


June 12, 2012

MEMORANDUM TO: Board of Directors

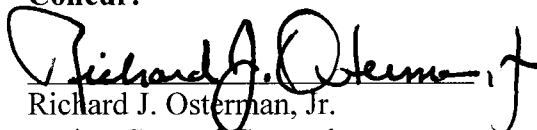
FROM: Sandra L. Thompson, Director 
Division of Risk Management Supervision

SUBJECT: Notice of Proposed Rulemaking Regarding *Regulatory Capital Rules; Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements*

Proposal: That the Board of Directors (“Board”) of the Federal Deposit Insurance Corporation (“FDIC”) approve publication of the attached Notice of Proposed Rulemaking titled, *Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements* (“Standardized Approach NPR”, “NPR” or “proposed rule”), in the *Federal Register* for a 90-day comment period. If it is approved, the NPR would be issued jointly by the FDIC, the Board of Governors of the Federal Reserve System (“FRB”), and the Office of the Comptroller of the Currency (“OCC”) (collectively, “the agencies”) for a 90-day comment period. The proposed rule would revise the methodologies for determining total risk-weighted assets under the general risk-based capital rules with certain aspects of the standardized approach adopted by the Basel Committee on Banking Supervision (“BCBS”) in a 2006 capital accord titled, *International Convergence of Capital Measurement and Capital Standards* (“Basel II”). The proposed rule also would incorporate modifications to the Basel II standardized approach adopted by the BCBS following the publication of Basel II as well as more recent proposals of the BCBS.

The agencies’ general risk-based capital rules, with the revisions proposed in the NPR and a separate Basel III NPR, would serve as the generally applicable risk-based capital requirements for purposes of section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). Accordingly, a bank or savings

Concur:


Richard J. Osterman, Jr.
Acting General Counsel

association (collectively, banks) subject to the advanced approaches risk-based capital rules (“advanced approaches rules”) would be required to calculate two sets of risk-based capital ratios, one using the advanced approaches rules and another using the agencies’ general risk-based capital requirements as revised, and apply the lower of the two ratios to determine compliance with its minimum capital requirements.

Consistent with section 939A of the Dodd-Frank Act (“Section 939A”), the proposed rule contains alternatives to credit ratings for determining risk-weighted assets for certain exposures.

Today, staff also will present to the Board two additional notices of proposed rulemaking that, if approved, would be published jointly by the agencies in the *Federal Register* on the same day as the Standardized Approach NPR, for a 90-day comment period. One notice, titled, *Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions* (the “Basel III NPR”) would amend the current leverage and general risk-based capital rules to incorporate revisions to the Basel capital framework established by the BCBS in *Basel III: A global regulatory framework for more resilient banks and banking systems* (“the Basel III Framework”). The other notice, titled, *Advanced Approaches Risk-Based Capital Rules; Market Risk Capital Rule*, would revise the advanced approaches rules to incorporate aspects of the Basel III Framework that apply to these institutions, incorporate other revisions to the Basel capital framework published by the BCBS in a series of documents released between 2009 and 2011 and more recent BCBS consultative papers, and remove references to credit ratings.

Staff has carefully considered the potential impact of this NPR, and has sought to minimize any implementation burden associated with the proposals to the extent possible. For example, a bank could elect to continue use of the gross-up treatment under the existing general risk-based capital rules to determine the risk-weighted asset amount for securitization exposures, instead of the more complicated Simplified Supervisory Formula Approach (“SSFA”) proposed in this NPR. Staff believes that such optionality would allow banks to meaningfully tailor the application of the proposed standardized

approach to their individual risk profiles and risk-management systems.

Other than bank holding companies subject to the FRB's Small Bank Holding Company Policy Statement¹ (small bank holding companies), the proposed rule would apply to all banks currently subject to minimum capital requirements, including national banks, state member banks, state nonmember banks, state and federal savings associations, top-tier bank holding companies that are not small bank holding companies, as well as top-tier savings and loan holding companies. However, the NPR solicits comment on the advantages and disadvantages of allowing smaller, less complex banks (that is, community banks) to continue to calculate their total risk-weighted assets under the current general risk-based capital rules, as modified to conform to the proposed requirements of the Basel III NPR and the Dodd-Frank Act.

