organization's exposure by the risk weight of the highest risk weight asset in the fund. **Alternative modified look-through**: Risk weighted asset amount: assign risk weight on a *pro rata* basis based on the investment limits in the fund's prospectus multiplied by the banking organization's exposure to the fund. For community development exposures, risk-weighted asset amount = adjusted carrying value.	100% unless the FI applies one of the methods set out below. **Credit risk assessment method** Exposures to FIs and corporates for which a credit assessment by a nominated ECAI is available will be assigned a risk weight corresponding to that credit assessment, between 20% and 150%. **Look-through approach** If FI is aware of the underlying exposures of a CIS, it may look through those underlying exposures to calculate an average risk weight. **Average risk weight approach** If FI is not aware of the underlying exposures of a CIS, it may calculate an average risk weight on the assumption that the CIS invests in the most risky assets to the maximum extent possible under the CIS's mandate.
	Key differences / comments • The US and EU approaches are broadly similar.	

ISSUE	PROPOSED APPROACHES — US APPROACH	PROPOSED APPROACHES — EU APPROACH
Other items	100%, except for: · gold bullion held in own vaults (or in another depository institution's vaults on an "allocated" basis), 0%; · exposures that arise from the settlement of cash transactions (such as equities, fixed income, spot foreign exchange and spot commodities) with a central counterparty, 0%; or · cash yet to be collected, 20%.	100%, except for: · gold bullion held in own vaults, 0%; or · cash yet to be collected, 20%.
Off-balance sheet item (credit conversion factors)	**Low risk: 0%** Applies to the unused portion of a commitment that is unconditionally cancelable by the banking organization. **Medium/low risk: 20%** Applies to the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancelable. This risk weight also applies to self-liquidating trade-related contingent items. **Medium risk: 50%** Applies to the unused portion of a commitment over one year that is not unconditionally cancelable and to transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit). **Full risk: 100%** Applies to guarantees, repurchase agreements, securities lending and borrowing transactions, financial standby letters of credit and forward agreements.	**Low risk: 0%** Includes undrawn credit facilities cancelable unconditionally at any time without notice. **Medium/low risk: 20%** Includes documentary credits in which underlying shipment acts as collateral and other self-liquidating transactions and certain undrawn credit facilities with an original maturity of up to and including one year which are not unconditionally cancelable. **Medium risk: 50%** Includes certain documentary credits issued and confirmed, warranties and indemnities and guarantees not having the character of credit substitutes, undrawn credit facilities with an original maturity of more than one year and note issuance facilities (NIFs) and revolving underwriting facilities (RUFs). **Full risk: 100%** Includes guarantees, credit derivatives, acceptances, endorsements on bills not bearing the name of another institution, transactions with recourse, irrevocable standby letters of credit having the character of credit substitutes, assets purchased under outright forward purchase agreements, forward deposits and unpaid portion of partly-paid shares and securities.
	Key differences / comments · The US and EU approaches are broadly similar. · The exposure value of an off-balance sheet item is determined by multiplying the exposure by the appropriate credit conversion factor as identified above. The resulting credit risk capital requirement is determined by multiplying the exposure value by the risk weight ascribed to the counterparty.	

