

Press Release

June 26, 2008

Board proposes rule to implement certain approaches for calculating risk-based capital requirements included in Basel II capital accord

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The Federal Reserve Board on Thursday proposed a rule for public comment that would implement certain of the less-complex approaches for calculating risk-based capital requirements that are included in the international Basel II capital accord.

The proposal, known as the standardized framework, would be available for banks, bank holding companies, and savings associations not subject to the advanced approaches of Basel II. Under the advanced approaches rule, which took effect April 1 and is mandatory only for large, internationally active banking organizations, banking organizations are required to develop rigorous risk-measurement and risk-management techniques as part of a new risk-sensitive capital framework. The standardized framework also seeks to more closely align regulatory capital requirements with institutions' risk and should further encourage improvements in their risk-management practices.

"The increased risk sensitivity of the standardized framework is aimed at both enhancing safety and soundness for the wide range of institutions that will not be adopting the advanced approaches of Basel II and fostering competitive equity for these institutions," said Federal Reserve Board Governor Randall S. Kroszner. "Recognizing the diversity of banking organizations in the United States, we want to provide these banks the option of using a more updated capital framework without unduly increasing regulatory burden."

The proposed standardized framework addresses a number of areas including:

- Expanding the number of risk-weight categories to which credit exposures may be assigned.
- Using loan-to-value ratios to risk weight most residential mortgages to enhance the risk sensitivity of the capital requirement.
- Providing a capital charge for operational risk using the Basic Indicator Approach under the international Basel II capital accord.
- Emphasizing the importance of a bank's assessment of its overall risk profile and capital adequacy.
- Providing for comprehensive disclosure requirements to complement the minimum capital requirements and supervisory process through market discipline.

The Federal Deposit Insurance Corporation has voted to issue the interagency notice of proposed rulemaking (NPR) on the Basel II standardized framework for public comment. The Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) also are considering the NPR. The Board authorized the staff to publish the NPR in the *Federal Register* for public comment after the other agencies complete their approval processes. For the OCC and OTS, that includes review by the Office of Management and Budget. Comments will be accepted for 90 days from the date of publication in the *Federal Register*. The draft *Federal Register* notice is attached.

Federal Register notice: [479 KB PDF](#) | [HTML](#)

[Statement by Chairman Ben S. Bernanke](#)

Statement by Governor Randall S. Kroszner

Board meeting materials

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