Staff expects the proposed rule to increase total risk-weighted assets for most institutions, due mainly to the proposed treatment for 1-4 family residential mortgage loans. However, staff also notes that the broader recognition of collateral and limited use of internal models for credit risk mitigation purposes could result in a decrease in risk-weighted assets for certain exposures.

The proposed changes would be effective January 1, 2015, with an option for institutions to early adopt.

Recommendation: That the Board approve publication of the NPR in the *Federal Register* for a 90-day public comment period.

Discussion

Background

In 2008, the Board approved for publication in the *Federal Register*, a joint notice of proposed rulemaking seeking comment on the U.S. implementation of the Basel II standardized approach (the "2008 NPR"). The 2008 NPR was presented as an option to the general risk-based capital rules, available for all banks that were not subject to the advanced approaches rules. Generally consistent with Basel II, the 2008 NPR would

¹ 12 CFR part 225, appendix C (Small BHC Policy Statement).

have required the use of credit ratings for risk-weighting and credit risk mitigation purposes; provided a more granular, risk-sensitive treatment for the calculation of risk weighted assets; and established a capital requirement for operational risk. After the close of the comment period, however, the agencies decided to not finalize the 2008 NPR as they reviewed regulatory capital requirements in light of the global financial crisis and worked with other members of the BCBS to strengthen the global regulatory capital framework.

To address some of the capital requirements that proved inadequate during the recent financial crisis, the BCBS issued *Enhancements to the Basel II Framework* (“2009 Enhancements”) in July 2009, to strengthen certain risk-based capital requirements and to encourage stronger management of credit and market risk.² Among other things, the 2009 Enhancements increase the risk-based capital requirements for certain securitization exposures to better reflect their risk and require banks to conduct more rigorous credit analysis of their exposures. Subsequently, after the publication of the Basel III Framework, the BCBS proposed additional revisions to the Basel capital framework that, among other provisions, set forth a more risk-sensitive treatment for exposures to central clearing parties (“CCPs”) to incentivize the use of “qualified” CCPs that satisfy internationally-recognized clearing and settlement standards.

This NPR proposes to implement aspects of the Basel II standardized approach as modified by the 2009 Enhancements, as well as the CCP treatment proposed by the BCBS subsequent to the publication of the Basel III Framework. Consistent with Section 939A, the NPR also proposes various methodologies for determining total risk-weighted assets that do not rely on credit ratings. The proposed methodologies are similar to those being presented to the Board today for purposes of calculating the specific-risk add-on for debt and securitization positions under the final market risk rule.

The NPR provides for an effective date of January 1, 2015; however, any bank may elect to early-adopt the proposed rule if it is adopted in final form. The agencies’ general risk-based capital rules, as amended by the proposed rule, would serve as the generally applicable risk-based capital requirements for purposes of section 171 of the

² BCBS, *Enhancements to the Basel II Framework* (July 2009), available at <http://www.bis.org/publ/bcbs157.htm>.

Dodd-Frank Act. Accordingly, a bank subject to the advanced approaches rules would be required to calculate two sets of risk-based capital ratios, one using the advanced approaches rules and another using the agencies' general risk-based capital rules as revised, and apply the lower of the two ratios to determine compliance with its minimum capital requirements.

The sections that follow briefly discuss the key provisions of the Standardized Approach NPR, particularly where it departs from the 2008 NPR.

Summary of the Standardized Approach NPR

Sovereign exposures. Under the proposed rule, an exposure to a sovereign entity would receive a risk weight based on the Organization for Economic Co-operation and Development ("OECD") Country Risk Classification ("CRC")³ for the sovereign, in accordance with Table A. The CRC methodology categorizes countries into one of eight risk categories (0-7).

Staff believes that the use of CRCs provides a reasonable alternative to the use of credit ratings under the standardized approach and is consistent with Basel II, which provides for the use of CRCs as an option to credit ratings. The use of CRCs presents several important advantages in that they are available for over 150 countries, and are publicly-available and updated regularly by the OECD. To alleviate concerns regarding the potential for CRC misclassifications, under the proposed rule, a bank would assign a 150 percent risk weight to a sovereign exposure if the sovereign has experienced an event of default during the previous five years. Table A, below, shows how risk weights would be applied under the proposed rule based on a sovereign's CRC.

