Joint News Release

Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board

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U.S. bank regulators will seek public comment in the near future on a proposed framework for risk-based capital that has been developed jointly during the past year by authorities from the 12 leading industrial countries.

The framework is summarized in a consultative paper prepared by the Basle Committee on Banking Regulations and Supervisory Practices which was approved earlier this week in Basle.[1] A copy of the consultative paper is attached.

Officials from the U.S. Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve System are members of the Basle Supervisors' Committee and took part in the development of the risk-based capital framework. The U.S. agencies will issue detailed proposals for applying the newly developed framework to U.S. banking organizations. As described in the paper, the proposed framework provides some flexibility to national authorities in implementing the risk-based capital measure.

Last January, U.S. banking agencies and the Bank of England issued for comment a risk-based capital proposal applicable only to U.S. and U.K. banking organizations. Action on this earlier proposal was deferred, in part, to seek the agreement of a larger number of countries.

1/ The Committee comprises representatives of the central banks and supervisory authorities of the Group of Ten countries (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, United Kingdom, United States), Switzerland and Luxembourg.

The framework now approved was developed with the twin objectives of helping to strengthen the stability of the international system and removing an important source of competitive inequality for banks arising from differences in national supervisory requirements.

The main specific objectives of the risk-based capital framework are:

1) To provide a fairer and more consistent system for comparing the capital positions of banking organizations from different countries;

2) To take risk considerations into explicit account in assessing capital adequacy, including risks associated with the full range of off-balance-sheet activities; and

3) To avoid discouraging banks from holding liquid, low-risk assets.

The proposal summarized in the Basle Supervisors' Committee report addresses:

1) A common framework for defining the elements of a banking organization's capital base, with emphasis on common stockholders' equity and appropriate recognition of other components of capital;

2) A system for relating capital to banking risks, including off-balance-sheet exposures;

3) A schedule to achieve a minimum supervisory ratio standard; and

4) Appropriate transitional arrangements designed to provide a reasonable amount of time for organizations to bring their capital positions into conformity with the risk-based framework.

The framework establishes no initial capital requirement but proposes an interim risk-based target ratio after three years of 7.25 percent (of which approximately 3.25 percentage points should be in the form of common stockholders' equity) and a minimum standard after a five-year transition period of 8 percent (of which at least one-half, or 4 percentage points, should be in the form of common stockholders' equity).

The framework establishes minimum levels of capital for international banks. However, supervisory authorities in any individual country would be permitted to establish higher standards, as well as apply these standards to any banking organizations they supervise. The U.S. regulators, therefore, will consider to what extent this framework should be applied to the U.S. banking industry as a whole.

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