



CAPITAL STANDARDS

FIL-74-2003
October 1, 2003

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: Federal Banking and Thrift Regulatory Agencies Issue Rulemakings Advancing Risk-Sensitive Capital Requirements for Sponsors of Asset-Backed Commercial Paper Programs Affected by "Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities," and Issuers of Consumer Securitizations With Early Amortization Provisions

Summary: *The federal banking and thrift regulatory agencies - through an interim final rule - are temporarily amending their risk-based capital requirements for the assets of sponsors of asset-backed commercial paper (ABCP) programs that are impacted by "Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities." Through a notice of proposed rulemaking, the agencies are proposing a risk-based capital requirement on all liquidity facilities extended to ABCP programs, and putting forth a risk-based capital requirement for certain types of consumer securitizations that incorporate early amortization provisions.*

The federal financial regulatory agencies - the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision - have published the attached interim final rule and notice of proposed rulemaking requesting public comment on their plans for assessing regulatory capital requirements for various off-balance sheet securitization exposures, particularly those asset-backed commercial paper (ABCP) programs affected by the recently issued "Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities" (FIN 46). The rules are expected to affect financial institutions that issue ABCP, provide liquidity facilities to ABCP programs or securitize retail credit cards. The interim final rule is effective immediately.

Under FIN 46, the Financial Accounting Standards Board broadened the criteria for determining when one entity is deemed to have a controlling financial interest in another entity and, therefore, when an entity must consolidate another entity in its financial statements. The effective date of FIN 46 for the majority of the affected institutions was July 1, 2003; the impact of FIN 46 will be reflected in the institutions' September 30, 2003, financial reports.

The interim final rule allows sponsoring banking organizations to remove the consolidated ABCP program assets from risk-weighted assets for the purpose of calculating their risk-based capital ratios. This interim capital treatment will be in effect only for the regulatory reporting periods ending September 30 and December 31, 2003, and March 31, 2004. This interim capital treatment does not extend to the tier 1 leverage capital ratio calculation, the denominator of which will continue to be based primarily on on-balance sheet assets as reported under generally accepted accounting principles (GAAP). The interim final rule will affect Call Report Schedule RC-R (Regulatory Capital) and Schedule RC-S (Servicing, Securitization, and Asset Sale Activities). The rule identifies the specific line items affected.

The notice of proposed rulemaking sets forth a risk-sensitive approach for ABCP exposures by assessing capital against liquidity facilities provided by ABCP sponsors and third-party banking organizations, regardless of the structure or tenure of the commitment. As with the interim final rule, the proposed rule would not amend the tier 1 leverage capital ratio, which continues to be based primarily on on-balance sheet assets as reported under generally accepted accounting

principles. The proposed rule also sets forth a risk- sensitive capital requirement for securitizations of revolving consumer credit card receivables with early amortization provisions. The early amortization capital requirement would be based largely upon excess spread levels, a key performance measure and early warning indicator of early amortization risk.

For further information, please contact Jason C. Cave, Chief, Policy Section, Capital Markets Branch, on 202-898-3548 or Michael B. 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 www.fdic.gov/news/news/financial/2003/index.html. To learn how to automatically receive FDIC Financial Institution Letters through e-mail, please visit <http://www.fdic.gov/news/announcements/index.html>.

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Director

Attachments:

- [October 1, 2003, Federal Register, pages 56530-56537](#)
- [October 1, 2003, Federal Register, pages 56530-56537 - PDF 67 kb \(PDF Help\)](#)
- [October 1, 2003, Federal Register, pages 56568-56586](#)
- [October 1, 2003, Federal Register, pages 56568-56586 - PDF 127 kb \(PDF Help\)](#)

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