FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Captial Standards

FIL-87-2004
July 28, 2004

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: Agencies Issue Final Rule on Capital Requirements for Asset-Backed Commercial Paper Programs

Summary: *The four federal bank and thrift regulatory agencies are implementing more risk-sensitive, risk-based capital standards for credit exposures arising from a banking organization's involvement with Asset-Backed Commercial Paper (ABCP) programs. The final rule generally requires banking organizations to hold risk-based capital against liquidity facilities. Liquidity facilities generally are provided by large banking institutions; as such, the final rule is expected to have no impact on the majority of community banks. In addition, the agencies are making permanent the exclusion of ABCP program assets consolidated under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46-R).*

On July 28, 2004, the four federal banking and thrift agencies issued a final rule establishing more risk-based capital standards for liquidity facilities that provide support to Asset-Backed Commercial Paper (ABCP) programs. Liquidity facilities generally are provided by large banking institutions; as such, the final rule is expected to have no impact on the majority of community banks. The final rule becomes effective September 30, 2004. A copy of the final rule is attached.

An ABCP program is usually carried out through a bankruptcy-remote, special-purpose entity generally sponsored and administered by a banking organization to provide funding to its corporate customers by purchasing asset pools from, or extending loans to, those customers. The ABCP program provides funding for these assets through the issuance of commercial paper into the market. Typically, the sponsoring organization provides liquidity and credit enhancements to earn a favorable external rating on the commercial paper issued by the ABCP program.

This final rule generally imposes a 10 percent credit-conversion factor against ABCP liquidity facilities with an original maturity of one year or less. On September 30, 2005, however, liquidity facilities that fail to meet the asset-quality criteria in the final rule will be subject to a 100 percent credit-conversion factor, consistent with credit enhancements of a similar nature.

The final rule also will permanently permit sponsoring banks, bank holding companies and thrifts to exclude from their risk-weighted asset base those assets in ABCP programs that are consolidated onto sponsoring banking organizations' balance sheets as a result of "Financial Accounting Standard Board Interpretation No. 46, Consolidation of Variable Interest Entities," as revised in December 2003 (FIN 46-R).

For more information about this final rule, please contact Jason C. Cave, Chief, Capital Markets Policy in the Division of Supervision and Consumer Protection, on 202-898-3548 or Michael

Phillips, Counsel in the Legal Division, on 202-898-3581.

For your reference, FDIC Financial Institution Letters may be accessed from the FDIC's Web site at http://www.fdic.gov/news/news/financial/2004/index.html. To learn how to automatically receive FDIC Financial Institution Letters through e-mail, please visit http://www.fdic.gov/about/subscriptions/index.html.

Michael J. Zamorski
Director
Division of Supervision and Consumer Protection

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Attachment:

- July 28, 2004, Federal Register, pages 44908-44925- PDF 128.83k

Distribution: FDIC-Supervised Banks (Commercial and Savings)

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