

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9989
January 22, 1986]

CAPITAL ADEQUACY

**Request for Comment on Proposed Standards for
Measuring Capital on a Risk-Adjusted Basis**

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

Following is the text of a statement issued jointly by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency:

The three Federal bank regulatory agencies said they each intend to request public comment on proposed standards for measuring capital on a risk-adjusted basis. The agencies said the proposals would be based on the principle that a banking organization's capital should be related to its overall risk profile.

The agencies said the proposals would be designed to achieve four policy objectives:

- To address off-balance sheet exposures, which have expanded rapidly at many large institutions over the past several years;
- To temper disincentives in the existing standards that discourage banks from holding low risk, relatively liquid assets;
- To move U.S. capital adequacy policies more closely in line with those of other major industrial countries; and
- To provide more explicit guidance to bankers and examiners for relating capital to risk profiles.

The proposals would not be designed to take explicit account of all of the many types of risks to which banking organizations are exposed, the agencies said. The proposed approach also would not substitute for examiner judgment and experience in the assessment of an organization's capital adequacy.

In reaching a final judgment on capital adequacy, examiners would be required to calculate and assess the risk asset ratio, consider all other qualitative risk factors, and, in particular, take into account the level and severity of examiner-classified assets.

All three agencies will publish detailed descriptions of their risk-based capital proposals in the *Federal Register* at a later date.

The proposal will be sent to you as soon as it is published in the *Federal Register*. In the meantime, questions may be directed to Donald E. Schmid, Manager, Bank Analysis Department (Tel. No. 212-791-6611).

E. GERALD CORRIGAN,
President.