Department of the Treasury

Office of Thrift Supervision

RESCINDED

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Under the attached final rule, savings associations will be able to use qualifying bilateral netting agreements to net multiple interest rate contracts with a single counterparty in computing the associations' risk-based capital requirements. A bilateral netting agreement is a master contract under which two parties agree to net the amounts they owe each other under covered rate contracts to reduce their credit exposure.

Associations will hold capital against the lower net replacement value of contracts subject to such an agreement, rather than against the gross replacement value of the contracts. This will reduce the risk-based capital requirements on such contracts for the limited number of associations with multiple rate contracts with a single counterparty.

The Office of Thrift Supervision (OTS) rule, which is consistent with rules issued by the other federal banking agencies, reduces associations' risk-based capital requirements for rate contracts under bilateral netting agreements if:

- the rate contracts are between the same two parties,
- only interest rate contracts and foreign exchange rate contracts are netted for capital purposes,
- the bilateral netting contract covering the rate contracts results in a single netted amount being payable or receivable in case of the default, insolvency, bankruptcy, or similar circumstance of either party, and
- associations that are party to the bilateral netting agreement have legal opinions concluding that the contract would be upheld by the courts and other legal authorities of relevant jurisdictions.

The final rule was published in the December 28, 1994, edition of the *Federal Register*, Vol. 59, No. 248, pp. 66645-66653, and is effective December 31, 1994.

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Attachment