PRESS RELEASE

Federal Deposit Insurance Corporation

FOR IMMEDIATE RELEASE
July 20, 2007

Media Contact:
Andrew Gray (202) 898-7192

FDIC Chairman Bair Welcomes the Basel II Agreement Among U.S. Banking Regulators

WASHINGTON, D.C. -- FDIC Chairman Sheila C. Bair today commented on an agreement in principle that has been reached between The Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation 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 also re-affirmed their commitment to strive to achieve consensus throughout implementation.

FDIC Chairman Bair said, "This is an important consensus agreement that provides a framework for U.S. banks to move forward expeditiously with the Basel II advanced approach. At the same time, it will ensure that adequate capital is maintained by our banks during the necessary period of transition and review appropriate for rules that will have such a significant impact on the capital standards of our banks. Today, our banks are strong and profitable. This agreement assures that safeguards are in place to ensure the future health and stability of our financial system. We all want the advanced approaches to work in producing a more risk sensitive framework which maintains strong levels of capital to protect the safety net. But many questions remain about the framework, and this agreement will help assure that we will be able to fix any problems before capital levels are allowed to drop precipitously.

"Clearly, this is a process that required significant thought and deliberation among the regulators. I want to thank Chairman Bernanke for his personal involvement and thoughtful insight and leadership that enabled the agencies to coalesce around this agreement. I also wish to thank Treasury Secretary Paulson for encouraging the process and providing support for this compromise. The result of this announcement is a balanced approach to the many dimensions of this complex issue."