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M E M O R A N D U M

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To Our Clients and Friends

Re: Revised Basel II Implementation Plan

The Federal banking agencies today announced revised plans for the implementation of the Basel II capital standards. The agencies plan to issue a notice of proposed rulemaking in the first quarter of 2006 containing prudential safeguards addressing the concerns raised by the quantitative impact study (QIS 4).

The agencies expect the proposed rulemaking to include:

- A revised timeline for implementation of Basel II, under which January 2008 would be the first time a U.S. banking institution subject to Basel II could conduct a parallel run
- Limits on the amount by which each institution's risk-based capital may decline with the application of Basel II, over at least a minimum three-year transition period
- Assessment of an institution's readiness to operate under Basel II
- Retention of existing Prompt Corrective Action and leverage capital requirements

The agencies indicated that they anticipate further revisions to the Basel II capital rules during the transition period. They also intend to release an advance notice of proposed rulemaking on possible changes to the risk-based capital rules for banks not subject to the Basel II capital requirements.

A copy of the announcement can be found on our web site at http://www.schwartzandballen.com/whats_new.html.

If you have any questions, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.