

January 23, 2001

TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK

SUBJECT:

Proposal to Revise the Basel Capital Accord

In the interagency press release dated January 16, 2001, announcing the issuance of the Basel proposal to amend the Capital Adequacy Framework, the U.S. agencies noted their intention to issue a paper discussing the proposal that would include a list of specific questions the industry may find useful in developing comments. That paper, which is attached, has two parts. The first is a general summary of the Basel Committee on Banking Supervision (Basel Committee) proposal, and the second raises specific issues for industry consideration. I have also included a transmittal letter from the Federal Reserve to the industry for the purpose of distributing the summary and issues document.

While the summary provides a concise and readable overview of the proposal, I would like to direct your attention to the issues that have been highlighted. As a review of the release will make evident, the Basel Committee clearly has done significant work. Nonetheless, a considerable amount of work remains. The volume of the Basel release alone may appear daunting. The attached issues paper is intended to focus on those areas of the package where insightful public comment would be particularly welcome.

To facilitate understanding the proposal, Board staff is hosting an all-day, Systemwide meeting on Friday, February 16th. Each Reserve Bank has been invited to send several representatives to participate. These individuals are encouraged to come to the meeting with questions and issues that need clarification and discussion, particularly for purposes of prospective discussions with the industry. Active industry involvement is essential to the consultative process and it is imperative that it be encouraged so that critical components of the revised framework receive meaningful industry focus.

As noted in the attached transmittal letter, the Basel documents are all available through the Bank for International Settlements' web site at www.bis.org. Banking organizations as well as other industry participants should be encouraged to provide substantive comments on the proposal. Positive aspects should be recognized and areas that need more insight or work should be noted. If commenters wish to submit "confidential" data or comment on the proposal, this can be accommodated by a direct submission and request for confidentiality to the Federal Reserve Board. Throughout the consultative period, which ends on May 31, 2001, the Federal Reserve, as well as the other banking agencies, will be engaging in dialogue with the industry to ensure that the issues most relevant to U.S. banking organizations are fully addressed.

Reserve Banks are asked to distribute the attached transmittal letter and the summary and issues paper to all state member banks and, as appropriate, bank holding companies in their districts. Regarding bank holding companies, Reserve Banks may exercise discretion with respect to an appropriate size cutoff for distributing the document. Since the summary will be sent by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation to national and state nonmember institutions, it might be desirable not to duplicate this effort by sending the Document to small shell holding companies (with, for example, assets less than \$150 million or \$1 Billion) that have lead national or state nonmember banks.

If you or regulated institutions have any questions, please direct them as follows:

questions on the revised standardized approach, credit risk mitigation, or procedural matters, please contact Norah Barger, Deputy Associate Director, at (202) 452-2402, or Barbara Bouchard, Assistant Director, at (202) 452-3072; questions on asset securitization, please contact Tom Boemio, Senior Supervisory Financial Analyst, at (202) 452-2982; questions on the internal ratings-based approach, please contact Bill Treacy, Senior Supervisory Financial Analyst, at (202) 452-3859; and questions on disclosure, please contact Charles Holm, Assistant Director, at (202) 452-3502.

Rich Spillenkothen
Director

Attachment (60 KB PDF)