

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

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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 Invites Comment on Three Proposed Rules Intended to Help Ensure Banks Maintain Strong Capital Positions

The Federal Reserve Board on June 7, 2012 invited comment on three proposed rules intended to help ensure banks maintain strong capital positions, enabling them to continue lending to creditworthy households and businesses even after unforeseen losses and during severe economic downturns.

Taken together, the proposals would establish an integrated regulatory capital framework that addresses shortcomings in regulatory capital requirements that became apparent during the recent financial crisis. The proposed rule would implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"Capital is important to banking organizations and the financial system because it acts as a financial cushion to absorb a firm's losses," Federal Reserve Chairman Ben Bernanke said. "With these proposed revisions, banking organizations' capital requirements should better reflect their risk profiles, improving the resilience of the U.S. banking system in times of stress, thus contributing to the overall health of the U.S. economy."

The rulemaking was divided into three proposed rules to minimize burden on smaller and mid-sized banking organizations and to allow firms to focus on the aspects of the proposed revisions that are most relevant to them. The Board is publishing all of the proposed changes to the current regulatory capital rules at the same time so that banking organizations and the general public can understand the overall impact of the proposals when drafting comments.

"While rigorous capital requirements are not a sufficient condition for a strong, resilient financial system, they are surely a necessary one," Gov. Daniel Tarullo said. The "rules before us this afternoon mark an important milestone on the road to a set of strong, complementary capital standards for banking organizations."

The first notice of proposed rulemaking (NPR), titled *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*, would apply to all depository institutions, bank holding companies with total consolidated assets of \$500 million or more, and savings and loan holding companies (collectively, banking organizations). Consistent with the international Basel framework, this NPR would:

- increase the quantity and quality of capital required by proposing a new minimum common equity tier 1 ratio of 4.5 percent of risk-weighted assets and a common equity tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets, and raising the minimum tier 1 capital ratio from 4 percent to 6 percent of risk-weighted assets;
- revise the definition of capital to improve the ability of regulatory capital instruments to absorb losses;

- establish limitations on capital distributions and certain discretionary bonus payments if additional specified amounts, or "buffers," of common equity tier 1 capital are not met; and
- introduce a supplementary leverage ratio for internationally active banking organizations.

The Basel III proposal would also revise the Board's prompt corrective action framework by incorporating the new regulatory capital minimums and updating the definition of tangible common equity. Prompt corrective action is an enforcement framework used by supervisors to constrain the activities of banking organizations based on the level of regulatory capital.

The second NPR, titled *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements*, also would apply to all banking organizations. This NPR would revise and harmonize the Board's rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses that have been identified over the past several years. 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.

Banking organizations that are not actively internationally or are not subject to the market risk rules would only need to review the first two NPRs.

The third NPR, titled *Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rule; Market Risk Capital Rule*, would apply to banking organizations that are subject to the banking agencies' advanced approaches rule or to their market risk rule.¹ This NPR would enhance the risk sensitivity of the current rule for internationally active firms to better address counterparty credit risk and interconnectedness among financial institutions. It also would apply the advanced approaches rule and market risk capital rule to savings and loan holding companies that meet the relevant size, foreign exposure, or trading activity thresholds. As part of the restructuring of the capital rules into an integrated framework, this NPR incorporates the final market risk rule that was approved Thursday by the Board into the framework.

The Federal Reserve requests comments on the three NPRs by September 7, 2012.

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

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

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

Federal Register Notices

- [Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions \(PDF\)](#)
- [Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements \(PDF\)](#)
- [Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rule; Market Risk Capital Rule \(PDF\)](#)

[Questions and Answers -- Proposed Rulemakings for an Integrated Regulatory Capital Framework \(PDF\)](#)

¹ Advanced approaches banking organizations generally are those with consolidated total assets of at least \$250 billion or consolidated total on-balance sheet foreign exposures of at least \$10 billion. Market risk banking organizations generally are those with aggregate trading assets and trading liabilities equal to at least 10 percent of quarter-end total assets or \$1 billion.

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:

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