³ Please refer to http://www.oecd.org/document/49/0,3343,en_2649_34169_1901105_1_1_1_1,00.html for more information on the OECD country risk classification methodology.

Table A - Proposed Risk Weights for Sovereign Exposures

		Risk Weight (in percent)
Sovereign CRC	0-1	0
	2	20
	3	50
	4-6	100
	7	150
No CRC		100
Sovereign Default		150

Consistent with the existing general risk-based capital rules, the proposed rule also would assign a zero percent risk weight to direct and unconditional claims on the U.S. government or a U.S. government agency, as well as exposures unconditionally guaranteed by the U.S. government or a U.S. government agency. An exposure to a sovereign entity with no CRC would receive a 100 percent risk weight.

Exposures to certain supranational entities and multilateral development banks (“MDBs”). Under the general risk-based capital rules, exposures to certain supranational entities and MDBs receive a 20 percent risk weight. Consistent with the treatment of exposures to supranational entities under Basel II, the NPR proposes to apply a zero percent risk weight to exposures to the Bank for International Settlements, the European Central Bank, the European Commission, and the International Monetary Fund. The NPR also proposes to apply a zero percent risk weight to exposures to an MDB⁴, in

⁴ The proposal would define an MDB to include the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the European Investment Fund, the Nordic Investment Bank, the Caribbean Development Bank, the Islamic Development Bank, the Council of Europe Development Bank, and any other multilateral lending institution or regional development bank in which the U.S. government is a shareholder or contributing member or which the primary federal supervisor determines poses comparable credit risk.

accordance with Basel II. Staff believes this treatment is appropriate in light of the generally high-credit quality of MDBs, their strong shareholder support, and a shareholder structure comprised of a significant proportion of sovereign entities with strong creditworthiness.⁵

Exposures to depository institutions, foreign banks, and credit unions. Consistent with the general risk-based capital rules, under the proposed rule an exposure to a U.S. depository institution or credit union would receive a 20 percent risk weight. For exposures to foreign banks, however, the proposed rule would assign a risk weight based on the CRC applicable to the foreign bank’s home country. Under this approach, the risk weight assigned to such entities would, in general, be one category higher than the risk weight for exposures to the foreign bank’s home country, as shown in Table B below. Where the home country has experienced an event of a default in the previous five years, a bank would be required to assign a 150 percent risk weight to exposures to banks in that home country. The proposed treatment for foreign banks is generally consistent with the implementation options provided under Basel II.

Table B – Proposed Risk Weights for Exposures to Foreign Banks

		Risk Weight (in percent)
Sovereign CRC	0-1	20
	2	50
	3	100
	4-7	150
No CRC		100
Sovereign Default		150

⁵ Exposures to regional development banks and multilateral lending institutions that are not covered under the definition of MDB generally would be treated as corporate exposures.

Exposures to public sector entities (“PSEs”). Under the proposal, a bank would assign a 20 percent risk weight to a general obligation exposure to a PSE that is organized under the laws of the United States or any state or political subdivision thereof, and a 50 percent risk weight to a revenue obligation exposure to such a PSE. A general obligation would be defined as a bond or similar obligation that is backed by the full faith and credit of a PSE. A revenue obligation would be defined as a bond or similar obligation that is an obligation of a PSE, but which the PSE is committed to repay with revenues from the specific project financed rather than general tax funds.

Similar to the use of sovereign risk weights to assign a risk weight to a PSE exposure under Basel II, the NPR proposes to require a bank to apply a risk weight to an exposure to a non-U.S. PSE based on (i) the CRC applicable to the PSE’s home country and (ii) whether the exposure is a general obligation or a revenue obligation, in accordance with Table C. The risk weights assigned to a revenue obligation would be higher than the risk weights assigned to a general obligation issued by the same PSE. Similar to exposures to a foreign bank, exposures to a non-U.S. PSE in a home country that does not have a CRC rating would receive a 100 percent risk weight. Exposures to a non-U.S. PSE in a home country that experienced an event of default during the previous five years would receive a 150 percent risk weight.

