Press Release

New AAF Primer on Bank Capital Requirements

ANDREW EVANS | OCTOBER 16, 2018

Bank capital requirements have become a universal part of the regulatory regime for the banking industry since the 2008 financial crisis. But what are these requirements, and how do they work? In a new Primer, AAF's Director of Financial Services Policy Thomas Wade explains the mechanics and nuances of capital rules.

An excerpt:

> *It is attractive to think of capital as liquid cash on hand, but that is an oversimplification. The underlying unburdened assets that make up capital can range widely; as such, the characteristics of that capital (most importantly the liquidity or riskiness) can also range widely. For our purposes we need only focus on Tier 1 (T1) and Tier 2 (T2) capital. T1 capital can be described as the most "perfect" capital; comprising of equity capital and disclosed reserves, it represents the primary funding source of the bank. A bank is under no obligation to return this capital to shareholders – it is genuinely unencumbered. T2 capital by contrast is considered less reliable than T1 and might include undisclosed reserves, revaluation reserves, or hybrid capital instruments.*

Continue reading here.