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Joint Release:

Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation

BASLE COMMITTEE ISSUES INTERPRETATION
ON TIER 1 ELIGIBILITY

The Basle Committee on Banking Supervision has issued an interpretation on instruments that are eligible for Tier 1 regulatory capital treatment under the Basle capital framework of the Basle Accord. The Basle Accord was endorsed by the G-10 Governors in 1988 and applies to internationally active banks.

The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) will work with the other U.S. banking agencies to determine how the Basle Committee interpretation will be applied to U.S. banks. While the U.S. banking regulators are reviewing the implementation of the Basle Accord interpretation, state non-member and national banks should continue to follow the regulatory capital rules that are currently in place.

The Basle Committee's interpretation reaffirms the importance of ensuring that the predominant form of Tier 1 capital in the Basle Accord framework is in the form of common shareholders' funds. The interpretation also highlights the need for banks to periodically disclose each component of Tier 1 capital and its main features.

The interpretation details the Committee's determination that minority interests in equity accounts of consolidated subsidiaries that take the form of special purpose vehicles (SPVs) may be included in Tier 1 capital provided they meet certain criteria. The criteria include permanence and the ability to absorb losses within the bank on a going-concern basis.

The Committee has also determined that moderate step-ups in instruments issued directly or through SPVs may also be included in Tier 1 capital if the step-up occurs at a minimum of ten years after the issue date. The aggregate amount of noncommon equity Tier 1 instruments

with any explicit feature, other than a pure call option, which might lead to the instrument being redeemed is limited to 15 percent of the consolidated bank's Tier 1 capital at issuance. This interpretation is subject to review as part of the Basle Committee's efforts to reassess the present framework for evaluating banks' capital adequacy.

The Basle Committee consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. The Committee usually meets at the Bank for International Settlements (BIS) in Basle, Switzerland, where its permanent Secretariat is located.

The Basle Committee's press release can be accessed on the Internet at www.bis.org or by contacting the Basle Committee Secretariat at the Bank for International Settlements.

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