Table C – Proposed Risk Weights for Exposures to Non-U.S. PSE General Obligations and Revenue Obligations (in percent)

		Risk Weight for Exposures to non-U.S. PSE general obligations	Risk Weight for Exposures to non-U.S. PSE revenue obligations
Sovereign CRC	0-1	20	50
	2	50	100
	3	100	100
	4-7	150	150
No CRC		100	100
Sovereign Default		150	150

In certain cases, under the general risk-based capital rules, the agencies have allowed a bank to rely on the risk weight that a foreign banking supervisor assigns to PSEs in that supervisor’s country. Consistent with that approach, the NPR proposes to allow a bank to apply a risk weight to an exposure to a non-U.S. PSE according to the risk weight that the foreign bank supervisor assigns to it. In no event, however, may the risk weight for an exposure to a non-U.S. PSE be lower than the risk weight assigned to direct exposures to that PSE’s sovereign of incorporation.

Corporate exposures. The proposed treatment of corporate exposures would be generally consistent with the general risk-based capital rules and require banks to assign a 100 percent risk weight to all corporate exposures. In contrast to the general risk-based capital rules, securities firms would be subject to the same treatment as corporate exposures. The agencies’ staffs evaluated a number of alternatives to credit ratings to

provide a more granular risk weight treatment for corporate exposures.⁶ However, each of these alternatives was viewed as having significant drawbacks, being too operationally complex, or as not being sufficiently developed to be proposed in this NPR.

High Volatility Commercial Real Estate (“HVCRE”) Exposures. The proposed rule would implement a new risk-based capital treatment for certain commercial real estate exposures, which currently receive a 100 percent risk weight under the general risk-based capital rules. Supervisory experience has demonstrated that certain acquisition, development, and construction loans exposures present unique risks for which staff believes banks should hold additional capital. Accordingly, the NPR proposes to require banks to assign a 150 percent risk weight to any HVCRE exposure.

1-4 Family Residential Mortgage Loans. Under the general risk-based capital rules, most prudently-underwritten 1-4 family residential mortgage loans receive a 50 percent risk weight. In addition, in accordance with the requirements of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (“RTCRRRI Act”)⁷, 1-4 family residential pre-sold construction loans and multifamily residential loans that meet the criteria set forth in the RTCRRRI Act receive a 50 percent risk weight. In contrast, Basel II provides a 35 percent risk weight for most prudently-underwritten 1-4 family residential mortgage loans.

In view of the various structures and unique product features of 1-4 family residential mortgage loans within the United States, under the proposed rule, a 1-4 family residential mortgage would be assigned a risk weight based on the LTV ratio of the loan and certain loan characteristics. The loan characteristics described in the proposed rule provide a basis for separating 1-4 family residential mortgage loans into two risk categories. Category 1 residential mortgage exposures would generally include traditional, first-lien, prudently underwritten mortgage loans. Category 2 residential mortgage exposures would generally include junior-liens and non-traditional mortgage

⁶ See, for example, *Alternative to the Use of External Credit Ratings in the Regulations of the OCC*, 76 FR 73526 (Nov. 29, 2011) and 76 FR 73777 (Nov. 29, 2011).

⁷ See, sections 618(a) & (b) of the RTCRRRI Act, Pub. L. 102-233.

products. Table D, below, shows the proposed risk weights for 1-4 family residential mortgage loans, based on the LTV ratio and risk category of the exposure:

Table D – Proposed Risk Weights for 1-4 Family Residential Mortgage Loans

LTV ratio (in percent)	Risk weight for category 1 residential mortgage exposures (percent)	Risk weight for category 2 residential mortgage exposures (percent)
Less than or equal to 60	35	100
Greater than 60 and less than or equal to 80	50	100
Greater than 80 and less than or equal to 90	75	150
Greater than 90	100	200

Under the proposed rule, restructured and modified mortgages would be assigned risk weights based on their LTVs and classification as category 1 or category 2 residential mortgage exposures, based on the modified contractual terms. Unlike the treatment of private mortgage insurance in the general risk-based capital rules, the proposal would not recognize private mortgage insurance for purposes of calculating the LTV ratio. If the LTV is not updated at the time of modification or restructuring, a category 1 residential mortgage would receive a risk weight of 100 percent and a category 2 residential mortgage would receive a risk weight of 200 percent. Similar to the current capital rules, loans modified or restructured under the Treasury’s HAMP program would not be considered modified or restructured for the purposes of the proposed rule.

