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Regulatory treatment of accounting provisions – interim approach and transitional arrangements

1. Introduction

Since the publication of *International convergence of capital measurement and capital standards* (Basel I), the Basel Committee has recognised the close relationship between capital and provisions.¹ The timely recognition of, and provision for, credit losses promote safe and sound banking systems and play an important role in bank regulation and supervision. In response to lessons learned from the financial crisis, the international accounting standard-setting bodies have modified provisioning standards to incorporate forward-looking assessments in the estimation of credit losses. Specifically, both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have adopted provisioning standards that require use of expected credit loss (ECL) models rather than incurred loss models. International Financial Reporting Standard (IFRS) 9 will take effect on 1 January 2018 and the FASB’s new standard, which introduces the current expected credit losses (CECL) methodology, will take effect on 1 January 2020 for certain banks that are public companies and in 2021 for all other banks, with early application permitted for all banks in 2019.

In October 2016, the Basel Committee issued for consultation a proposal to retain, for an interim period, the current regulatory treatment of provisions as applied under both the standardised approach (SA) and internal ratings-based (IRB) approaches. Interim proposals were issued given the limited time until the effective date of IFRS 9, as well as to allow thorough consideration of the longer-term approach for the regulatory treatment of provisions in response to the movement to ECL models in many jurisdictions. The Basel Committee also identified a number of reasons why it may be appropriate to introduce transitional arrangements for the impact of ECL accounting on regulatory capital. Transitional arrangements were therefore proposed, with the primary objective of a transitional arrangement to avoid a “capital shock”, by giving banks time to rebuild their capital resources following a potentially significant negative impact arising from the introduction of ECL accounting.

The Basel Committee supports the use of ECL approaches and encourages their application in a manner that will achieve earlier recognition of credit losses than with incurred loss models while also providing incentives for banks to follow sound credit risk management practices. The Committee also recognises that the new accounting provisioning models introduce fundamental changes to banks’ provisioning practices in qualitative and quantitative ways. Significantly higher provisions are possible with the lifetime loss concept and the inclusion of forward-looking information in the assessment and measurement of ECL. As such, the accounting changes will effect bank regulatory capital. Hence, in addition to the consultative proposal mentioned above, the Basel Committee also issued a discussion paper in October 2016 to outline its considerations for the longer-term regulatory treatment of ECL accounting provisions within the capital framework.²

This paper sets out the Basel Committee’s considerations for retaining the current regulatory treatment of accounting provisions for an interim period. It also sets out the transitional arrangements to take effect from 1 January 2018 and the corresponding Pillar 3 disclosure requirements, should individual jurisdictions choose to implement such transitional arrangements. It does not outline the Committee’s considerations for the longer-term regulatory treatment of provisions as outlined in the October 2016


² The Committee published its broader policy considerations in the *Discussion paper on the regulatory treatment of accounting provisions*, www.bis.org/bcbs/publ/d385.htm.
discussion paper. The Committee will consider the longer-term regulatory capital treatment of provisions further, including undertaking analysis based on quantitative impact assessments.

2. Retaining the current regulatory treatment of accounting provisions for an interim period

The Basel capital frameworks known as Basel I and Basel II have distinguished between general provisions (GP), and specific provisions (SP). General provisions are provisions held against future, presently unidentified losses that are freely available to meet losses which subsequently materialise. Provisions ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped, are specific provisions. Basel I permitted a limited amount of general provisions to be included in total (Tier 2) capital. When the Committee adopted Basel I, it recognised that the diversity of accounting and supervisory policies in respect of provisioning and capital across countries at that time generated a range of provisioning outcomes, and that in practice it was not always possible to distinguish between GP and SP in a fully consistent way.

Because of continuing differences across jurisdictions in provisioning practices under incurred loss models, the Committee decided to retain its Basel I treatment of GP when it adopted the Basel II SA for credit risk. Specifically, Basel II confirmed the limit on the inclusion of general provisions in Tier 2 capital of 1.25% of credit risk-weighted assets (RWA). When the Basel Committee designed the IRB approaches under Basel II, the treatment of provisions was specified in a manner that allowed all provisions to be treated in the same way for the comparison of total eligible provisions with total regulatory expected loss (EL). The IRB approaches under Basel II avoid the need to define which portions of provisions can be considered general or specific. The Committee retained the Basel II treatment for provisions under the standardised and IRB approaches when it adopted Basel III. Consequently, the regulatory capital treatment of provisions under the SA and IRB approaches have differed since the adoption of Basel II.

