



PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC Approves Implementation of Basel II Capital Rule

The Federal Deposit Insurance Corporation (FDIC) today approved the final rule implementing the Advanced Approaches of the Basel II Capital Accord. The new rules are a significant change in regulatory practice, in that they require some large banks to calculate capital requirements using their own internal, model-driven risk estimates.

The Final Rule requires certain large banks to use the Advanced Approaches for setting their risk-based capital requirements. Each federal banking agency, however, retains the discretion to exempt banks from the requirement to use these rules, or to allow others to use these rules on an opt-in basis. All banking organizations will remain subject to the existing leverage ratio and Prompt Corrective Action requirements.

"This final rule requires certain large banks to calculate risk-based capital requirements using their own internal risk parameters for credit risk and operational risk—a significant change in regulatory practice," said Federal Deposit Insurance Corporation Chairman Sheila C. Bair.

The Final Rule is consistent in most respects with the rules that are being implemented in other jurisdictions. However, the agencies have included safeguards against the possibility the new rules do not work as intended.

"We have agreed, by regulation, not to allow any bank to exit its transitional risk-based capital floors unless and until the agencies publish a study giving the new rules a clean bill of health, or unless identified defects are remedied. If any agency allows its banks to exit the floors in a way that departs from this consensus approach, the rule requires that agency to publish a report explaining its reasoning," Chairman Bair said.

The agencies also are working on a proposed rule that would provide a standardized approach as an option for the banks not subject to the Advanced Approaches.

"It is very important for smaller banks that want to implement the standardized approach, to have enough lead time to do this on a timeline parallel to the advanced approach. It is also important to note that the NPR will include a question for comment about whether the large banks, that we are today requiring to use the advanced approach, should be able to use the standardized approach instead," said Ms. Bair.



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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