



Capital Standards

FIL-115-97
October 27, 1997

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Proposals to Eliminate Interagency Capital Differences and Include
Unrealized Gains on Equity Securities in Tier 2 Capital*

The federal bank regulatory agencies are proposing certain revisions to their respective leverage and risk-based capital rules. The planned changes are described in the two attached proposals.

Comments on the proposed rules are due by December 26, 1997.

Under the first proposal, the agencies would eliminate an interagency difference in the definition of the minimum Tier 1 leverage capital standard. The proposal would also resolve differences among the agencies in the risk-based capital treatment of:

- construction loans on presold 1-to-4 family residential properties,
- real estate loans secured by junior liens on 1-to-4 family residential properties, and
- investments in mutual funds.

Under the second proposal, the regulatory capital treatment for net unrealized gains on equity securities under the agencies' capital standards would be revised to permit limited amounts of these unrealized gains to be recognized for risk-based capital purposes. Net unrealized gains on equity securities are currently excluded from the calculation of an institution's regulatory capital. However, under this proposed amendment, 45 percent of the net unrealized pre-tax holding gains on available-for-sale equity securities with readily determinable fair values would be included as a component of Tier 2 capital. This proposal is consistent with the Basle Accord, which serves as the international regulatory capital framework on which the agencies' risk-based capital standards are based.

The two proposals are being issued jointly by the FDIC, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Reserve Board. For further information, please call Stephen G. Pfeifer, Examination Specialist in the Division of Supervision, at (202) 898-8904.

Nicholas J. Ketcha Jr.

Director

Attachments: Federal Register, 27 Oct. 1997, pp 55682-55692; ([pp 55681-55686](#) and [pp 55686-55692](#)) available from the FDIC web site: [/news](#)

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