



Basel Committee on Banking Supervision Capital Accord

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TO: CHIEF EXECUTIVE OFFICER
SUBJECT: Basel Committee on Banking Supervision Seeks Comment on Proposed Revisions to the 1988 Capital Accord

On June 3, 1999, the Basel Committee on Banking Supervision (Basel Committee) issued a consultative paper proposing revisions to the 1988 Capital Accord and requesting industry comment. The comment period closes March 31, 2000.

The Basel Committee proposals would ensure that the Accord remains responsive to financial innovation and development in risk management practices, which have evolved over the past decade. The proposed Accord contains three "pillars"—a regulatory capital minimum, an enhanced supervisory review process, and more effective use of market discipline through disclosure.

The objectives of the revised Accord are to promote safety and soundness in the financial system, enhance competitive equality, and create a more comprehensive approach to addressing risks. The revised Accord would continue to focus on internationally active banks, although its underlying principles should be suitable for application to banks of varying levels of complexity and sophistication.

The Basel Committee's major proposals include the expansion of risk buckets to better reflect the credit risk associated with various assets, the use of external credit assessments to measure credit risk exposure, and the treatment of "other risks" such as interest rate risk and operational risk. The Basel Committee also proposes revising the current capital treatment for securitization activity and credit risk mitigation techniques such as credit derivatives.

The FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency have prepared the attached "Summary of the Basel Committee's Consultative Document: Revisions to the 1988 Capital Accord." The consultative paper's full text can be found on the Bank for International Settlements' Web site at <http://www.bis.org/publ/index.htm>.

Comments on the consultative paper are encouraged. For more information, please contact Keith A. Ligon, Chief of Policy in the Securities, Capital Markets, and Trust Branch of the FDIC's Division of Supervision, on (202) 898-3618.

James L. Sexton
Director

Attachment: [Summary of the Basel Committee's Consultative Document](#)

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