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

Division of Supervision

CAPITAL STANDARDS

FIL-19-2001
March 1, 2001

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Proposed Capital Rule for Nonfinancial Equity Investments*

The Federal Deposit Insurance Corporation (FDIC) is requesting public comment on the attached proposed rule governing the regulatory capital treatment for equity investments in nonfinancial companies held by FDIC-supervised banks. Comments on this proposed rule are due by April 16, 2001.

The FDIC developed the proposal in consultation with the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (FRB). The FDIC's proposed rule is being issued jointly with the rules that the OCC and FRB are proposing for the banking organizations that they supervise.

The proposed capital treatment for nonfinancial equity investments would apply symmetrically to banks and their holding companies. Investments covered by the proposed rule would include investments made under the new merchant banking authority granted to holding companies by the Gramm-Leach-Bliley Act and to nonfinancial equity investments made under other preexisting authorities, including investments under Section 24 of the Federal Deposit Insurance Act.

The proposal generally would impose a Tier 1 capital charge that would increase in steps as the banking organization's level of concentration in equity investments increases. The following capital charges would be deducted in determining the amount of a banking organization's Tier 1 capital.

- An 8 percent Tier 1 capital charge would apply to the portion of a nonfinancial equity investment portfolio that represents up to 15 percent of the organization's Tier 1 capital.
- A 12 percent capital charge would be imposed on the portion of nonfinancial equity investments that is at least 15 percent (but less than 25 percent) of Tier 1 capital.
- A top marginal Tier 1 capital charge of 25 percent would be set for overall investment portfolios under all authorities that exceed 25 percent of the organization's Tier 1 capital.

These higher Tier 1 capital charges would not apply to nonfinancial equity investments through small business investment companies (SBICs), unless the amount of those investments exceeds 15 percent of Tier 1 capital. Grandfathered investments under section 24(f) of the Federal Deposit Insurance Act also would be exempt under the new proposal. With respect to other Section 24 investments covered by the proposed rule, the FDIC retains the authority to impose capital requirements that are higher or lower than the proposed capital charges under certain circumstances.

For more information about the proposed rule, please contact Stephen G. Pfeifer, Examination Specialist in the FDIC's Division of Supervision, at 202-898-8904.

Michael J. Zamorski
Acting Director

Attachment: February 14, 2001, *Federal Register*, pages 10212-10226
HTML or PDF (74 KB File - PDF Help or Hard Copy)

Distribution: FDIC-Supervised Banks (Commercial and Savings)

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