

which the overall level of regulatory capital in the banking system is broadly preserved, and the effects on domestic and international competition. The Agencies are interested in commenters' views on alternatives to the advanced approaches that could achieve this balance, and in particular on alternatives that could do so without a bifurcated approach.⁹

The Agencies are committed to investigate the full scope of possible competitive impact and welcome all comments in this regard. Some questions are suggested below that may serve to focus commenters' general reactions. More specific questions also are suggested throughout this ANPR. These questions should not be viewed as limiting the Agencies' areas of interest or commenters' submissions on the proposals. The Agencies encourage commenters to provide supporting data and analysis, if available.

What are commenters' views on the relative pros and cons of a bifurcated regulatory capital framework versus a single regulatory capital framework? Would a bifurcated approach lead to an increase in industry consolidation? Why or why not? What are the competitive implications for community and mid-size regional banks? Would institutions outside of the core group be compelled for competitive reasons to opt-in to the advanced approaches? Under what circumstances might this occur and what are the implications? What are the competitive implications of continuing to operate under a regulatory capital framework that is not risk sensitive?

If regulatory minimum capital requirements declined under the advanced approaches, would the dollar amount of capital held by advanced approach banking organizations also be expected to decline? To the extent that advanced approach institutions have lower capital charges on certain assets, how probable and significant are concerns that those institutions would realize competitive benefits in terms of pricing credit, enhanced returns on equity, and potentially higher risk-based capital ratios? To what extent do similar effects already exist under the current general risk-based capital rules (for example, through securitization or other techniques that lower relative capital charges on particular assets for only some institutions)? If they do exist now, what is the evidence of competitive harm?

Apart from the approaches described in this ANPR, are there other regulatory capital approaches that are capable of ameliorating competitive concerns while at the same time

achieving the goal of better matching regulatory capital to economic risks? Are there specific modifications to the proposed approaches or to the general risk-based capital rules that the Agencies should consider?

II. Application of the Advanced Approaches in the United States

By its terms, the 1988 Accord applied only to internationally active banks. Under the New Accord, the scope of application has been broadened also to encompass bank holding companies that are parents of internationally active "banking groups."

A. Threshold Criteria for Mandatory Advanced Approach Organizations

The Agencies believe that for large, internationally active U.S. institutions only the advanced approaches are appropriate. Accordingly, the Agencies intend to identify three groups of banking organizations: (1) Large, internationally active banking organizations that would be subject to the A-IRB approach and AMA on a mandatory basis (core banks); (2) organizations not subject to the advanced approaches on a mandatory basis, but that voluntarily choose to adopt those approaches (opt-in banks); and all remaining organizations that are not mandatorily subject to and do not apply the advanced approaches (general banks).

For purposes of identifying core banks, the Agencies are proposing a set of objective criteria for industry consideration. Specifically, the Agencies are proposing to treat as a core bank any banking organization that has (1) total commercial bank (and thrift) assets of \$250 billion or more, as reported on year-end regulatory reports (with banking assets of consolidated groups aggregated at the U.S. bank holding company level);¹⁰ or (2) total on-balance-sheet foreign exposure of \$10 billion or more, as reported on the year-end Country Exposure Report (FFIEC 009) (with foreign exposure of consolidated groups aggregated at the U.S. bank holding company level). These threshold criteria are independent; meeting either condition would mean an institution is a core bank.

Once an institution becomes a core bank it would remain subject to the advanced approaches on a going forward basis. If, in subsequent years, such an institution were to drop below both threshold levels it would continue

to be a core bank unless it could demonstrate to its primary Federal supervisor that it has substantially and permanently downsized and should no longer be a core bank. The Agencies are proposing an annual test for assessing banking organizations in reference to the threshold levels. However, as a banking organization approaches either of the threshold levels the Agencies would expect to have ongoing dialogue with that organization to ensure that appropriate practices are in place or are actively being developed to prepare the organization for implementation of the advanced approaches.

Institutions that by expansion or merger meet the threshold levels must qualify for use of the advanced approaches and would be subject to the same implementation plan requirements and minimum risk-based capital floors applicable to core and opt-in banks as described below. Institutions that seek to become opt-in banks would be expected to notify their primary Federal supervisors well in advance of the date by which they expect to qualify for the advanced approaches. Based on the aforementioned threshold levels, the Agencies anticipate at this time that approximately ten U.S. institutions would be core banks.

Application of Advanced Approaches at Individual Bank/Thrift Levels

The Agencies are aware that some institutions might, on a consolidated basis, exceed one of the threshold levels for mandatory application of the A-IRB approach and AMA and, yet, might be comprised of distinct bank and thrift charters whose respective sizes fall well below the thresholds. In those cases, the Agencies believe that all bank and thrift institutions that are members of a consolidated group that is itself a core bank or an opt-in bank should calculate and report their risk-based capital requirements under the advanced approaches. However, recognizing that separate bank and thrift charters may, to a large extent, be independently managed and have different systems and portfolios, the Agencies are interested in comment on the efficacy and burden of a framework that requires the advanced approaches to be implemented by (or pushed down to) each of the separate subsidiary banks and thrifts that make up the consolidated group.

U.S. Banking Subsidiaries of Foreign Banking Organizations

Any U.S. bank or thrift that is a subsidiary of a foreign bank would have to comply with the prevailing U.S. regulatory capital requirements applied to U.S. banks. Thus, if a U.S. bank or

⁹In this regard, alternative approaches would take time to develop, but might present fewer implementation challenges. Additional work would be necessary to advance the goal of competitive equity among internationally active banking organizations. If consensus on alternative approaches could not be reached at the BSC, a departure from the Basel framework also could raise significant international and domestic issues.

¹⁰For banks this means the December Consolidated Report of Condition and Income (Call Report). For thrifts this means the December Thrift Financial Report.