



New Basel Disclosure Rules – Is It Time to Bookmark www.bis.org?

Yesterday, the Basel Committee on Banking Supervision published its *Compilation of Capital Disclosure Requirements* (“Disclosure Rules”) setting forth a uniform scheme for Basel II banks to disclose the composition of their regulatory capital. These rules are intended to be implemented by national supervisors by June 30, 2013, and affected banks will be expected to comply with all but one of the new requirements for any balance sheet financial statements published after that date. One fully phased-in requirement, a “common disclosure template,” becomes effective on and after January 1, 2018.

In announcing these rules, the Basel Committee noted that the financial crisis revealed the difficulties that market participants and national supervisors had in their efforts to undertake detailed assessments of banks’ capital positions and make cross-jurisdictional comparisons, as a result of “insufficiently detailed disclosure” by banks and a lack of consistency in reporting between banks and across jurisdictions. The Disclosure Rules are intended to address these perceived disclosure deficiencies, and promote uniform and meaningful capital disclosures within and across national jurisdictions.

Basel II banks in the United States can expect future banking agency rulemaking to implement the Disclosure Rules. These rules presumably will be integrated with the disclosure provisions in the new capital and resolution planning regulations. Review of yesterday’s announcement should not be limited to Basel II banks in the United States, however; as with other Basel standards, the Disclosure Rules may lead to new disclosure requirements for a large number of non-Basel II banks in the U.S.

A Summary of the Disclosure Rules

Common Disclosure Template. The core of the new Disclosure Rules is a common disclosure template. This template, which will be required for financial statement reporting periods after January 1, 2018, will capture banking organizations’ capital positions after the end of the transition period for the phasing-in of capital deductions and adjustments required under Basel III. The common disclosure template is quite detailed, requiring the reporting of 85 line items.

Reconciliation Requirements. Affected banks will be required to apply a common approach, consistent with the Basel III rules, disclosing a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements.

Banks will be required to take a three- step approach to show the link between their balance sheets in their published financial statements and the numbers that are used in the composition of the common disclosure template, including (i) disclosure of the reported balance sheet under the regulatory scope of consolidation, (ii)

expansion of balance sheet line items under the regulatory scope of consolidation to show all the components that are used in the composition of the common disclosure template, and (iii) mapping each of the components that are disclosed in (ii) to the composition of the capital disclosure template set out in the common disclosure template. Each national jurisdiction, however, will be permitted to develop its own three-step reconciliation method.

Main Features Template. Consistent with Basel III, banking organizations will be required to disclose a description of the main features of regulatory capital instruments issued by them. To accomplish this goal, the Basel Committee has developed a “main features template” that represents the minimum level of summary disclosure that banks are required to report regarding each regulatory capital instrument issued.

Other Disclosure Requirements. Banking organizations also will be required to disclose certain “non-regulatory ratios” involving components of regulatory capital (examples cited include “equity Tier 1,” “core Tier 1” or “tangible common equity” ratios) and provide a “comprehensive explanation” of how these ratios are calculated. In addition, banking organizations will be required to make available on their websites the full terms and conditions of all instruments included in regulatory capital.

Transitional arrangements. Under Basel III, banking organizations are required to disclose during the general six-year transitional period the specific components of capital, including capital instruments and regulatory adjustments under the Basel III transitional provisions. To accomplish this objective, the Disclosure Rules require banking organizations to use a modified version of the common disclosure template in a way that captures existing national treatments for the regulatory adjustments. “Modified,” however, does not mean less: the modified version of the common disclosure template adds (i) an additional column showing the amounts of the regulatory adjustments that will be subject to the existing national treatment, and (ii) additional jurisdiction-specific rows in four separate places to indicate where the adjustment amounts reported in the added column actually affect capital during the transition period.

Stated in plainer English, the transitional template is not a “common-disclosure-template lite.” In fact, the transitional template requires even more information (showing transitional adjustments) than the final common disclosure template. Therefore, for all practical purposes the common disclosure template has to be used by affected banking organizations, including the transitional disclosures, after June 30 of next year.

Implications for U.S. Banking Organizations

For the largest U.S. banking organizations that are expressly subject to the Basel III accord, the concept of these Disclosure Rules should come as no surprise, inasmuch as they are mandated by Basel III. The recent publication by the U.S. banking agencies of their Basel III and Standardized Approach Proposals (see our [Summary](#) and [Detailed Discussion](#) of these proposals) earlier this month, however, squarely raises the prospect that the U.S. regulatory agencies may attempt to apply a Basel III-consistent capital disclosure framework to a larger (perhaps much larger) population of U.S. banking organizations.

To some extent, this process is already underway for U.S.-domiciled top-tier banking organizations of \$50 billion or more that are not subject to the disclosure requirements of the Basel II and III advanced approaches. Under the Standardized Approach Proposal, these larger banking organizations would become subject to enhanced disclosure requirements, including disclosures related to regulatory capital instruments. These proposed requirements, albeit quite detailed, are not as detailed as, and do not fully correspond to, the common disclosure template created by the Basel Committee.

But will uniform capital disclosure requirements be applied to the broad universe of U.S. banking organizations, and if so, to what extent? In our view, the answer to the first question is probably yes, but the answer to the second question is harder to assess at this early point in time. Banking organization disclosures are dictated not

only by the federal banking agencies, but in the case of public-traded banking organizations, by the registration and periodic reporting rules of the Securities and Exchange Commission (“SEC”). To the extent that the Basel Committee leads the way in requiring uniform regulatory capital disclosures, it is not hard to imagine the banking agencies, but also the SEC, in some fashion electing to follow suit for their regulated bank constituents. Further, if uniform capital disclosure rules are designed to promote “apples to apples” comparisons of banking organization and banking industry capital amounts and composition, there is some regulatory logic in the development of uniform capital disclosure standards for banks below the top tier of U.S. banking organizations.

As we continue to analyze these developments, we expect to be reporting on them further in the future. Suffice to say, however, that the Basel Committee’s Disclosure Rules warrant the attention of the broader U.S. banking industry. We now have come to see that, as far as U.S. banks are concerned, what happens in Basel no longer stays in Basel. Hence, it may be time for U.S. banks across the board, and not just the top-tier banks, to bookmark the Basel Committee web page: www.bis.org.

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