In October 2016, the Committee released for public comment a consultative document and a discussion paper on the policy considerations related to the regulatory treatment of accounting provisions under the Basel III capital framework. The consultative document set out the Committee’s proposal to retain, for an interim period, the current regulatory treatment of provisions under the SA and the IRB approaches for credit risk. In addition, the Committee sought comments on whether any transitional arrangements are warranted to allow banks time to adjust to the effect of the new ECL accounting standards on regulatory capital. In addition to the consultative document, the Committee issued a separate discussion paper on policy options for the longer-term regulatory treatment of provisions under the new ECL standards. As set out in the discussion paper, the Committee has not yet made a decision to pursue any of the approaches presented in that paper. The discussion paper was primarily issued to elicit feedback from interested stakeholders, which will inform the Committee’s future deliberations.

The Committee has considered the responses received from stakeholders on its consultative proposals. Balancing the views and considerations put forward by stakeholders, the Committee has decided that given the diversity of accounting and supervisory policies in respect of provisioning and

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4 See Basel II, paragraphs 49(iv) to 49(x).

5 Basel II, paragraph 384.

capital across jurisdictions, and the uncertainty about the capital effects of the change to an ECL accounting model, it will retain the current treatment of provisions under both the SA and IRB frameworks for an interim period.

The regulatory capital framework under the SA currently distinguishes between GP and SP. These regulatory concepts have been interpreted by national supervisors in an environment in which the applicable accounting standards have generally followed an incurred loss model. The Committee further notes that jurisdictions have interpreted the definitions of GP and SP differently, at least in part due to historical differences in how the incurred loss model for credit losses has been applied in individual jurisdictions. With the implementation of ECL provisioning, the fact that the existing regulatory distinction between GP and SP does not directly correspond to how provisions would be measured under the new ECL accounting standards further complicates efforts to achieve more consistent interpretations of the regulatory definitions.

Notwithstanding these very important differences, the Committee has decided to retain the current regulatory treatment of provisions for an interim period during which jurisdictions would extend their existing approaches to categorising provisions as GP or SP to provisions calculated under the applicable ECL accounting model. The Committee acknowledges that this interim approach is not expected to mitigate the existing varied practices across jurisdictions regarding the distinction between GP and SP as ECL accounting models are implemented. Nevertheless, the Committee believes it is more important to focus its efforts on considering alternative approaches for the longer-term regulatory capital treatment of accounting provisions that ultimately would replace the interim approach.

As banks transition to ECL accounting models, an important issue is to define which, if any, portions of provisions should be regarded as SP and GP for regulatory purposes, pending the Committee’s determination of the appropriate longer-term regulatory treatment of provisions. As such a distinction between GP and SP does not exist under accounting frameworks, the Committee recommends that regulatory authorities provide guidance, as appropriate, on how they intend to categorise ECL provisions as GP or SP in their jurisdiction to ensure consistency in this categorisation by the banks within their jurisdiction. The Committee will also compile these jurisdictional categorisation practices and share them among its members. The Committee may also consider providing an overview of these practices to assist stakeholders in understanding how banks in individual jurisdictions are treating their accounting provisions for regulatory purposes.

3. Transitional arrangements

3.1 The Committee’s primary considerations

The Basel Committee confirms that there are a number of reasons why it may be appropriate for a jurisdiction to introduce a transitional arrangement for the impact of ECL accounting on regulatory capital. These include:

- the possibility that the impact could be significantly more material than currently expected and result in an unexpected decline in capital ratios; and

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7 Extending their existing approaches would not preclude jurisdictions from categorising some ECL provisions as GP even where historically all provisions for incurred losses have been treated as SP.
• the fact that the Committee has not yet reached a conclusion on what should be the permanent interaction between ECL accounting and the prudential regime.

The Committee acknowledges that the transition to ECL accounting will generally result in an increase in the overall amount of loan loss provisions, which in many cases will reduce the capital ratios of banks as they transition to the ECL approach. It is also aware that transitional issues may be more pressing for banks applying IFRS than those applying US GAAP as IFRS 9 is scheduled for implementation two years before the earliest required effective date for CECL. In addition, similar transitional issues may arise for non-IFRS banks or jurisdictions which adopt IFRS for the first time subsequent to the effective date of IFRS 9. Based on these considerations, the Committee believes that jurisdictions should have the option to choose whether to apply a transitional arrangement for the impact of ECL accounting on regulatory capital. If a jurisdiction chooses to implement a transitional arrangement, it must comply with the rules text set out in this document in Annex 1.