In accordance with the requirements of the RTCRRI Act, the proposed rule would retain the treatment for 1-4 family residential presold construction loans and multifamily loans that satisfy the requirements of the RTCRRI Act, and additional criteria promulgated by the agencies for purposes of the general risk-based capital rules.

Securitization exposures. Consistent with the 2009 Enhancements, the proposed rule introduces due diligence requirements for banks that own, originate or purchase securitization exposures. If a bank is unable to demonstrate to the satisfaction of its primary federal supervisor a comprehensive understanding of the features of a securitization exposure that would materially affect the performance of the exposure, the bank would be required to assign the securitization exposure a risk weight of 1,250 percent. The bank's analysis would be required to be commensurate with the complexity of the securitization exposure and the materiality of the exposure in relation to capital.⁸

The risk-based capital requirements for securitizations under the proposed rule would be as follows:

- i. A bank would deduct any after-tax gain-on-sale of a securitization. (This requirement would usually pertain to banks that are securitizers rather than purchasers of securitization exposures);
- ii. A bank would assign a 1,250 percent risk weight to a credit-enhancing interest-only strip.
- iii. A bank would assign a 100 percent risk weight to non-credit enhancing interest-only mortgage-backed securities.

For privately-issued mortgage securities and all other securitization exposures, a bank would be able to choose among the following approaches, provided that the bank consistently applies such approach to all securitization exposures:⁹

- i. A bank may use the existing gross-up approach to risk weight all of its securitizations. Under the existing gross-up approach, senior securitization tranches are assigned the risk weight associated with the underlying exposures. For subordinate securitization tranches, a bank must hold capital for the subordinate tranche, as well as all more senior tranches for which the subordinate tranche provides credit support.

⁸ Staff notes that mortgage-backed pass-through securities (for example, those guaranteed by FHLMC (Freddie Mac) or FNMA (Fannie Mae)) do not meet the proposed definition of a securitization exposure because they do not involve a tranching of credit risk. Rather, only those mortgage-backed securities that involve tranching of credit risk would be securitization exposures.

⁹ The ratings-based approach for externally rated positions would no longer be available.

- ii. A bank may determine the risk weight for the securitization exposure using the SSFA described in the proposal. The SSFA formula would require a bank to apply a supervisory formula that requires various data inputs including the risk weight applicable to the underlying exposures; the attachment and detachment points of the securitization tranche, which is the relative position of the securitization position in the structure (subordination); and the current percentage of the underlying exposures that are 90 days or more past due, in default, or in foreclosure.
- iii. Alternatively, a bank may apply a 1,250% risk weight to any of its securitization exposures.

For securitization exposures guaranteed by the U.S. Government or Government-Sponsored Enterprises, there are no changes relative to the existing treatment. Staff believes the proposed treatment for securitization exposures would enhance risk-sensitivity and strengthen the capital requirements for securitization exposures while minimizing compliance burden.

Cleared transactions. The proposed rule would provide a more risk-sensitive treatment for transactions to CCPs and qualified CCPs (“QCCPs”). Under the proposed rule, transactions conducted through a QCCP would receive a more favorable capital treatment relative to those conducted through a CCP. Similarly, the NPR would establish a capital requirement for a bank’s default fund contribution¹⁰ to a CCP, with a more favorable treatment for default fund contributions to a QCCP relative to those to a CCP.

Guarantees and credit derivatives. Consistent with Basel II and similar to the general risk-based and advanced approaches rules, the proposed rule would allow a bank to substitute the risk weight of an eligible guarantor for the risk weight of an exposure. In contrast to the general risk-based capital rules, however, the proposed rule would recognize a wider range of guarantors and protection providers. The proposed rule would define an eligible guarantor to include sovereign entities, certain supranational entities

¹⁰ Default fund contributions refer to the funds contributed or commitments made by clearing members to a CCP’s mutualized loss sharing arrangement. Default funds also are known as clearing deposits or guaranty funds.

such as the International Monetary Fund, Federal Home Loan Banks, Farmer Mac, an MDB, a depository institution, a bank holding company, a savings and loan holding company, a foreign bank, or an entity that has investment grade¹¹ debt, whose creditworthiness is not positively correlated with the credit risk of the exposures for which it provides guarantees. Eligible guarantors would not include monoline insurers, re-insurers, or special purpose entities.