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
Asset Risk Weightings – The Advanced Approach (US) or IRB Approach (EU) to Credit Risk		
General approach	The regime relating to the Advanced Approach largely remains in force with several amendments, including: • changes to assumptions for holding periods of collateral in repo-style and derivatives transactions; • enhancements to "internal model methodology" for repo-style transactions, eligible margin loans, and derivatives; • similar alternatives to credit ratings as in the Standardized Approach; • CVA capital charge.	CRD IV restates the previous regime relating to the IRB Approach (which has now been in force in the EU for several years) and contains no substantial amendments (save for the CVA capital charge, for which see below).
	Key differences / comments • The Basel Committee has highlighted CRR provisions that permit an FI to permanently apply, subject to supervisory approval, the Standardized Approach to sovereigns, PSEs and certain other exposures without the Basel III condition that this be permitted only where such exposures are immaterial in terms of size and risk profile. • The US Advanced Approaches framework is largely consistent with the Basel IRB Approach. Exceptions include: (i) the definition of qualified revolving retail exposures, which is less strict than the Basel definition, (ii) the absence of capital requirement for dilution risk for purchase receivables as required by Basel, and (iii) the definition of expected credit loss, which deviates from the Basel definition.	
Asset Risk Weightings – Credit Risk Mitigation		
Guarantees and credit derivatives	Recognizes guarantees from Eligible Guarantors. Substitution Treatment allows the banking organization to substitute the risk weight of the protection provider for the risk weight ordinarily assigned to the exposure. Applies only to Eligible Guarantees and Eligible Credit Derivatives, and adjusts for maturity mismatches, currency mismatches, and where (for a credit derivative) restructuring involving forgiveness or postponement of principal, interest, or fees is not treated as a credit event.	Recognition of guarantees and credit derivatives with eligible providers. Value of unfunded credit protection reduced by 40% if maximum protection amount is exposure value. If the credit protection value exceeds the exposure value, the extent of the credit protection value is capped at 60% of the exposure value. If currency or maturity mismatch, further adjustment is required.
	Key differences / comments • In the US, a banking organization would be permitted to recognize a credit risk mitigant with a maturity mismatch vis-à-vis the hedged exposure only if the mitigant's original maturity is greater than or equal to one year and the residual maturity of the mitigant is greater than three months.	
Collateral	Financial Collateral only, provides two approaches for institutions using the Standardized Approach. **<u>Simple Approach</u>**: A banking organization may apply a risk weight to the portion of an exposure that is secured by the market value of collateral by using the risk weight of collateral, with a general risk weight floor of 20% (save that the risk weight is 0% for OTC derivative contracts that are marked-to-market on a daily basis to the extent that they are collateralized by cash on deposit (or 10% if collateral is sovereign debt or PSE with 0% risk weight) or for transactions collateralized by cash on deposit or	Firms using Standardized Approach can use the following methods: **<u>Financial Collateral Simple Method</u>**: In relation to the collateralized portion of the exposure, the FI has exposure instead to the relevant collateral instruments and may apply a risk weight subject to a minimum of 20%, save that the risk weight is 0% (or 10% if collateral is sovereign debt) for repos, securities lending and also for marked-to-market derivative transactions to the extent of the collateral when no currency mismatch

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	where financial collateral is an exposure to a sovereign that qualifies for a 0% risk weight and the banking organization has discounted the market value by 20%). There must be a collateral agreement for at least the life of the exposure; collateral must be revalued at least every 6 months; collateral other than gold must be in the same currency. **<u>Collateral Haircut Approach</u>**: Use of standard supervisory haircuts or own estimates of haircuts for eligible margin loans, repo-style transactions, collateralized derivative contracts (if financial collateral is marked-to-market on a daily basis and subject to a daily margin maintenance requirement).	exists. Other transactions: FIs may assign a 0% risk weight to a collateralized portion of exposure if there is no currency mismatch, and collateral is cash or cash equivalent, or is sovereign debt that is discounted by 20%. **<u>Financial Collateral Comprehensive Method</u>**: Adjustments required reflecting volatility of the market value of collateral, including any currency volatility. FIs using the Financial Collateral Comprehensive Method may take into account the effect of bilateral netting contracts covering repos, securities or commodities lending or borrowing transactions or other capital market driven transactions; further such firms are able to use certain other items as eligible collateral.
	Key differences / comments • US and EU approaches differ although the respective 'simple' approaches are broadly similar.	
Collateral – Advanced Approach / IRB approach	Single uniform definition of Financial Collateral for each of the Standardized and Advanced Approaches.	FIs permitted to use the IRB Approach may use additional types of collateral, including immovable property, receivables (not including receivables associated with securitizations, sub-participations, credit derivatives and intra-group debts), certain other physical collateral and leasing transactions.
	Key differences / comments • In the US, resecuritizations, conforming residential mortgages and debt securities that are not investment grade would no longer qualify as Financial Collateral.	
On-balance sheet netting	Recognition for Qualifying Master Netting Agreements. For most transactions, a banking organization may rely on sufficient legal review instead of an opinion on the enforceability of the netting agreement.	FIs permitted to use on-balance sheet netting of mutual claims between itself and its counterparty as an eligible form of funded credit risk mitigation. Eligibility is generally limited to reciprocal cash balances between the FI and the counterparty.
	Asset Risk Weightings – Securitization	
Securitization positions	Deduction for the after-tax gain-on-sale of a securitization (for a traditional securitization). 1,250% risk weight for a CEIO; 100% for interest-only MBS that are not credit-enhancing. One of two methods may be applied: **Gross-Up Approach**: The risk-weighted asset amount is calculated using the risk weight of the underlying assets amount of the position and the full amount of the assets supported by the position (that is, all of the more senior positions), <u>or</u> **Simplified Supervisory Formula Approach (SSFA)**: The risk weight for a position is determined by a formula and is based on the risk weight applicable to the underlying exposures, the relative position of the	**<u>Rated securitizations</u>** If a credit assessment has been issued or endorsed in accordance with the EU Credit Ratings Regulation (No. 1060/2009), FIs will be required to calculate a risk weighting as follows: securitization positions to be given a risk weighting of 20%, 50%, 100%, 350% or 1,250%. Resecuritization positions (typically CDOs) to be given a risk weighting of 40%, 100%, 225%, 650% or 1,250%. EBA to issue technical standards to determine certain credit quality steps to be associated with credit assessments. These credit quality steps will be used to determine appropriate risk weightings. Additional capital requirements to be applied for securitization of revolving exposures with early