The Committee stresses that a transitional arrangement must apply to only “new” provisions arising as a result of moving to ECL accounting. Transitional capital adjustments must not be made for provisions which would exist under accounting approaches used prior to the implementation of ECL accounting. The Committee notes that some jurisdictions require loan loss reserves for regulatory purposes in excess of those which would be established pursuant to application of accounting standards alone. Nothing in the Committee’s proposed rules on transition is intended to discourage such regulatory practice, if deemed appropriate by a jurisdiction. Any transitional arrangement should therefore take such extant regulatory accounting practice appropriately into account. In particular, the transitional arrangement must be developed in such a way as to ensure that a transition adjustment to capital is not made for provisions which would exist under current (ie pre-ECL accounting) accounting approaches, as well as those required for regulatory purposes.

The Committee’s decision is formally set out as the rules in new paragraph 96A, to be inserted after paragraph 96 in the Basel III document on capital.

3.2 Principles of transitional arrangements

Recognising that relevant circumstances differ amongst jurisdictions, the Committee has determined a number of high-level requirements for jurisdictions choosing to adopt a transitional arrangement. These requirements, which are set out in the new paragraph 96A, relate to:

• what capital metric should be referenced;

• whether the transitional adjustment should be calculated just once, at the point of transition, or recalculated in the light, for example, of changes in the stock of provisions post-transition (ie a “static” vs “dynamic” approach);

• the period to be allowed for transition;

• the amortisation of the transitional adjustment on a straight line basis;

• no neutralisation of capital impact;

• consequential adjustments elsewhere in the prudential framework; and

• transparency and disclosure.

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8 The main exception concerns IRB portfolios where ECL provisioning remains at or below regulatory expected loss, because in this case the shortfall must be deducted from CET1 capital irrespective of the accounting provisioning approach.
3.2.1. Capital metric

The appropriate reference metric is CET1 capital expressed as a “money amount” (i.e., in currency units). The transitional arrangement should involve adjusting CET1 capital so that the impact of the increase in provisions at the point of transition would not be fully reflected in CET1 capital. Rather, the impact would be phased in over the transition period. The adjusted figure thus obtained for CET1 capital would be used in calculating other measures of regulatory capital (e.g., total capital) and related measures (such as the leverage ratio and large exposures limits).

3.2.2. “Static” vs “dynamic” approach

Jurisdictions should choose between a static approach in which the transitional adjustment is calculated just once, at the point of transition, and a dynamic approach in which the evolution of “new” expected credit loss provisions during the transition period are also taken into account.

3.2.3. Period for transition

The Committee currently sees the primary objective of a transitional arrangement as avoiding a “capital shock” by giving banks time to rebuild their capital resources following a negative impact arising from the introduction of ECL accounting. In the light of this, the Committee considers that the period allowed for transition should be no more than five years. The period of transition would commence from the date upon which a bank adopts ECL accounting in a jurisdiction that requires or permits the implementation of an ECL accounting framework.

3.2.4. Amortisation and capital impact

The Committee regards straight line amortisation as preferable, on the grounds of simplicity. In addition, amortisation must not allow the impact of ECL provisions on CET1 capital to be fully neutralised during the transition period.

3.2.5. Consequential adjustments

A transitional arrangement for the impact of ECL provisions on CET1 capital must be accompanied by consequential adjustments to other areas of the regulatory framework which are directly affected by accounting provisions. Jurisdictions should choose between applying the consequential adjustments listed below, or a simpler approach to ensure that banks do not receive inappropriate capital relief (an example of a simpler approach that would not provide inappropriate capital relief would be amortising the transitional arrangement more rapidly than otherwise).

List of consequential adjustments identified by the Committee

Account should be taken of tax effects in calculating the impact of ECL accounting on CET1 capital. Any deferred tax asset (DTA) arising from a temporary difference associated with a non-deducted provision amount should be disregarded for regulatory purposes during the transitional period. This means that such DTA amount should not be considered for CET1 capital, and in return should also not be subject to deduction from CET1 capital and should not be subject to risk weighting, as applicable.

