BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Press release

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Regulatory capital in light of forthcoming changes in accounting standards

The Basel Committee on Banking Supervision (the Committee) has been considering the potential impact the implementation of certain International Financial Reporting Standards (IFRS) may have on regulatory capital and whether it should be adjusted, in response.

Under IAS39, the cumulative fair value gains and losses on cash flow hedges of financial instruments measured at amortised cost are recognised directly in equity, to the extent the hedges are effective. The Committee believes that, for regulatory capital purposes, it would be appropriate for national supervisors to exclude these cumulative gains and losses on these cash flow hedges that are recognised directly in equity from the definition of Tier 1 and Tier 2 capital.

The Committee also examined the appropriate regulatory treatment of any gains and losses arising from changes in an institution's own credit risk as a result of applying the fair value option to its liabilities. The Committee believes that the potential inclusion of these gains and losses in Tier 1 or Tier 2 capital raises significant supervisory concerns and is of the view that they should be excluded. Accordingly, the Committee believes it would be appropriate for national supervisors to not recognise these gains and losses in regulatory capital. Application of the fair value option may raise other, additional supervisory concerns with respect to regulatory capital. The Committee will continue to review these implications concurrently with the International Accounting Standards Board's planned finalisation of its revised approach to the fair value option along with other consequences of the introduction of IFRS.