Press Release

FEDERAL RESERVE press release

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For immediate release

The Federal Reserve Board on Tuesday approved a final rule to help ensure banks maintain strong capital positions that will enable them to continue lending to creditworthy households and businesses even after unforeseen losses and during severe economic downturns.

The final rule minimizes burden on smaller, less complex financial institutions.; It establishes an integrated regulatory capital framework that addresses shortcomings in capital requirements, particularly for larger, internationally active banking organizations, that became apparent during the recent financial crisis. The rule will implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"This framework requires banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, while reducing the incentive for firms to take excessive risks," Chairman Ben Bernanke said. "With these revisions to our capital rules, banking organizations will be better able to withstand periods of financial stress, thus contributing to the overall health of the U.S. economy."

Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent and a common equity tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4 percent to 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations. In addition, for the largest, most internationally active banking organizations, the final rule includes a new minimum supplementary leverage ratio that takes into account off-balance sheet exposures.

On the quality of capital side, the final rule emphasizes common equity tier 1 capital, the most loss-absorbing form of capital, and implements strict eligibility criteria for regulatory capital instruments. The final rule also improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. anks and regulators use risk weighting to assign different levels of risk to different classes of assets--riskier assets require higher capital cushions and less risky assets require smaller capital cushions.

"Adoption of the capital rules today is a milestone in our post-crisis efforts to make the financial system safer," Governor Daniel Tarullo said. "Along with the stress testing and capital review measures we have already implemented, and the additional rules for large institutions that are on the way, these new rules are an essential component of a set of mutually reinforcing capital requirements."

The banking agencies carefully reviewed the comments received on the proposal and made a number of changes in the final rule, in particular to address concerns about regulatory burden on community banks. For example, the final rule is significantly different from the proposal in terms of risk weighting for residential mortgages and the regulatory capital treatment of certain unrealized gains and losses and trust preferred securities for community banking organizations.

In total, for community banks, the changes from current regulations target a few areas that are higher risk, but are otherwise minimal. Indeed, nine out of 10 financial institutions with less than $10 billion in assets would meet the common equity tier 1 minimum plus buffer of 7 percent in the final rule, according to data from March 2013.

As with all financial institutions subject to the final rule, community banks will have a significant transition period to meet the new requirements. The phase-in period for smaller, less complex banking organizations will not begin until January 2015 while the phase-in period for larger institutions begins in January 2014. In another change from the proposal, savings and loan holding companies with significant commercial or insurance underwriting activities will not be subject to the final rule at this time. The Federal Reserve will take additional time to evaluate the appropriate regulatory capital framework for these entities.

The Federal Reserve coordinated the final rule with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC), which continue to review this matter. The FDIC has provided notice that it will consider the matter as an interim final rule on July 9, 2013. The OCC expects to review and consider the matter as a final rule by July 9, 2013.

Federal Register notice (PDF)

Community Bank Guide (PDF)

Statement by Chairman Ben S. Bernanke

Statement by Governor Daniel K. Tarullo

Statement by Governor Elizabeth A. Duke

Board Votes

For media inquiries, call 202-452-2955