An accounting provision amount not deducted from CET1 capital should not:

- be included in Tier 2 capital, even if the provision meets the definition of “general” or “excess” provisions.
- reduce exposure amounts in the SA even if it meets the definition of a “specific” provision.
- reduce the total exposure measure in the leverage ratio.
3.2.6. Transparency and disclosure

Jurisdictions must publish details of any transitional arrangement applied, the rationale for it, and its implication for the supervision of banks (eg whether supervisory decisions will be based solely on regulatory metrics which incorporate the effect of the arrangement).

Jurisdictions must require banks to disclose publicly (through their Pillar 3 disclosures):

- whether a transitional arrangement is applied; and
- the bank’s regulatory capital and leverage ratios compared to the bank’s “fully loaded” capital and leverage ratios had the transitional arrangement not been applied.

3.3 Approaches to transitional arrangements

Based on the high-level requirements set out for transitional arrangements, the Committee believes that the two approaches set out below in Sections 3.4 and 3.5 for how a transitional arrangement might be structured would be consistent with the transitional arrangements rules text. Purely for illustrative purposes, it is assumed here that the transitional arrangement is applied for three years.

Approach A, which is a “static” approach, addresses a possible “capital shock” at the point of transition to ECL accounting. Approach B, which is a “dynamic” approach, would take account of the ongoing evolution of expected credit loss provisions during the transition period, and not just the impact of ECL accounting on a bank’s provisions and CET1 capital at the point of transition.

3.4 Approach A: Day 1 impact on CET1 capital spread over a specified number of years

In this approach, a bank would compare CET1 capital based on the opening balance sheet using an ECL accounting standard with CET1 capital based on the closing balance sheet (ie one day prior to the opening day) under the existing incurred loss accounting approach. Where this shows a reduction in CET1 capital due to an increase in provisions, net of tax effect, the decline in CET1 capital would be spread for regulatory purposes over a specified number of years. The mechanism would be applied only to the transitional effect on CET1 capital of initial application of an ECL accounting standard. An example of how this approach would work is given below.

3.4.1. Calculation of transitional adjustment amount

Consider a bank whose accounting provisions immediately before implementing ECL accounting are €1,000 and immediately after implementation are €1,350. The impact of the adoption of ECL accounting on the bank’s CET1 capital amount would be a reduction of €350 (ignoring tax effects). This would be the transitional adjustment amount if the bank applies only the SA.

If, however, the bank applies the IRB approach to some or all of its portfolios, and for these portfolios an IRB provisioning “shortfall” of €50 exists immediately before implementing ECL accounting, then the transitional adjustment amount would be €350 – 50 = €300, because €300 is the amount by which CET1 capital is reduced as a consequence of the implementation of the new ECL accounting framework.

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9 That is, accounting provisions are €50 less than regulatory EL immediately before implementing ECL accounting.
However, if no IRB provisioning “shortfall” exists immediately before implementing ECL accounting,\(^{11}\) then the transitional adjustment amount would be the entire €350.

### 3.4.2. Mechanics of the transitional arrangement

The transitional arrangement would work through the transitional adjustment amount being partially included in (i.e., added back to) CET1 capital during the transition period. A fraction of this “transitional adjustment amount” would be included in CET1 capital during the first year of the transition period, with the amount included in CET1 capital phased out each year thereafter during the course of that period.

Taking, for example, the figures given above for the bank applying the IRB approach with an IRB provisioning “shortfall”, if the transition impact were phased in over three years, for example, using straight line amortisation, the bank would include the following amounts in its CET1 capital:

- **First day of year 1 through year 1 end:** the bank would include in CET1 capital an “adjustment amount” of €300 * 3/4 = €225
- **First day of year 2 through year 2 end:** the bank would include in CET1 capital an “adjustment amount” of €300 * 2/4 = €150
- **First day of year 3 through year 3 end:** the banks would include in CET1 capital an “adjustment amount” of €300 * 1/4 = €75

No “adjustment amount” would be included in CET1 capital beginning on the first day of year 4 and thereafter. The “adjustment amount” included in CET1 capital each year during the transition period would flow through to Tier 1 capital, and hence to the leverage ratio and to large exposures limits.

### 3.5 Approach B: Phased prudential recognition of IFRS 9 Stages 1 and 2 provisions

This approach addresses the likelihood that the amount of total provisions that is due to the new ECL accounting will fluctuate over time. In the case of IFRS 9 – but not CECL – provisions are allocated to “Stages”, which could allow the amount of “new” provisions upon the initial application of ECL accounting to be identified. Specifically, in the context of IFRS 9 the additional provisions created by ECL accounting are broadly those in Stages 1 and 2, under the assumption that IFRS 9 Stage 3 expected credit loss provisions are roughly equivalent to IAS 39 incurred loss provisions.

