

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

December 19, 2006

**BANKING SUPERVISION AND REGULATION:
BASEL IA PROPOSED RULEMAKING**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Proposed Rulemaking on Basel IA, Regulations H and Y

The Federal Reserve Board released a draft interagency notice of proposed rulemaking that would revise the existing risk-based capital framework by giving the vast majority of banks, bank holding companies, and savings associations the option of either continuing to use the existing Basel I-based capital rule or adopting a more risk sensitive rule, known as Basel IA. However, as proposed, Basel IA would not be available to large, complex international banking organizations subject to the proposed Basel II advanced capital framework.

The proposed Basel IA modifications represent the latest of more than twenty modifications to the original U.S. risk-based capital standards adopted under the Basel I Accord of 1988, and would do the following:

- Allow banking organizations other than the advanced Basel II organizations to elect to adopt Basel IA or remain subject to the existing risk-based capital rules
- Use loan-to-value ratios to determine risk-weights for most residential mortgages
- Increase the number of risk weight categories to which credit exposures may be assigned
- Expand the use of external credit ratings for certain externally-rated exposures
- Expand the range of collateral and guarantors that may qualify an exposure for lower risk weights
- Increase the credit conversion factors for certain commitments with an original maturity of less than one year
- Assess a risk-based capital charge to reflect the risks in securitizations with early amortization provisions that are backed by revolving exposures
- Remove the 50 percent limit on the risk weight that applies to certain derivative contracts

The Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) also are considering the notice of proposed rulemaking. The Board authorized the staff to publish the notice in the *Federal Register* for public comment after the other agencies complete their approval processes. For the OCC and OTS, that includes review by the Office of Management and Budget, which may result in changes to the notice of proposed rulemaking.

Additional Information

All circulars and documents are available on the internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact our Banking Supervision and Regulation Department at (415) 974-3206.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Attachment: [Docket No. R-1238 \(Preamble\)](#)
[Draft Notice](#)