FEDERAL RESERVE BANK
OF DALLAS

ROBERT H. BOYKIN
PRESIDENT

January 15, 1991

DALLAS, TEXAS 75222

Notice 91-01

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

Federal Financial Institutions Examination Council Study of Regulatory Treatment of Recourse Arrangements

DETAILS

The Federal Financial Institutions Examination Council (FFIEC) has announced the currently projected timetable for its study of the regulatory treatment of recourse arrangements and has defined the study's immediate scope. The FFIEC's request for public comment on recourse arrangements was presented in this Bank's Circular 90-51, dated July 27, 1990.

ATTACHMENT

A copy of the FFIEC's recent press release is attached.

MORE INFORMATION

For further information, please contact Jane Anne Schmoker at (214) 651-6228. For additional copies of this notice or Circular 90-51, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

Robert H. Boykin

Federal Financial Institutions **Examination Council**

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Press Release

For immediate release December 10, 1990

The Examination Council at its December 7, 1990 meeting reviewed the status of its study of the regulatory treatment of recourse arrangements. This announcement is to advise the public of the currently projected timetable for the study and to define its immediate scope.

On June 25, 1990, the Council issued a Request for Public Comment on Recourse Arrangements which was published for a 60-day comment period in the Federal Register. Public comment was solicited on the definition of "recourse" and the appropriate reporting and capital treatments for recourse arrangements. Comment was also solicited on the appropriate treatment of recourse arrangements under the lending limits applicable to banks and savings associations. The five agencies represented on the Council originally targeted year-end 1990 as the effective date for any regulatory changes arising from the study.

The Council has received approximately 145 comment letters from a wide range of depository institutions and the public in response to the publication. Many commenters expressed concern that the December target date might not allow sufficient time for the development of optimal solutions to the numerous issues presented. In view of the project's significance and complexity, the Council has narrowed the scope of the immediate study, as explained below, and is now targeting year-end 1991 as the earliest effective date for any regulatory changes. The Council or the agencies will publish notices of proposed rulemaking in the Federal Register for public comment prior to adopting any final rules or guidelines.

The primary and immediate focus of the Council's study is on the capital and reporting treatments of recourse arrangements that expose financial institutions to credit-related risks. Among other issues, the Council is actively considering appropriate treatments for limited recourse arrangements and for recourse that supports a third party's assets. The Council is also considering options for addressing implicit recourse, including the possibility that this matter should be addressed on a case-by-case basis.

The Council continues to believe that all quantifiable risks to financial institutions should be supported by capital. At this stage, however, the Council does not propose to address the risk-based capital treatment of recourse arrangements that expose financial institutions to interest rate risk or other

distinctly non-credit risks. The overall risk-based capital treatment of interest rate and certain other non-credit risks is under consideration by the individual agencies and the Basle Committee on Banking Supervision, which established the international framework for bank capital standards. The agencies have decided to await further developments in these areas before jointly considering the appropriate capital treatment for recourse arrangements that expose financial institutions to non-credit-related risks. In the meantime, the agencies will continue to apply their current capital standards, which include minimum capital requirements and additional capital requirements for individual institutions when warranted.

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