

**Subject: Implementation of the Advanced
Approaches of the Basel II Capital Accord**
Date: December 7, 2007

**To: Chief Executive Officers of All National
Banks, Federal Branches and Agencies,
Department and Division Heads, and All
Examining Personnel**

Description: Final Rulemaking

This bulletin summarizes the final rule implementing the advanced approaches of the Basel II Capital Accord that was published jointly today in the *Federal Register* by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (the agencies). Because of its length, the final rule is not attached to this bulletin, but can be accessed [here](#).

SUMMARY

The final rule establishes regulatory capital requirements and supervisory expectations for credit and operational risks for banks that choose or are required to adopt the advanced approaches of the Basel II Capital Accord (specifically, the Internal Ratings Based Approach for credit risk and the Advanced Measurement Approaches for Operational Risk). The rule also articulates enhanced standards for the supervisory review of capital adequacy for those banks.

The final rule includes several important changes made to the September 2006 proposed rule in an attempt to balance safety and soundness, regulatory burden, and international and domestic competitive equity considerations. As a result of these changes, this rule is now fundamentally consistent in most respects with the Basel II Framework implemented internationally. However, the final rule does retain the leverage ratio and prompt corrective action requirements, safeguards unique to the U.S. supervisory process that the agencies believe are critical for safety and soundness purposes.

The final rule retains the three groups of banks identified in the proposed rule: (i) large or internationally active banks that are required to adopt advanced capital approaches under Basel II (core banks); (ii) banks that voluntarily decide to adopt the advanced approaches (opt-in banks); and (iii) banks that do not adopt the advanced approaches (general banks), and for which the provisions of the final rule are inapplicable. The final rule also retains the proposed rule definition of a core bank as a bank that meets either of two criteria: (i) consolidated assets of \$250 billion or more, or (ii) consolidated total on-balance-sheet foreign exposure of \$10 billion or more. Also, a bank is a core bank if it is a subsidiary of a bank or bank holding company that uses advanced approaches.

The final rule contains relevant implementation timeframes for core banks and qualification requirements that each core and opt-in bank must meet before using the advanced approaches for risk-based capital purposes. The preamble of the final rule elaborates on the proposed rule's discussion of the supervisory review process under Pillar 2. The final rule retains the disclosure requirements in the proposed rule that are consistent with Pillar 3 of the Basel II Capital Accord.

The agencies expect to publish in the near future a proposed rule that would provide all non-core banks with the option to adopt a standardized approach under the Basel II Capital Accord.

FOR FURTHER INFORMATION, CONTACT:

For further information about this bulletin, contact the Office of the Chief National Bank Examiner (202) 649-6370.

Kevin J. Bailey
Deputy Comptroller, Capital and Regulatory Policy

Related Links

- [Final Rulemaking 72 FR 69288](#)