FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-86-2006
September 25, 2006

RISK-BASED CAPITAL RULES

Proposed Rule on Risk-Based Capital Standards: *Advanced Capital Adequacy Framework*

Summary: The federal bank and thrift regulatory agencies have jointly issued and are seeking comment on the attached notice of proposed rulemaking (NPR) concerning the domestic application of selected elements of the Basel II capital framework. The proposed rule would require some core banks, and permit other banks, to use an internal ratings-based approach to calculate regulatory credit risk capital requirements and an advanced measurement approach to calculate regulatory operational risk capital requirements. The FDIC will accept comments on the proposal through January 23, 2007.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:
Risk-Based Capital Rules
12 CFR Part 325
Basel II

Attachments:
. "Key Aspects of the Proposed Rule on Risk-Based Capital Standards: *Advanced Capital Adequacy Framework*"
. Notice of Proposed Rulemaking, Risk-Based Capital Standards: Advanced Capital Adequacy Framework

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Highlights:

In the attached NPR, the agencies:

- Propose to apply the rule to banking organizations that (i) have consolidated assets equal to $250 billion or more; (ii) have consolidated total on-balance sheet foreign exposures of $10 billion or more; (iii) elect to use the proposed rule; or (iv) are subsidiaries of a bank or bank holding company that uses the proposed rule.

- Propose to apply this rule to determine risk-based capital requirements for wholesale, retail, equity and securitization exposures. This rule would also require a bank to determine risk-based capital requirements for operational risk.

- Seek industry and public comment on various aspects of the proposed implementation, including whether to allow core banks to use simpler approaches to calculate their risk-based capital.

- Include various prudential safeguards to maintain sufficient capital in the banking system such as: (i) placing a 10 percent downward limit on aggregate reductions in minimum risk-based capital requirements; (ii) extending the transitional floor period to a minimum of three years; and (iii) retaining the leverage ratio and prompt corrective action standards.