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	securitization position in the structure (subordination), and measures of delinquency and loss on the securitized assets. 1,250% otherwise.	amortization provisions. **<u>Unrated securitizations</u>** A risk weighting of 1,250% to be applied.
	Key differences / comments · The US approach (which does not reference any external credit ratings) is considered materially non-compliant with the Basel framework which references credit ratings. The SSFA is driven mainly by standardized risk weights and actual delinquency rates of the underlying asset pool. Limited data suggests that the SSFA can result in risk weights that are significantly higher on average than those calculated under the Basel ratings based approach. · The EU securitization framework includes a 'skin in the game' requirement whereby an originator or sponsor is required to retain at least 5% of an issue.	
Advanced approach / IRB approach aspects	Deduction for the after-tax gain-on-sale of a securitization (for a traditional securitization). 1,250% risk weight for a CEIO. **Supervisory Formula Approach**: The risk weight for a position is determined by a formula and is based on the risk weight applicable to the underlying exposures and certain other factors. The risk-weighted amount for each securitization exposure would be equal to the risk-based capital requirement for the exposure multiplied by 12.5, <u>or</u> if data to calculate the SFA is unavailable: **Simplified Supervisory Formula Approach (SSFA)**: The risk weight for a position is determined by a formula and is based on the risk weight applicable to the underlying exposures, the relative position of the securitization position in the structure (subordination), and measures of delinquency and loss on the securitized assets. 1,250% otherwise.	**<u>Rated securitizations</u>** As with the Standardised Approach, if a credit rating has been issued, FIs are required to calculate the applicable risk weighting based on specific risk weightings (the Ratings Based Method). The Ratings Based Method for the IRB Approach provides that the relevant risk weight should be applied to the exposure value and the result should be multiplied by 1.06. The risk weights vary from 7% to 1,250% for securitizations and from 20% to 1,250% for resecuritizations. **<u>Unrated securitizations</u>** FIs with IRB Approach permission are able to use the Supervisory Formula Method whereby PD (and where applicable exposure value and LGD) are used as inputs into the formula to determine the risk weighting. There is also an Internal Assessment Approach whereby the FI assigns the unrated position a derived rating (such derived ratings to correspond to the credit ratings of ECAIs). In all other cases, a risk weight of 1,250% applies.
	Key differences / comments · The US approach removes all references to external credit ratings. US Advanced Approaches Banks would be required to conduct more rigorous credit analysis of securitization exposures than under current rules.	
	Asset Risk Weightings – Counterparty Credit Risk	
Derivatives - OTC	The treatment of OTC derivatives depends upon whether the banking organization is an Advanced Approaches Bank or not. **<u>Non-Advanced Approaches Banks</u>**: *<u>Current exposure method</u>*: Risk-weighted asset amount is determined by multiplying the exposure amount for the contract by the risk weight based on the counterparty, eligible guarantor, or recognized collateral. Conversion to an on-balance sheet exposure amount based on current exposure plus potential future exposure and a set of conversion factors.	OTC derivatives are generally subject to two capital charges: counterparty credit risk charge and CVA risk charge (for which see further below). There are three methods that will normally be used to determine the appropriate counterparty credit risk exposure, including: · **<u>Mark-to-market method</u>**: FIs are required under this method to add the current market value of contracts with positive values to an amount representing the potential future credit exposure to generate the exposure value.

