

July 2, 2013

In a unanimous vote today, the Federal Reserve adopted a final rule to impose international capital standards, known as the Basel III accord, on U.S. institutions. Full details are available [here](#). The rules require minimum capital levels, intended to serve as a buffer against losses similar to those experienced by some in 2008. “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,” said Fed Chairman Ben S. Bernanke. “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.”

The U.S. is one of 27 member countries participating in the Basel Committee on Banking Supervision, which developed the initial response to the 2008 financial crisis, then modified the regulatory framework in 2010. The rule voted on by the Fed today is part of the U.S. implementation of that updated international approach— other members of the Committee are going through similar processes of review in their respective countries. The U.S. review process is not yet final, as the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency must also endorse the Basel III accord, but that is expected within weeks.

In addition to a more strict definition of what constitutes capital, the Basel III requirements double the minimum ratio of assets to capital for most U.S. banks, which would need to meet a new capital requirement to hold at least 4.5 percent of assets in high-quality capital, as compared to the 2 percent previously required. However, the Fed indicated that most banks already meet this threshold. For the largest institutions, the threshold will be a 7 percent buffer. In contrast with the original proposal issued last year, today’s rules relax some of the compliance requirements for smaller community and regional banks, with the Fed issuing a [guide](#) for these smaller institutions.

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