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

Division of Supervision

Risk-Based Capital

FIL-59-95
September 8, 1995

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Calculation of the Potential Future Exposure Derivatives*

The FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency have jointly amended the risk-based capital calculations used to determine the potential future exposure of derivative contracts. The amendment: (1) incorporates a broader range of off-balance-sheet contracts into the calculation; (2) reflects the higher risk exposure of certain types of derivative transactions and contracts with relatively long maturities; and (3) further encourages the use Of bilateral netting agreements, which reduce credit risk. Attached is a copy of the final rule, which is substantially the same as a proposal issued for public comment last year.

Under the final rule, the "conversion factors" used in calculating potential future exposure will be changed to reflect the higher risks of "long-dated" interest rate and exchange rate contracts (i.e., those with remaining maturities of five years or more). Conversion factors for derivative contracts related to equities, precious metals and other commodities will be revised to better reflect the volatility of the underlying indices or prices. Institutions also will be permitted to recognize a reduction in potential future credit exposure for this wider array of transactions now eligible for inclusion in qualifying bilateral netting arrangements.

The final rule will become effective October 1, 1995, for use starting with the Call Report (Report of Condition and Income) for the fourth quarter of the year. For more information, please contact one of the FDIC officials listed on Page 46170 of the attached Federal Register notice.

Nicholas J. Ketcha Jr.
Acting Director

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