



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

Financial Institution Letter
FIL-20-2007
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CAPITAL STANDARDS

Proposed Interagency Supervisory Guidance for Banks That Would Operate Under the Proposed New Basel II Framework

Summary: The federal bank and thrift regulatory agencies are seeking comment on the attached proposed guidance describing current agency expectations for banking organizations that would adopt the Advanced Internal Ratings-Based Approach (IRB) for credit risk and the Advanced Measurement Approaches (AMA) for operational risk under the proposed new Basel II capital framework. The proposed guidance also establishes the process for supervisory review and the implementation of the capital adequacy assessment process under Pillar 2 of the Basel II framework. The FDIC will accept comments on the proposed guidance through May 29, 2007.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:

Risk-Based Capital Rules
12 CFR Part 325
Basel II

Attachment:

Proposed Supervisory Guidance on Internal Ratings-Based Systems for Credit Risk, Advanced Measurement Approaches for Operational Risk, and the Supervisory Review Process (Pillar 2) Related to Basel II Implementation

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(Pillar 2)

Note:

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Highlights:

- The proposed guidance applies only to banking organizations that would implement the proposed Basel II framework.
- The proposed guidance highlights regulatory standards that are primarily principles-based to enable flexibility in implementation, with more direction provided in instances where prudential issues or industry standardization is of paramount importance.
- The proposed IRB guidance is intended to provide banks with a clear description of the essential components and characteristics of an acceptable IRB framework.
- The proposed AMA guidance identifies supervisory standards that banks should follow to implement and maintain an acceptable AMA framework for regulatory capital purposes.
- The proposed Pillar 2 guidance addresses the three fundamental objectives in the supervisory review process under Pillar 2: the comprehensive supervisory assessment of capital adequacy, a bank's compliance with regulatory capital requirements, and a bank's implementation of an internal capital adequacy assessment process (ICAAP).
- The publication of these documents should not be construed as the agencies' predisposition of the Basel II Notice of Proposed Rulemaking (NPR).

