



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

**Financial Institution Letter**  
**FIL-107-2007**  
**December 7, 2007**

## **RISK-BASED CAPITAL RULES**

### **Final Rule on Advanced Capital Adequacy Framework – Basel II**

**Summary:** The federal bank and thrift regulatory agencies have jointly issued the attached final rule concerning the domestic application of selected elements of the Basel II capital framework. The final rule requires some banks, and permits other banks, to use an internal ratings-based approach to calculate regulatory capital requirements for credit risk and an advanced measurement approach to calculate regulatory capital requirements for operational risk. The final rule will take effect on April 1, 2008.

**Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

**Suggested Routing:**

Chief Executive Officer  
Chief Financial Officer  
Chief Risk Officer

**Related Topics:**

Basel II  
Risk-Based Capital Rules  
12 CFR Part 325

**Attachments:**

Key Aspects of the Final Rule on Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel II

Final Rule on Risk-Based Capital Standards:  
Advanced Capital Adequacy Framework – Basel II

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**Highlights:**

The attached final rule:

- Applies to banking organizations that (1) have consolidated assets equal to \$250 billion or more, (2) have consolidated total on-balance sheet foreign exposures of \$10 billion or more, (3) elect to use the rule, or (4) are subsidiaries of a bank or bank holding company that uses the rule.
- Provides that a banking organization may be exempt from applying the final rule if its primary federal supervisor determines that the application of the final rule is not appropriate in light of the banking organization's asset size, level of complexity, risk profile, or scope of operations.
- Applies to the determination of risk-based capital requirements for wholesale, retail, equity and securitization exposures. The rule also requires a bank to determine risk-based capital requirements for operational risk.
- Includes prudential safeguards to maintain sufficient capital in the banking system such as (1) providing that no bank can exit the third transitional floor period until the agencies publish a study finding no material deficiencies with the advanced approaches that cannot be addressed by existing tools, (2) maintaining the transitional floor period of at least three years, and (3) retaining the leverage ratio and prompt corrective action standards.