PRESS RELEASE
Federal Deposit Insurance Corporation

January 14, 2003

Media Contact:
David Barr (202) 898-6992

FDIC TO DEMYSTIFY BASEL II CAPITAL REGULATION

The Federal Deposit Insurance Corporation will analyze impending changes in international capital regulation that could have a far reaching impact on the financial services industry and the global economy, and publish its findings in a series of papers, the agency announced today.

"Directly and indirectly, the capital changes now being discussed by banking supervisors will shape the global financial system for years to come," said FDIC Chairman Don Powell in announcing the series. "Despite their profound importance, though, the regulatory changes being considered are not widely understood. I've asked our staff to get better information to the marketplace so that a broader constituency can provide informed comment during this critical stage of implementation."

The new rules are known informally as Basel II for the town in Switzerland that is home to the Bank for International Settlements, where banking supervisors from around the world are designing the new capital structure under the auspices of the Basel Committee on Banking Supervision. The new rules could be formally released for comment within the next six months.

The FDIC today issued the first paper in the series: "Basel and the Evolution of Capital Regulation: Moving Forward, Looking Back." The paper places Basel II in historical context, discusses the forces that are giving it momentum, and demonstrates the significant ways in which capital regulation will soon depart from past practice. The table below, abridged and excerpted from the paper, gives a flavor of the fundamental changes being considered in the most recent Basel II rules document. It shows that the very largest banks today hold minimum capital of $8 for every $100 in loans to businesses. Under discussion is a system where capital requirements at the largest banks could range from 37 cents to almost $42 for every $100 in business loans in a representative range of loan grades.

	Minimum capital required for a $100 commercial loan of quality:		
	AAA	**BBB-**	**B**
Pre-1982	Judgmental	Judgmental	Judgmental
Current Rules	$8	$8	$8
Basel II Advanced IRB	$0.37 to $4.45	$1.01 to $14.13	$3.97 to $41.65

Source: FDIC

The bottom line: Basel II will be vastly more risk-sensitive than current rules. As a result, the infrastructure needed to ensure capital integrity will be considerable both for banks and for their regulators. Because Basel II sets minimum capital requirements based on estimates of factors such as the probability of default and loss given default, the role of human judgment in setting capital requirements for large banks will also increase substantially.

The paper is being released as part of the FDIC's FYI series. It is available at www.FDIC.gov.