Press Releases

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OTS 07-050 - Banking Agencies Reach Agreement on Basel II Implementation

Office of Thrift Supervision

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Joint Release

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Office of Thrift Supervision

BANKING AGENCIES REACH AGREEMENT ON BASEL II IMPLEMENTATION

Washington, D.C. -- The Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation reached an agreement today regarding the implementation of Basel II in the United States. The agreement resolves major outstanding issues and will now lead to finalization of a rule implementing the advanced approaches for computing large banks' risk-based capital requirements.

The agencies have agreed that rules implementing the advanced approach should be finalized expeditiously, and should be technically consistent in most respects with international approaches. The agreement retains the Notice of Proposed Rulemaking's (NPR) transitional floor periods. After the parallel run in 2008, those transitional floors provide for maximum cumulative reductions of 5 percent during the first year of implementation, 10 percent in the second year, and 15 percent in the third year.

After the end of the second transition year period, the agencies will publish a study that evaluates the new framework to determine if there are any material deficiencies. If the study finds there are such material deficiencies that cannot be addressed by existing tools, banks will not be permitted to exit the third transitional period unless the deficiencies are first addressed by changes to the regulation. However, if a primary supervisor disagrees with a finding of material deficiency, it may authorize banks it supervises to exit the third transitional period, but only if it first provides a public report explaining its reasoning. The agencies also have agreed to eliminate language in the NPR concerning a 10 percent limitation on aggregate reductions in risk-based capital requirements.

The agencies believe the annual review process by which they will assess the performance of the new rules is consistent with recommendations of the U.S. Government Accountability Office and provides a structured and prudent framework for managing the implementation of Basel II in the United States.

The agencies also agreed to proceed promptly to issue a proposed rule that would provide all non-core banks with the option to adopt a standardized approach under the Basel II Accord. This would replace the earlier proposed rule to adopt the "Basel IA" option. The agencies intend that the proposed standardized option would be finalized before the core banks begin the first transition period year under the advanced approaches of Basel II.

The agencies re-affirm our commitment to strive to achieve consensus throughout implementation.

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