

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105

July 25, 2003

**BANKING SUPERVISION AND REGULATION:
IMPLEMENTATION OF NEW BASEL CAPITAL
ACCORD IN THE UNITED STATES**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Interagency Proposed Rulemaking

The Federal Reserve Board has issued an interagency advance notice of proposed rulemaking (ANPR) seeking public comment on the implementation of the New Basel Capital Accord in the United States. The Board also decided to seek comment on draft interagency supervisory guidance on internal-ratings based systems for corporate credits and draft guidance on advanced measurement approaches (AMA) for measuring operational risk.

The New Basel Capital Accord, which is being developed by the Basel Committee on Banking Supervision, builds on and, for certain banks, replaces the Basel Capital Accord of 1988, which is the framework for capital adequacy standards for large, internationally active banks and the basis for the risk-based capital adequacy standards now in place for all U.S. banks and bank holding companies.

The ANPR, developed by the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision, presents an overview of the proposed implementation in the United States of the advanced approaches to determining capital requirements for credit risk and operational risk. The agencies anticipate that comments will be useful in shaping further refinements to the framework as the Basel Committee completes its work on the New Accord and, after that, in developing a Notice of Proposed Rulemaking to implement the New Accord in the United States.

Specifically, the ANPR provides that large, internationally active banking organizations that meet certain size or foreign-exposure thresholds would be required to meet rigorous supervisory standards and implement the advanced internal ratings-based (A-IRB) approach for credit risk and the AMA for operational risk. It describes the A-IRB approach to credit risk and its application to particular portfolios of credit exposures (wholesale, retail, and equity) as well as the A-IRB approach to credit risk mitigation and for securitization exposures. The ANPR also provides guidance and supervisory standards for the AMA for operational risk, outlines the proposed approaches for supervisory review and disclosure (Pillars 2 and 3 in the New Accord), and seeks comment on certain competitive considerations.

The draft supervisory guidance on internal ratings-based systems for corporate credits describes the essential components and characteristics of an acceptable A-IRB framework, including rating assignment, validation, quantification, data maintenance, and oversight and control mechanisms.

The draft supervisory guidance on the AMA for operational risk sets forth expectations for banking organizations for calculating operational risk exposure under the proposed framework and outlines requirements for governance, measurement, monitoring, and control of operational risk.

Comments on the ANPR and the two interagency proposals are requested within 90 days of publication in the *Federal Register*.

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Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. You may view and print the full text of the document at the <http://www.federalreserve.gov/boarddocs/meetings/2003/20030711/attachment.pdf> page.

For additional information about the implementation of the new Basel Capital Accord, please contact our Banking Supervision and Regulation Department at (415) 974-2936.

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