Collateralized transactions. Consistent with Basel II, the proposed rule would expand the range of collateral a bank may recognize for credit risk mitigation purposes. The proposed rule would define eligible financial collateral to include cash on deposit at the bank or third-party custodian, gold, investment grade long- and short-term securities (excluding resecuritizations), publicly-traded equities and convertible bonds, money market mutual fund shares, and other mutual fund shares where the price is quoted daily.

The proposed rule would provide three approaches for recognizing the credit risk mitigation benefits of eligible financial collateral: a simple approach, a collateral haircut approach, and, with supervisory approval, own estimates of haircuts. The simple approach would allow a bank to apply a risk weight to the portion of an exposure that is secured by the market value of collateral using the risk weight of the collateral, subject to a 20 percent risk weight floor. Exceptions to the risk weight floor would include collateral that is cash on deposit and U.S. government securities.

The collateral haircut and own estimate of haircuts approaches would apply only to over-the-counter (OTC) derivative contracts, repo-style transactions, and eligible margin loans. A bank that receives supervisory approval to use the own estimate of haircuts approach would be required to determine such estimates based on a period of market stress appropriate for the collateral. Staff believes this requirement would instill an appropriate level of conservatism in the use of internal models for this purpose.

Equity exposures. Consistent with the advanced approaches rule, the proposed

¹¹ The proposed rule would define investment grade to mean a determination by the bank that an entity to which the bank has exposure through a loan or security, or the reference entity with respect to a credit derivative, has adequate financial capacity to satisfy all commitments under the exposure for the projected life of the investment. Such an entity would have an adequate capacity to meet financial commitments if its risk of default is low and full and timely repayment of principal is expected.

rule would require a bank to assign a risk weight to an equity exposure using the simple risk weight approach (SRWA). This approach would assign a risk weight to an equity based on the type of issuer, in accordance with Table E.

Table E – Proposed Risk Weights for Equity Exposures under the Simple Risk Weight Approach

Risk weight (in percent)	Equity exposure
0	An equity exposure to a sovereign entity, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, a MDB, and any other entity whose credit exposures receive a zero percent risk weight under this proposed rule
20	An equity exposure to a public sector entity, Federal Home Loan Bank or the Federal Agricultural Mortgage Corporation (Farmer Mac)
100	<ul style="list-style-type: none"> • Community development equity exposures¹² • The effective portion of a hedge pair • Non-significant equity exposures to the extent that the aggregate adjusted carrying value of the exposures does not exceed 10 percent of tier 1 capital plus tier 2 capital
250	A significant investment in the capital of an unconsolidated financial institution that is not deducted
300	A publicly traded equity exposure (other than an equity exposure that receives a 600 percent risk weight and including the ineffective portion of a hedge pair)
400	An equity exposure that is not publicly traded (other than an equity exposure that receives a 600 percent risk weight)
600	An equity exposure to a hedge fund or other investment firm that has greater than immaterial leverage

A bank would determine the risk-asset amount for equity exposures to investment funds using one of three approaches that look through to the underlying assets of the exposure or the underlying assets the fund is permitted to hold. These approaches provide banks with more conservative methods if the necessary data on the underlying

¹² The proposed rule generally defines Community Development Exposures as exposures that would qualify as community development investments under 12 U.S.C. 24(Eleventh), excluding equity exposures to an unconsolidated small business investment company and equity exposures held through a consolidated small business investment company described in section 302 of the Small Business Investment Act of 1958 (15 U.S.C. 682). For savings associations, community development investments would be defined to mean equity investments that are designed primarily to promote community welfare, including the welfare of low- and moderate-income communities or families, such as by providing services or jobs, and excluding equity exposures to an unconsolidated small business investment company and equity exposures held through a consolidated small business investment company described in section 302 of the Small Business Investment Act of 1958 (15 U.S.C. 682).

exposures is unavailable.

Recommendation

Staff recommends that the Board approve for publication in the *Federal Register* the attached interagency NPR, which seeks comments on a proposal to revise and replace the methodologies for determining total risk-weighted assets under the general risk-based capital rules with a Basel II-based standardized approach.

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