FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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CAPITAL STANDARDS

Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework

Summary: The federal bank and thrift regulatory agencies have jointly issued the attached final guidance on the Supervisory Review Process of Capital Adequacy (Pillar 2) under the Basel II Advanced Capital Framework. While this guidance reflects a continuation of the longstanding approach employed by the agencies in the supervision of banks, it provides the clarification necessary to support the implementation of the advanced approaches final rule. The final guidance takes effect on September 2, 2008.

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FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
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Related Topics:
Risk-Based Capital Rules
12 CFR Part 325
Basel II

Attachment:
Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework

Contact:
Gloria Ikosi, Senior Quantitative Risk Analyst, at gikosi@fdic.gov or (202) 898-3997

Ryan D. Sheller, Capital Markets Specialist, at rsheller@fdic.gov or (202) 898-6614

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Highlights:

This guidance only applies to banking organizations that use the advanced approaches final rule to calculate their risk-based capital requirements.

In general, the guidance:

- Focuses on three areas: (1) comprehensive supervisory review of capital adequacy, (2) compliance with regulatory capital requirements, and (3) the internal capital adequacy assessment process (ICAAP).
- Highlights the fundamental objectives of a sound ICAAP: (1) identifying and measuring material risks, (2) setting and assessing internal capital adequacy goals that relate directly to risk, and (3) ensuring the integrity of internal capital adequacy assessments. Capital must meet or exceed regulatory minimum requirements, regardless of ICAAP results.
- Supports the agencies' existing ability to intervene when necessary to prevent an individual bank's regulatory capital from falling below the level needed to support all material risks to which the bank is exposed.

This guidance neither supersedes nor alters the functioning of the Prompt Corrective Action or leverage capital requirements.