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	Equity derivatives exposures are treated as equity exposures (unless the contract is subject to the market risk capital rules). In general, a special counterparty credit risk requirement need not be computed for credit derivatives. No maximum risk weight cap on OTC exposures. **<u>Advanced Approaches Banks</u>**: Advanced Approaches Banks may choose between two alternative methods: *<u>Current exposure method</u>*: see description above. *<u>Internal models methodology</u>*: This method is only available for banking organizations that have elected this method and been given permission by their supervisors. The organization is required to devise a model that specifies the forecasting distribution of changes in the market value of the relevant instruments due to changes in relevant market variables, such as interest rates, FX rates, etc. and calculating the exposure value at each future date on that basis. Posting of margin is included in the model. Basel III enhancements (including regarding wrong-way risk) adopted. CVA risk charge imposed on Advanced Approaches Banks (for which see further below)	· **<u>Standardized method</u>**: this is a more risk-sensitive method involving the calculation of an exposure value based on a specific formula which is applied individually for each netting set, net of collateral. · **<u>Internal model method</u>**: this method is only available for FIs that have elected this method and been given permission by their supervisors. The FI is required to devise a model that specifies the forecasting distribution of changes in the market value of the relevant instruments due to changes in relevant market variables, such as interest rates, FX rates, etc. and calculating the exposure value at each future date on that basis. Posting of margin is included in the model. FIs using the IMM method are also required to devise a CCR management framework. There is a further Original Exposure Method which is applicable to small trading books comprising of interest rate, FX and gold derivatives. Under this method, the contract principal is adjusted by a conversion factor which varies dependent on the nature of the instrument and its maturity.
	Key differences / comments · The EU generally follows the Basel III approach. · In the US, an OTC derivative contract would include an exposure of an institution that is a clearing member to its clearing member client where the institution is either acting as financial intermediary and enters into an offsetting transaction with a central counterparty or where the banking organization provides a guarantee to the central counterparty on the performance of the client.	
Derivatives - cleared	Advantageous risk-weighting (either 2% for a clearing member or 2% or 4% for a clearing member client) for exposures to so-called “qualifying central counterparty” (or QCCP) (<u>i.e.</u>, a central counterparty that satisfies certain specified financial standards and other eligibility criteria). Apply standard risk weighting for exposures to CCPs that are not QCCPs. Capital charge imposed on an institution’s exposure (if any) to a central counterparty’s “default fund”. The specific methodology employed to calculate the risk-weighted asset amount for a default fund contribution would also depend upon whether the central counterparty qualifies as a QCCP.	Advantageous risk weighting of 2% for exposures to CCPs. CCP definition based on EMIR legislation in the EU. If ‘bankruptcy remote’, i.e within the scope of special client asset protection arrangements, a 0% risk weighting is permitted. Separate calculation to determine capital charge for contributions to CCP’s “default fund”.
	Key differences / comments · Both EU and US approaches are broadly consistent with the Basel approach as set out in the July 2012 interim final rule.	

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
	Credit Valuation Adjustment	
General approach	**Advanced Approaches Banks only**: Intended to reflect the CVA due to changes of counterparties' credit spreads. All references to credit ratings have been removed and banking organizations generally have a choice to apply simple or advanced approaches (with credit ratings removed). Advanced approach is only available to banking organizations that are subject to the market risk capital rule and have obtained prior supervisory approval.	Input for calculation of CVA charge is changes in CDS spreads for firms that are permitted to use the Internal Model Approach. Certain CDS contracts permitted as hedges in certain circumstances. FIs in the EU are permitted to use credit ratings (although over-reliance on ratings is not permitted under CRD IV). FIs in the EU are to use the Standardized Approach unless they have elected to use the IRB Approach. Trades with the ESCB and certain other EU national bodies performing similar functions, including European sovereign debt management offices and the BIS, are excluded from the CVA charge.
	Key differences / comments · Both US and EU approach consistent with Basel III; however, the CVA charge is only applied to Advanced Approaches Banks in the US and all references to credit ratings have been removed under the US approach.	
	Effective Date/Phase-In	
New asset risk weightings – standardized approach	January 1, 2015 (with an option for early adoption by banks).	Immediately in force.
New asset risk weightings – advanced approach	No date has been set.	Immediately in force.

Liquidity Requirement

ISSUE	PROPOSED APPROACHES US APPROACH	EU APPROACH
Liquidity requirement	No US proposals to implement Basel III liquidity requirements to date; a proposal under Section 165 of the Dodd-Frank Act requires banking institutions with total consolidated assets equal to or greater than $50 billion to maintain liquidity buffers of highly liquid assets – a concept that is broadly consistent with the goals of the Basel III liquidity ratios.	EU approach follows Basel III on both LCR and NSFR liquidity standards but without prescribing the minimum required liquidity ratios.
	Key differences / comments · The EU is ahead of the US in implementing the Basel III liquidity standards but is nonetheless awaiting further proposals from the Basel Committee.	

