

Press Releases

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OTS 03-31 - Agencies Issue Rulemaking to Amend Risk-Based Capital Treatment of Exposures to Asset-Backed Commercial Paper Programs and Securitizations with Early Amortization Provisions

Office of Thrift Supervision

FOR RELEASE at 2:00 P.M. EDT

For further information

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Contact: Chris Smith

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Joint Release

**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Office of Thrift Supervision**

Agencies Issue Rulemaking to Amend Risk-Based Capital Treatment of Exposures to Asset-Backed Commercial Paper Programs and Securitizations with Early Amortization Provisions

The federal bank and thrift regulatory agencies today requested public comment on an interim final rule and a notice of proposed rulemaking (NPR) to amend their risk-based capital standards for the treatment of assets in asset-backed commercial paper (ABCP) programs consolidated under the recently issued Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). The NPR would also modify the risk-based capital treatment of certain securitizations with early amortization provisions.

An ABCP program is usually carried out through a bankruptcy-remote special purpose entity generally sponsored and administered by a banking organization (banks, bank holding companies, and thrifts) to provide funding to its corporate customers by purchasing asset pools from, or extending loans to, those customers. The ABCP provides funding for these assets through the issuance of commercial paper into the market. These issuances may be credit enhanced by various means, usually by a sponsoring bank.

Under the interim rule, sponsoring banking organizations may remove consolidated ABCP program assets from their risk-weighted asset base for purposes of calculating their risk-based capital ratios. However, sponsoring banking organizations must continue to include any other exposures they have to these programs, such as credit enhancements, in risk-weighted assets. The interim rule also amends the risk-based capital standards to exclude from tier 1

and total capital any minority interests in ABCP programs consolidated by sponsoring banking organizations under FIN 46. The interim rule will be in effect only for the regulatory reporting periods ending September 30 and December 31, 2003, and March 31, 2004.

The risk-based capital treatment set forth in the interim rule does not alter the accounting rules for balance sheet consolidation as set forth under generally accepted accounting principles. Consequently, banking organizations will be required to report consolidated ABCP program assets in their tier 1 leverage ratio calculation.

The NPR solicits comments on a permanent, risk sensitive risk-based capital treatment for the risks arising from ABCP programs. In particular, it proposes to permanently permit banking organizations to exclude from their risk-weighted asset base those assets in ABCP programs consolidated onto sponsoring banking organizations' balance sheets as a result of FIN 46. In addition, the NPR also would require banking organizations to hold risk-based capital against liquidity facilities provided to ABCP programs with an original maturity of one year or less. This treatment recognizes that such facilities, which currently are not assessed a capital requirement, expose banking organizations to credit risk. The agencies are also proposing a risk-based capital charge for certain types of securitizations of revolving retail credit facilities (for example, credit card receivables) that incorporate early amortization provisions. The goal of these capital proposals is to more closely align the risk-based capital requirements with the associated risk of the exposures. The interim final rule and NPR are being issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Office of Thrift Supervision. Comments on the interim final rule and NPR are due 45 days after their publication in the Federal Register.

Risk-Based Capital Guidelines: Capital Adequacy Guidelines; Capital Maintenance: Interim Capital Treatment of Consolidated Asset-Backed Commercial Paper Programs Asset - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-31a.pdf>

Risk-Based Capital Guidelines: Capital Adequacy Guidelines; Capital Maintenance: Asset-Backed Commercial Paper Programs and Early Ammortization Provisions - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-31b.pdf>

Media Contacts:

Federal Reserve	Susan Stawick	(202) 452-2955
FDIC	David Barr	(202) 898-6992
OCC	Robert Garsson	(202) 874-5770
OTS	Chris Smith	(202) 906-6677

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at <http://www.ots.treas.gov/>.