

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

August 27, 2010

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

**Agencies Issue Advance Notice of Proposed Rulemaking Regarding Alternatives to the Use of Credit Ratings**

The federal banking agencies (agencies) have agreed on August 10, 2010 to publish an advance notice of proposed rulemaking (advance notice) regarding alternatives to the use of credit ratings in their risk-based capital rules (capital rules) for banking organizations. The advance notice is issued in response to section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act), enacted on July 21, 2010, which requires the agencies to review regulations that (1) require an assessment of the credit-worthiness of a security or money market instrument and (2) contain references to or requirements regarding credit ratings. In addition, the agencies are required to remove such references and requirements and substitute in their place uniform standards of credit-worthiness, where feasible.

Through this advance notice, the agencies are seeking to gather information as they begin to develop alternatives to the use of credit ratings in their capital rules. This advance notice describes the areas in these capital rules where the agencies rely on credit ratings, as well as the Basel Committee on Banking Supervision's recent amendments to the Basel Accord. The advance notice solicits comment on alternative standards of creditworthiness that could be used in lieu of credit ratings. It requests comment on a set of criteria the agencies believe are important in evaluating creditworthiness standards, including risk sensitivity, transparency, consistency, and simplicity. It asks for comment on a range of potential approaches, including basing capital requirements on more granular supervisory risk weights or on market-based metrics, as well as on how these approaches might apply to different exposure categories. It also seeks comment on the feasibility of and burden associated with alternative methods of measuring creditworthiness for banking organizations of varying size and complexity.

The advance notice addresses only the references to credit ratings in the agencies' capital rules. It is expected that proposals for removing references to credit ratings in other parts of their regulations will follow separately.

The advance notice, issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation, solicits comment for 60 days after publication in the Federal Register. The Office of Thrift Supervision plans to join the other federal banking agencies in issuing this advance notice pending clearance by the Office of Management and Budget.

**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:

Federal Reserve Bank of San Francisco  
Banking Supervision and Regulation  
(415) 974-2136

**Attachment:** [Advance Notice of Proposed Rulemaking Regarding Alternatives to the Use of Credit Ratings](#)