

Press Releases

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OTS 05-16 - Banking Agencies to Perform Additional Analysis Before Issuing Notice of Proposed Rulemaking on Basel II

Office of Thrift Supervision

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For further information

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Joint Release

**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Office of Thrift Supervision**

Banking Agencies to Perform Additional Analysis Before Issuing Notice of Proposed Rulemaking on Basel II

The four federal banking agencies (the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision) today agreed that additional analysis is needed before publishing a notice of proposed rulemaking (NPR) with respect to the U.S. implementation of the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," generally known as the Basel II Framework.

The agencies had intended to publish the NPR at midyear 2005, but agreed to a delay to better assess the results of a recently completed quantitative impact study (QIS4). The agencies agreed to issue the NPR at the earliest possible date after considering issues raised by the QIS4 results.

In a Joint Release published on June 26, 2004, the agencies described U.S. efforts to implement the Basel II Framework through revisions to our existing Capital Adequacy regulations. Among the key features in that implementation plan was an assessment of the implications of the Framework on U.S. regulatory capital requirements through QIS4 and the solicitation of public comments on necessary revisions to existing capital adequacy regulations through an NPR. The QIS4 process was designed to provide the agencies with a better understanding of how the implementation of the Basel II Framework might affect minimum required risk-based capital within the U.S. banking industry overall, at consolidated U.S. institutions, and for specific portfolios. The agencies believe that the QIS4 results are critical inputs in the assessment of (1) the implications of Basel II for the safety and soundness of the

banking system and (2) the competitive effects of adopting the Basel II Framework. Both are fundamental to the formulation of the NPR.

The agencies have received QIS4 submissions from participating institutions and have completed a preliminary analysis of those materials. The agencies have determined that additional analysis beyond that previously contemplated is necessary before publication of an NPR. The QIS4 submissions evidence material reductions in the aggregate minimum required capital for the QIS4 participant population and significant dispersion of results across institutions and portfolio types. Additional work is necessary to determine whether these results reflect differences in risk, reveal limitations of QIS4, identify variations in the stages of bank implementation efforts (particularly related to data availability), and/or suggest the need for adjustments to the Basel II Framework.

The agencies remain committed to moving forward with the implementation of Basel II while retaining Prompt Corrective Action and leverage requirements. The delay in issuing the NPR is intended to ensure that any proposed changes to the risk-based capital framework are consistent with safety and soundness, good risk management practices, and the continued competitive strength of the U.S. banking system. The agencies encourage institutions that seek to adopt Basel II-based rules at their inception to continue with their implementation efforts. The agencies continue to target the existing implementation timeline for Basel II. However, the additional work noted above may cause the agencies to revisit this timeline. The agencies will provide additional information on the timing and other aspects of Basel II implementation as it becomes known.

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The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at www.ots.treas.gov.