Simplifying Capital Rules

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State bank regulators appreciate the federal agencies' recognition of the need to reduce regulatory compliance burden imposed by regulatory capital rules. The proposed revisions by the agencies are certainly intended to produce meaningful simplification of the regulatory capital rules. However, given the limited scope of the proposed rule, state bank regulators believe that more comprehensive simplification is warranted.

State regulators have several recommendations for the federal agencies, including that the agencies should:

1. Develop a simplified capital framework tailored to the complexity and risk profile of non-complex banking organizations.
    - To create this framework, the agencies should develop a simplified standardized approach that is proportional to the risk profile of a banking organization.
    - State regulators supported revising the capital rules to raise the quality and quantity of capital in the banking system, but opposed the application of the Basel III standardized approach to smaller, non-complex banking organizations.
    - Consider developing an alternative leverage-based capital adequacy framework if necessary to achieve comprehensive simplification of the capital rules.
    - Permit only non-complex banking organizations to operate under a simplified capital framework with the complexity of an institution determined according to its activities and its risk profile.
2. Clarify and/or modify the proposed treatment of high volatility acquisition, development, or construction (HVADC) exposures and the revised treatment of unconsolidated financial institutions (UFI) investments.
    - Reduce the compliance burden created under the new HVADC exposure framework by clarifying and/or modifying the documentation requirements applicable thereto.
    - Clarify the eligibility of UFI investment of non-advanced approaches banks for the preferential 100 percent risk weight under the equity exposure framework.

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