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To: Banks
Federally Regulated Trust and Loan Companies

Subject: Transition for Certain Definition of Capital Elements of Basel II

The 2005 revised capital framework issued by the Basel Committee on Banking Supervision sets capital requirements that are more reflective of the underlying risks in banking and provides stronger incentives for improved risk management. While Basel II sets capital requirements, it also deals with the definition of capital.

Specifically, Basel II (as reflected in the CAR Guideline, January 2008) stipulates that significant minority investments in banking, securities and other financial entities and investments in insurance entities that are not consolidated for regulatory capital purposes will have to be deducted 50% from Tier 1 and 50% from Tier 2 capital. Currently, these investments are deducted from total capital. Basel II does not provide for any type of transition or phasing-in of the deduction measures.

The purpose of this Advisory is to set out some transition measures relating to certain definition of capital elements of Basel II.

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