

Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

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**BANKING SUPERVISION AND REGULATION:  
FINAL GUIDANCE ON SUPERVISORY REVIEW  
PROCESS RELATED TO BASEL II**

To State Member Banks, Bank  
Holding Companies, Financial Holding  
Companies, and Foreign Bank Offices  
in the Twelfth Federal Reserve District

**Final Guidance on Supervisory Review Process (Pillar 2) Related to Implementation of Basel II  
Advanced Approaches Rule**

The federal banking and thrift agencies issued final guidance outlining the supervisory review process (Pillar 2) for banking organizations implementing the new advanced capital adequacy framework known as Basel II. The final guidance relating to supervisory review is aimed at helping banking organizations meet certain qualification requirements in the advanced approaches rule, which took effect April 1.

The advanced approaches rule consists of three pillars:

1. Minimum risk-based capital requirements (Pillar 1)
2. Supervisory review of capital adequacy (Pillar 2)
3. Market discipline through enhanced public disclosures (Pillar 3)

The final Pillar 2 guidance details the agencies' standards for ensuring that each institution subject to the advanced approaches rule has a rigorous process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive strategy for maintaining appropriate capital levels.

Although the guidance does not differ significantly from the proposed Pillar 2 guidance issued in February 2007, the agencies made some enhancements based on comments received and in consideration of key lessons from the events of the past year. The Pillar 2 guidance is being issued by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The effective date of the Pillar 2 guidance is 30 days following its publication in the *Federal Register*, which is expected shortly.

**Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact one of the following:

Kristen LeBlond  
Phone: (415) 974-3206

Federal Reserve General Help Line  
(866) 838-9247

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**Attachment:** [Final Pillar 2 Guidance](#)