

***ADVOCACY SUBMITS COMMENTS TO THE FEDERAL RESERVE,
THE OFFICE OF THE COMPTROLLER OF CURRENCY AND THE
FEDERAL DEPOSIT INSURANCE CORPORATION ON THEIR
JOINT PROPOSED RULEMAKING ON BASEL III***

On October 22, 2012, the Office of Advocacy of the U.S. Small Business Administration (Advocacy) submitted a comment letter to the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation on their joint proposed rules on *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions* (Regulatory Capital); *Regulatory Capital Rules: Standardized Approach for Risk-weighted Asset, Market Discipline and Disclosure Requirements* (Standardized Approach); and *Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule* (Advanced Approach). These proposed rules would implement Basel III and portions of the Dodd-Frank Act. A copy of Advocacy's comments can be found at www.sba.gov/advocacy.

- In the Regulatory Capital proposal, the agencies are proposing to revise their risk-based and leverage capital requirements and to apply limits on a banking organization's capital distributions and certain discretionary bonus payments.
- In the Standardized Approach proposed rule, the agencies are proposing to revise and harmonize their rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years. The Standardized Approach proposal also includes alternatives to credit ratings, consistent with section 939A of the Dodd-Frank Act.
- The Regulatory Capital proposal and the Standardized Approach proposal would apply to all banking organizations that are currently subject to minimum capital requirements.
- In the Advanced Approach proposal, the agencies are proposing to revise the advanced approaches risk-based capital rules consistent with Basel III and other changes to the Basel Committee on Bank Supervision's capital standards.
- The agencies prepared an initial regulatory flexibility analysis for the Standardized Approach proposed rule and the Regulatory Capital proposal. Advocacy commended the agencies for considering the cumulative impact of the proposals on small entities. The agencies listed the alternatives that are being

considered, but there was no discussion of the burden reduction associated with the alternatives. Advocacy encouraged the agencies to provide a discussion that would explain how the alternatives reduce the economic burden on small entities.

- Community banks operate on a different business model - one that is designed for long term service to their respective communities, many of which are in areas that are not served by large banks. Because of this, Advocacy recommended that community banks be allowed to continue to use the current Basel I framework for computing their capital requirements.
- These changes may require significant software changes at a time when the small banks are facing many changes due to the requirements of the Dodd-Frank Act, possibly leading to an exit from the mortgage market by many small banks.
- Advocacy encouraged the agencies to give careful consideration to the information provided by the small community financial institutions in determining the economic impact of the actions as well as analyzing alternatives that may reduce the impact on small community financial institutions.

For more information, visit Advocacy's webpage at www.sba.gov/advocacy or contact Jennifer Smith at 202-205-6943.