



FEDERAL RESERVE BANK
OF DALLAS

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DALLAS, TEXAS
75265-5906

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Notice 99-54

TO: The Chief Executive Officer of each financial institution and others concerned in the Eleventh Federal Reserve District

SUBJECT

**Request for Public Comment on
New Capital Adequacy Framework**

DETAILS

The Basle Committee on Banking Supervision has issued a consultative paper on a new capital adequacy framework for large internationally active banking organizations. The proposed new framework would revise the committee's current capital adequacy framework, which was issued in 1998 and is commonly referred to as the Basle Capital Accord.

The proposed new capital framework consists of:

- a strong, risk-sensitive regulatory capital standard;
- an active supervisory program; and
- improved bank disclosures that allow the marketplace to evaluate an institution's risk posture and to reward or discipline it appropriately.

The objective of the proposed minimum capital standard is the development of a more comprehensive and sensitive treatment of credit risk. Three approaches are outlined in the consultative paper: a modified version of the existing approach and, going forward, the use of banks' internal ratings and portfolio credit risk models.

Revisions proposed to the existing approach include incorporating external ratings to varying degrees into the capital treatment of claims on sovereigns, public sector entities, banks, and highly rated corporates. An approach to addressing asset securitization also is proposed.

Additionally, the committee is soliciting industry comment on the capital treatment of certain credit risk mitigation techniques and ways to expand coverage of the Accord to incorporate interest rate and operational risk. The committee is further proposing to expand the scope of the Basle Accord, which currently applies to internationally active banks. Under this proposal, the Accord also would be applied on a consolidated basis to holding companies that are parents of internationally active banking groups. In this regard, the Federal Reserve notes that the committee's consultative paper does not make any proposals regarding the definition of capital.

The Basle Committee must receive comments by March 31, 2000. Please send comments to the Bank for International Settlements (BIS), Centralbahnplatz 2, CH-4002, Basle, Switzerland.

To download a copy of the consultative paper, please choose the press release dated June 3, 1999, on the BIS web site at the following Internet address:

<http://www.bis.org/press/>

MORE INFORMATION

For more information, please contact Dorsey Davis at (214) 922-6051. For additional copies of this Bank's notice, contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.