

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

July 5, 2013

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

**Federal Reserve Board Approves Final Rule to Help Ensure Banks Maintain Strong Capital Positions**

On Tuesday, July 2, 2013, the Federal Reserve Board approved a [final rule](#) to help ensure banks maintain strong capital positions that will enable them to continue lending to creditworthy households and businesses even after unforeseen losses and during severe economic downturns.

The final rule minimizes burden on smaller, less complex financial institutions. It establishes an integrated regulatory capital framework that addresses shortcomings in capital requirements, particularly for larger, internationally active banking organizations, that became apparent during the recent financial crisis. The rule will implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent and a common equity tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4 percent to 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations. In addition, for the largest, most internationally active banking organizations, the final rule includes a new minimum supplementary leverage ratio that takes into account off-balance sheet exposures.

On the quality of capital side, the final rule emphasizes common equity tier 1 capital, the most loss-absorbing form of capital, and implements strict eligibility criteria for regulatory capital instruments. The final rule also improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. Banks and regulators use risk weighting to assign different levels of risk to different classes of assets--riskier assets require higher capital cushions and less risky assets require smaller capital cushions.

The phase-in period for smaller, less complex banking organizations will not begin until January 2015 while the phase-in period for larger institutions begins in January 2014. In another change from the proposal, savings and loan holding companies with significant commercial or insurance underwriting activities will not be subject to the final rule at this time. The Federal Reserve will take additional time to evaluate the appropriate regulatory capital framework for these entities.

**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-supervision/publications/district-circular-letters/>.

For additional information, please contact:

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**Attachments:**

[Press Release](#)

[Federal Register Notice \(PDF\)](#)

[Community Bank Guide \(PDF\)](#)

[Statement by Chairman Ben S. Bernanke](#)

[Statement by Governor Daniel K. Tarullo](#)

[Statement by Governor Elizabeth A. Duke](#)

[Board Votes](#)