In this approach, instead of Stages 1 and 2 provisions at a given reporting date, net of tax effect, being reflected immediately as a reduction of CET1 capital, a bank would phase in its recognition of these provisions for regulatory purposes over the transition period. That could be done by treating the sum of Stages 1 and 2 provisions at a given reporting date, net of tax effect, as the transitional adjustment amount, and applying to that total a transitional mechanism similar to that in Approach A. Thus, the amount of Stages 1 and 2 provisions reflected in a bank’s regulatory capital during the transition period would depend on both the total amount of such provisions and the amortisation fractions specified by the jurisdiction.

The Committee notes that not all provisions in IFRS 9 Stages 1 and 2 are “new” in the sense that they would not exist under the incurred loss approach set out in IAS 39. In particular, Stages 1 and 2

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\(^{10}\) IRB banks are already required to compare total accounting provisions to the IRB estimate of expected loss (“regulatory EL”) and to deduct from CET1 capital any “shortfall” between total eligible provisions and regulatory EL. Where accounting provisions are less than regulatory EL immediately before implementing ECL accounting and the initial application of ECL accounting merely causes total eligible provisions to rise towards – but not above – that regulatory EL level, there will be no direct effect on CET1 capital upon initial application of ECL accounting. The impact of higher accounting provisions on CET1 capital would be offset by a lower deduction from CET1 capital for the “shortfall” of provisions compared to regulatory EL.

\(^{11}\) No IRB provisioning “shortfall” would exist if the amount of the bank’s accounting provisions immediately before it implements ECL accounting equal or exceed regulatory EL.
provisions may include provisions established under IAS 39 for incurred but not reported (IBNR) losses. Jurisdictions that choose to adopt Approach B must make an adjustment for this, for instance, as set out in the example below.

For banks applying the IRB approaches, the portion of “new” Stages 1 and 2 provisions under ECL accounting at a given reporting date that falls within any “shortfall” of accounting provisions compared to regulatory EL would be disregarded, for the reasons set out under Approach A.

3.5.1. Calculation of transitional adjustment amount

The transitional arrangement would work through the transitional adjustment amount being partially included in (ie added back to) CET1 capital during the transition period. Under Approach B, the transitional adjustment amount would be the sum of Stages 1 and 2 provisions (net of tax effects) at a given reporting date less an amount to address the fact that not all provisions in the sum of Stages 1 and 2 upon adoption of IFRS 9 may be “new”. For IRB portfolios, the portion of that figure at a given reporting date that falls within any “shortfall” of accounting provisions compared to regulatory EL would be set aside.

3.5.2. Mechanics of the transitional arrangement

Taking, for example, a transition period of three years and straight line amortisation, three fourths of the transitional adjustment amount at each reporting date during 2018 would be included in CET1 capital; two fourths of that amount at each reporting date during 2019 would be included in CET1 capital; one fourth of the amount at each reporting date during 2020 would be included in CET1 capital; and no addition would be made to CET1 capital from the beginning of 2021 and thereafter.

For the purposes of this example, it is further assumed that:

- the sums of Stages 1 and 2 provisions throughout years 1, 2 and 3 of the transition period are €400, €460, and €540, respectively;
- the increase in provisions at the point of transition to ECL accounting is €300; and
- for simplicity, tax effects are ignored and no IRB shortfall exists.

At the point of transition, provisions increase by €300 but the total of IFRS 9 Stages 1 and 2 is €400. This indicates that €100 of the provisions allocated to Stage 1 or Stage 2 upon adoption of IFRS 9 are not considered “new”. That would be addressed by deducting €100 from the transition adjustment amount throughout the transition period. In the example below, this deduction is made as a fixed money amount (€100).

Taking the assumptions and figures given above, the bank would include the following amounts in its CET1 capital:

First day of year 1 through year 1 end: the bank would include in CET1 capital an “adjustment amount” of

\[(€400-€100) \times \frac{3}{4} = €225\]

First day of year 2 through year 2 end: the bank would include in CET1 capital an “adjustment amount” of

\[(€460-€100) \times \frac{2}{4} = €180\]

First day of year 3 through year 3 end: the bank would include in CET1 capital an “adjustment amount” of

\[(€540-€100) \times \frac{1}{4} = €110\]

No “adjustment amount” would be included in CET1 capital beginning on the first day of year 4 and thereafter. The “adjustment amount” included in CET1 capital each year during the transition period would flow through to Tier 1 capital, and hence to the leverage ratio and to large exposures limits.

