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United States Government Accountability Office
Washington, DC 20548

B-310908

December 21, 2007

The Honorable Christopher Dodd
Chairman
The Honorable Richard Shelby
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Barney Frank
Chairman
The Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
House of Representatives

Subject: *Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; Federal Deposit Insurance Corporation; Department of the Treasury, Office of Thrift Supervision: Risk-Based Capital Standards: Advanced Capital Adequacy Framework--Basel II*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; Federal Deposit Insurance Corporation; and Department of the Treasury, Office of Thrift Supervision, entitled "Risk-Based Capital Standards: Advanced Capital Adequacy Framework--Basel II" (RIN: 1557-AC91; 3064-AC73; 1550-AB56, and Docket No. R-1261). We received the rule on November 15, November 20, and November 21, 2007. It was published in the *Federal Register* as final rule on December 7, 2007. 72 Fed. Reg. 69,288.

The final rule implements a new risk-based regulatory framework based on the Basel Committee on Banking Supervision's "International Convergence of Capital Measurement and Capital Standards: A Revised Framework." The final rule describes the qualifying criteria for banks required or seeking to operate under the new framework and the applicable risk-based capital requirements for banks that operate under the framework.

Enclosed is our assessment of the agencies' compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review indicates that the agencies complied with the applicable requirements.

If you have any questions about this report, please contact Michael R. Volpe, Assistant General Counsel, at (202) 512-8236. The official responsible for GAO evaluation work relating to the subject matter of the rule is Richard Hillman, Managing Director, Financial Markets and Community Investment. Mr. Hillman can be reached at (202) 512-8678.

signed

Robert J. Cramer
Associate General Counsel

Enclosure

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ENCLOSURE

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
DEPARTMENT OF THE TREASURY,
OFFICE OF THE COMPTROLLER OF THE CURRENCY;
FEDERAL RESERVE SYSTEM;
FEDERAL DEPOSIT INSURANCE CORPORATION;
DEPARTMENT OF THE TREASURY,
OFFICE OF THRIFT SUPERVISION
ENTITLED
"RISK-BASED CAPITAL STANDARDS: ADVANCED CAPITAL
ADEQUACY FRAMEWORK--BASEL II"
(RIN: 1557-AC91; 3064-AC73; 1550-AB56; DOCKET NO. R-1261)

(i) Cost-benefit analysis

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS) (collectively, the agencies) prepared a cost-benefit analysis and included the analysis in the final rule. The analysis, as prepared by OCC, listed 11 benefits of the rule, including more efficient use of bank capital, encouraging advances in risk measurement and risk management, and promoting market discipline through enhanced disclosure. OCC estimates that the final rule will result in expenditures of \$498.9 million by banks and the OCC through the end of the transition period. OCC believes the benefits will exceed the costs of the regulation, in part because the benefits are significant, durable, and hold the potential to increase with time, while the costs are due to considerable start-up costs but fairly modest ongoing expenses.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

The agencies certify that this final rule will not have a significant impact on a substantial number of small entities under the Act.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

OCC and OTS determined that the final rule may result in the expenditure by the private sector of \$119.6 million or more in any one year. OCC and OTS prepared the required analysis in conjunction with the analysis required under Executive Order 12,866.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On September 25, 2006, the agencies issued a notice of proposed rulemaking. 71 Fed. Reg. 55,830. The agencies received approximately 90 comments on the proposed rule. The agencies responded to the comments as part of the final rule. 72 Fed. Reg. 69,288.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The final rule contains collections of information under the rule. The agencies submitted the information collections contained in this rule to the Office of Management and Budget (OMB) for review and approval. OMB assigned the following control numbers to the information: 1557-0234 (OCC), 3064-0153 (FDIC), and 1550-0115 (OTS). The Board, under the authority delegated to it by OMB, assigned control number 7100-0313. The agencies estimate the burden associated with the collection of information as follows: OCC estimates a total annual burden of 809,640 hours, the Board estimates a total annual burden of 216,330 hours, FDIC estimates a total annual burden of 7,800 hours, and OTS estimates a total annual burden of 60,000 hours.

Statutory authorization for the rule

The final rule is authorized by the multiple sections of federal banking law which direct federal banking agencies to require banking organizations to hold adequate capital, and which authorize federal banking agencies to set minimum capital levels to ensure that banking organizations maintain adequate capital, and give the federal banking agencies broad discretion with respect to capital regulation.

Executive Order No. 12,866

The final rule was determined to be economically significant by OCC and OTS was reviewed by OMB under the Executive Order.

Executive Order No. 13,132 (Federalism)

The agencies did not address whether or not the final rule will have federalism implications under the Executive Order.