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M E M O R A N D U M

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To Our Clients and Friends

Re: Agencies Act to Implement Basel III Capital Requirements

The Federal Reserve Board, Comptroller of the Currency, and the Federal Deposit Insurance Corporation have proposed three rules to implement the Basel III regulatory capital framework and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). Public comment on the proposals is due by September 7, 2012.

The first proposal:

- Establishes a new minimum common equity tier 1 capital ratio requirement of 4.5% of risk-weighted assets and a common equity tier 1 capital conservation buffer ratio of 2.5% of risk-weighted assets

- Raises the minimum tier 1 capital ratio from 4% to 6% of risk-weighted assets

- Revises the definition of capital in order to improve the ability of regulatory capital instruments to absorb losses

- Establish limitations on capital distributions and certain discretionary bonus payments if specified capital requirements are not met

- Establishes a supplementary leverage ratio for internationally active banking organizations

- Revises the agencies' prompt corrective action framework by incorporating new regulatory capital minimums and updating the definition of tangible common equity

The second proposal revises the agencies' rules for calculating risk-weighted assets. The first and second proposals apply to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies.

The third proposal applies to banking organizations that are active internationally and those that are subject to the agencies' market risk rule. This proposal:

- Enhances risk sensitivity of the current rule for internationally active firms to address counterparty credit risk and interconnectedness among financial institutions

- Applies the advanced approaches and market risk capital rules to savings and loan holding companies that meet the relevant size, foreign exposure or trading activity thresholds

- Incorporates the agencies' final market risk capital rule into the capital framework

The agencies also adopted changes to their market risk capital rule that implement revisions made to the Basel market risk framework. The final rule applies to banking organizations that have trading assets and liabilities of at least $1 billion or 10% of its total assets. In addition, consistent with the requirements of the Dodd-Frank Act, the agencies' final rule includes methodologies that do not rely on credit ratings for calculating risk capital requirements for certain debt and securitization positions.
The final rule is effective January 1, 2013.

A copy of the agencies' proposals and final rule can be found at our website at http://www.schwartzandballen.com/news.html

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, Heidi Wicker or Lauren Bianchini at (202) 776-0700.