12 In this example, it is assumed that the bank applies the SA or the IRB approach without any “shortfall”.
Annex 1

Rules text for transitional arrangements

The following text will be inserted after paragraph 96 of the Basel III document on capital.

96A The Committee has determined that it may be appropriate for a jurisdiction to introduce a transitional arrangement for the impact on regulatory capital from the application of expected credit loss (ECL) accounting. Jurisdictions applying a transitional arrangement must implement such an arrangement as follows:

(a) The transitional arrangement must apply only to provisions that are “new” under an ECL accounting model. “New” provisions are provisions which do not exist under accounting approaches applied prior to the adoption of an ECL accounting model.

(b) The transitional arrangement must adjust CET1 capital. Where there is a reduction in CET1 capital due to new provisions, net of tax effect, upon adoption of an ECL accounting model, the decline in CET1 capital (the “transitional adjustment amount”) must be partially included (ie added back) to CET1 capital over a number of years (the “transition period”) commencing on the effective date of the transition to ECL accounting.

(c) Jurisdictions must choose whether banks under their supervision determine the transitional adjustment amount throughout the transition period by either:

(i) calculating it just once, at the effective date of the transition to ECL accounting (ie static approach); or

(ii) recalculating it periodically to reflect the evolution of a bank’s ECL provisions within the transition period (ie dynamic approach).

(d) The transitional adjustment amount may be calculated based on the impact on CET1 capital upon adoption of an ECL accounting model or from accounting provisions disclosed before and after the adoption of an ECL accounting model.

(e) For IRB portfolios, the calculation of transitional adjustment amounts must take account of the shortfall of the stock of provisions to expected losses, as set out in paragraph 73 (of Basel III). In some circumstances, an increase in provisions will not be fully reflected in IRB CET1 capital.

(f) The transition period commences from the date upon which a bank adopts ECL accounting in a jurisdiction that requires or permits the implementation of an ECL accounting framework. The transition period must be no more than five years.

(g) During the transition period, the transitional adjustment amount will be partially included in (ie added back to) CET1 capital. A fraction of the transitional adjustment amount (based on the number of years in the transition period) will be included in CET1 capital during the first year of the transition period, with the proportion included in CET1 capital phased out each year thereafter during the course of the transition period on a straight line basis. The impact of ECL provisions on CET1 capital must not be fully neutralised during the transition period.

(h) The transitional adjustment amount included in CET1 capital each year during the transition period must be taken through to other measures of capital as appropriate (eg Tier 1 capital and total capital), and hence to the calculation of the leverage ratio and of large exposures limits.

(i) Jurisdictions must choose between applying the consequential adjustments listed below or a simpler approach to ensure that banks do not receive inappropriate capital relief. (An example of...
a simpler approach that would not provide inappropriate capital relief would be amortising the transitional arrangement more rapidly than otherwise.)

(i) Account should be taken of tax effects in calculating the impact of ECL accounting on CET1 capital.

(ii) Any deferred tax asset (DTA) arising from a temporary difference associated with a non-deducted provision amount must be disregarded for regulatory purposes during the transitional period. This means that such DTA amount must not be considered for CET1 capital, and in return must not be subject to deduction from CET1 capital and must not be subject to risk weighting, as applicable.

(iii) An accounting provision amount not deducted from CET1 capital should not:
   - be included in Tier 2 capital, even if the provision meets the definition of “general” or “excess” provisions.
   - reduce exposure amounts in the SA even if it meets the definition of a “specific” provision.
   - reduce the total exposure measure in the leverage ratio.

(j) Jurisdictions must publish details of any transitional arrangement applied, the rationale for it, and its implications for supervision of banks (eg whether supervisory decisions will be based solely on regulatory metrics which incorporate the effect of the transitional arrangement).

(k) Jurisdictions that choose to implement a transitional arrangement must require their banks to disclose publicly in Template KM1 “Key metrics” of part 2 of their Pillar 3 report “Overview of risk management, Key prudential metrics and RWA”:
   - whether a transitional arrangement is applied; and
   - the impact on the bank’s regulatory capital and leverage ratios compared to the bank’s “fully loaded” capital and leverage ratios had the transitional arrangement not been applied.

In addition to the required disclosures under Pillar 3, banks may also provide this information prominently on their website.