PROPOSED APPROACHES		
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	• Section 165 of the Dodd-Frank Act requires the Federal Reserve Board to establish prudential liquidity requirements for nonbank financial companies supervised by the Board and bank holding companies with total consolidated assets equal to or greater than $50 billion. The Federal Reserve Board has issued a proposal that builds on the 2010 Interagency Policy Statement on Funding and Liquidity Risk Management issued by the federal banking agencies and the Conference of State Bank Supervisors and includes, among other things, projected cash flows, stress testing, and contingency funding plan requirements as well as provisions addressing board of director and senior management responsibilities for overseeing and implementing a company's liquidity program. The proposed standards also would require affected firms to maintain liquidity buffers of highly liquid assets and to establish limits on funding concentrations and maturities – concepts that are broadly consistent with the goals of the Basel III liquidity ratios.	
Liquidity	No proposals in the NPRs, but expected at a later date.	EU to impose supervision and reporting requirements from January 1, 2013, LCR from January 1, 2015 and NSFR from January 1, 2018 (depending on progress of Basel Committee).
	Key differences / comments • EU to impose supervision and reporting requirements, but main requirements left by both US and EU to a later date.	
Liquidity coverage ratio (LCR)	Not addressed to date.	Liquid assets, outflows and inflows are detailed in CRR albeit subject to further refinements by way of regulatory standards drafted by EBA and adopted by the EU Commission.
	Key differences / comments • EU approach follows Basel III but no liquidity ratios are yet prescribed.	
Liquid assets	Not addressed to date.	• Includes: cash, claims on or guaranteed by central banks, other transferable assets of high liquidity and credit quality. • Excludes: securities issued by financial institutions (apart from covered bonds). • Bank debt (apart from covered bonds or government guaranteed debt used for public policy purposes) • Valuation of liquid assets at market value subject to haircut (min. 15% for securities).
Liquidity outflows	Not addressed to date.	• Generally 10% of retail deposits (potentially 5% if deposit subject to guarantee scheme). • Other liabilities generally payable/callable within 30 days including amount of liability exceeding collateral securing liability where collateral counts as a liquid asset; or 25% of liability to PSE. • Net payables (including net of liquid assets held as collateral) expected over 30 day period. • Other liabilities – 100%. • Collateral posted for derivatives trades subject to haircut of 15% or 20% depending on liquidity/credit quality of collateral. Additional outflow potentially applied by national supervisor if additional collateral or

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		liquidity outflow provided for under contract as a result of deteriorating creditworthiness.
Liquidity inflows	Not addressed to date.	· 50% of principal payments by non-financial customers. · Monies due from secured lending and capital markets transactions minus haircutted liquid assets posted as collateral that shall be subject to a haircut. · Deposits held at other FIs subject to the LCR, in an amount of assumed outflow of that FI. · Undrawn credit/liquidity facilities disregarded, unless higher inflow amount allowed by national regulator where counterparty is group entity in same jurisdiction and is subject to LCR and is applying symmetric or more conservative outflows, and there are reasons to expect a higher inflow. · Net payables expected over 30 day period.
Net stable funding ratio (NSFR)	Not addressed to date.	· Only reporting of stable funding sources and required funding only addressed at the moment. NSFR expected to be in force as at 2018. · Stable funding is categorized into maturities below 3 months, 3-6 months, 6-9 months, 9-12 months, after 12 months. · Available stable funding: regulatory capital, deposits, funding from financial customers, collateralized funding from secured lending and capital market transactions, covered bond proceeds, securities sold to UCITs, other liabilities. · All items of funding to be allocated to 5 maturity buckets. · Items requiring stable funding – liquid assets that count as liquid assets under LCR, other securities, precious metals, non-renewable receivables, derivatives receivables, certain undrawn credit facilities, other assets.

Leverage Requirement

PROPOSED APPROACHES		
ISSUE	US APPROACH	EU APPROACH
Tier 1 to total on-balance sheet assets leverage ratio	DIs/holding companies must maintain a minimum leverage ratio of 4% effective January 1, 2015. (Under current rules, certain banks are permitted to maintain a 3% minimum.)	No EU leverage ratio currently in place.
	Key differences / comments · The US leverage requirement (which has no equivalent in the EU) is similar to the Basel III Leverage Ratio but	

ISSUE	PROPOSED APPROACHES: US APPROACH	EU APPROACH
	does not take into account off-balance sheet exposures.	
Tier 1 to total leverage exposure ratio (Basel III leverage ratio)	**Advanced Approaches Banks**: 3% minimum to be calculated and reported by Advanced Approaches Banks from January 1, 2015 and imposed as regulatory requirement from 2018. **Other Banks**: Not applicable	EU to supervise leverage ratios under CRD IV and will subsequently review whether to introduce binding ratio from Mid-2016.

Key differences / comments

- Referred to as the "Supplemental Leverage Ratio" in the US proposal.
- The US agencies have solicited comments on how to calculate the Basel III Leverage Ratio – concerns include differences in international accounting. Further changes to the requirement are expected.

This memorandum is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired.

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