

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

July 15, 2008

**BANKING SUPERVISION AND REGULATION:  
REQUEST FOR COMMENT**

To State Member Banks, Bank  
Holding Companies, Financial Holding  
Companies, and Foreign Bank Offices  
in the Twelfth Federal Reserve District

**Request for Comment on Basel II Standardized Proposal**

The Federal Reserve Board proposed a rule for public comment that would implement certain of the less-complex approaches for calculating risk-based capital requirements that are included in the international Basel II capital accord.

The proposal (known as the standardized framework) would be available for banks, bank holding companies, and savings associations not subject to the advanced approaches of Basel II. Under the advanced approaches rule (which took effect April 1 and is mandatory only for large, internationally active banking organizations), banking organizations are required to develop rigorous risk-measurement and risk-management techniques as part of a new risk-sensitive capital framework. The standardized framework also seeks to more closely align regulatory capital requirements with institutions' risk and should further encourage improvements in their risk-management practices.

The proposed standardized framework addresses a number of areas including:

- Expanding the number of risk-weight categories to which credit exposures may be assigned
- Using loan-to-value ratios to risk weight most residential mortgages to enhance the risk sensitivity of the capital requirement
- Providing a capital charge for operational risk using the Basic Indicator Approach under the international Basel II capital accord
- Emphasizing the importance of a bank's assessment of its overall risk profile and capital adequacy
- Providing for comprehensive disclosure requirements to complement the minimum capital requirements and supervisory process through market discipline

The Board authorized its staff to publish the notice of proposed rulemaking (NPR) in the *Federal Register* for public comment after the other agencies complete their approval processes. Comments will be accepted for 90 days from the date of publication in the *Federal Register*.

**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 one of the following:

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**Attachment:** [Draft Federal Register Notice](#)