



CAPITAL STANDARDS

FIL-90-2000

December 22, 2000

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Public Comment Sought on Two Capital Rules: A Proposal on Claims on Securities Firms, and an Interim Rule on Securities Borrowing*

The Federal Deposit Insurance Corporation (FDIC), along with the other federal bank regulatory agencies, is requesting public comment on the attached two risk-based capital rules:

- a proposed rule that would lower the risk weight for bank claims on securities firms (comments are due by January 22, 2001); and
- an interim rule lowering the capital required for collateral that is posted in connection with securities borrowing transactions (comments are due by January 19, 2001).

Summaries of the two rulemakings follow.

Claims on Securities Firms Proposal

The FDIC, the Board of Governors of the Federal Reserve System (Federal Reserve Board), the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision have jointly proposed a rule to amend the agencies' capital standards for banks, bank holding companies and savings associations to reduce the risk weight applied to claims on, or guaranteed by, qualifying securities firms.

The proposal would mitigate a competitive inequity for U.S. depository institutions and holding companies by lowering the risk weight applied to claims on qualifying securities firms from 100 percent to 20 percent. This change is consistent with the treatment of claims on securities firms under an April 1998 amendment to the Basel Accord. The Accord is an international framework for assessing the capital adequacy of depository institutions by risk weighting their assets and off-balance sheet exposures, and serves as a basis for the banking agencies' risk-based capital guidelines.

Under the proposal, qualifying securities firms incorporated in the United States must be registered broker-dealers subject to, and in compliance with, the net capital rule of the Securities and Exchange Commission, and subject to margin and other regulatory requirements applicable to registered broker-dealers. Securities firms incorporated in other countries that are members of the Organization for Economic Cooperation and Development (OECD) must be subject to supervisory and regulatory arrangements, including risk-based capital requirements, comparable to those imposed on depository institutions under the Basel Accord. Qualifying U.S. and OECD securities firms also must have a long-term credit rating in one of the three highest investment-grade credit rating categories used by a nationally recognized statistical rating organization.

Securities Borrowing Interim Rule

The FDIC, the Federal Reserve Board and the OCC are requesting comment on an interim rule revising the risk-based capital treatment of cash collateral posted in connection with certain securities borrowing transactions. The banking agencies are also requesting comment on the capital treatment of securities borrowing transactions where securities are posted as collateral.

The interim rule - which applies only to those banking organizations with significant trading activities that are subject to capital treatment under the market risk rules -provides a capital treatment for U.S. banking organizations that is more in line with the capital treatment applied to their domestic and foreign competitors.

Although the interim rule is effective January 4, 2001, U.S. banking organizations subject to the market risk rules may apply the provisions of this interim rule beginning December 5, 2000.

Neither the Basel Accord nor the risk-based capital guidelines adopted by the three agencies specifically address securities borrowing transactions. In recent years, U.S. banking organizations have experienced rapid growth in securities borrowing transactions, which are used for various purposes, including short sales and securities fails (securities sold but not made available for delivery on the settlement date), and in conjunction with option and arbitrage positions.

The banking agencies recognize that securities borrowing is a long-established financial activity that historically has resulted in an exceedingly low level of losses. The interim rule recognizes this low risk and effectively lowers the capital requirement associated with these transactions, provided that the conditions set forth in the interim rule are met.

For further information about the rulemakings, please contact Stephen G. Pfeifer, Examination Specialist, Division of Supervision, on 202-898-8904.

Michael J. Zamorski
Acting Director

Attachments: Dec. 5, 2000, *Federal Register*, pages 75856-75859
[HTML](#) or [PDF](#) (130 KB File - [PDF Help](#) or [Hard Copy](#))

Dec. 6, 2000, *Federal Register*, pages 76180-76184
[HTML](#) or [PDF](#) (134 KB File - [PDF Help](#) or [Hard Copy](#))

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