



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

October 5, 1992

DALLAS, TEXAS 75222

Notice 92-94

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

SUBJECT

Interim Rule and Request for Comment on Regulation H (Membership of State Banking Institutions in the Federal Reserve System) and Regulation Y (Bank Holding Companies and Change in Bank Control)

DETAILS

The Board is proposing to modify its risk-based capital guidelines for state member banks and bank holding companies to include the European Bank for Reconstruction and Development, the International Finance Corporation, and the Nordic Investment Bank in the list of named multilateral lending institutions that are eligible for a 20 percent risk weight. This proposed modification would conform the Board's risk-based capital guidelines more closely to interpretive guidance adopted by the other G-10 countries that are signatories to the Basle Accord.

The interim rule was effective September 23, 1992. The Board must receive comments by October 23, 1992. Comments should be addressed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. All comments should refer to Docket No. R-0776.

ATTACHMENT

A copy of the Board's notice as it appears on pages 43889-90, Vol. 57, No. 185, of the Federal Register dated September 23, 1992, is attached.

MORE INFORMATION

For more information, please contact Dorsey Davis at (214) 922-6051. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

FEDERAL RESERVE SYSTEM**12 CFR Parts 208 and 225**

[Regulations H and Y; Docket No. R-0776]

Capital; Capital Adequacy Guidelines**AGENCY:** Board of Governors of the Federal Reserve System.**ACTION:** Interim rule.

SUMMARY: The Board is proposing to modify its risk-based capital guidelines for state member banks and bank holding companies to include the European Bank for Reconstruction and Development, the International Finance Corporation, and the Nordic Investment Bank in the list of named multilateral lending institutions that are eligible for a 20 percent risk weight. This proposed modification would conform the Board's risk-based capital guidelines more closely to interpretive guidance adopted by the other G-10 countries that are signatories to the Basle Accord.

DATES: The interim rule is effective as of September 23, 1992. Comments must be received by October 23, 1992.

ADDRESSES: Comments, which should refer to Docket No. R-0776, may be mailed to the Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551, to the attention of Mr. William W. Wiles, Secretary. Comments addressed to Mr. Wiles may also be delivered to the Board's mail room between 8:45 a.m. and 5:15 p.m., and to the security control room outside of those hours. Both the mail room and the security control room are accessible from the courtyard entrance on 20th Street between Constitution Avenue and C Street, NW. Comments may be inspected in Room B-1122 between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in § 261.8 of the Board's Rules Regarding Availability of Information, 12 CFR 261.8.

FOR FURTHER INFORMATION CONTACT: Rhoger H Pugh, Assistant Director (202/728-5883), Kelly S. Shaw, Supervisory Financial Analyst (202/452-3054), Norah Barger, Supervisory Financial Analyst (202/452-2402), Division of Banking Supervision and Regulation; and Brian

E. J. Lam, Attorney (202/452-2067), Legal Division, Board of Governors of the Federal Reserve System. For the hearing impaired *only*, Telecommunication Device for the Deaf (TDD), Dorothea Thompson (202/452-3544), Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC.

SUPPLEMENTARY INFORMATION: Under the risk-based capital framework established by the Basle Accord, claims on, and claims guaranteed by, multilateral lending institutions and regional development banks in which G-10 countries are shareholding members may be accorded, at national discretion, a 20 percent risk weight. Like the Basle Accord, the Board's risk-based capital guidelines specify five multilateral lending institutions and regional development banks¹ that are eligible for the 20 percent risk weight. The guidelines further state that other multilateral lending institutions and regional development banks may be accorded a 20 percent risk weight if the U.S. government is a shareholder or contributing member.

The Board has received a number of requests concerning the risk weight of claims on, and investments in securities issued by, the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), and the Nordic Investment Bank (NIB). In response to these requests, the Board is proposing to clarify that bank holding companies and state member banks may assign a 20 percent risk weight to claims on, or guaranteed by, the EBRD or the IFC. The U.S. is a contributing shareholder of the EBRD, but it was established after the original publication of the capital adequacy guidelines. Since the IFC is a subsidiary of the World Bank, an organization that the guidelines specifically name as an institution eligible for the 20 percent risk weight, it already implicitly is included in the 20 percent risk category. However, since numerous inquiries have been received with regard to the appropriate risk category for the IFC, the Board is proposing to include it in the list of multilateral lending institutions and regional development banks specifically named in the guidelines as eligible for the 20 percent risk weight.

The Board is also proposing to permit bank holding companies and state member banks to assign a 20 percent

risk weight to claims on, or guaranteed by, NIB. Under the current guidelines, NIB would not qualify for a 20 percent risk weight as the U.S. is neither a shareholder nor a contributing member. However, the Basle Committee on Banking Supervision has interpreted the criteria in the Basle Accord for assigning a multilateral lending institution to the 20 percent risk category to mean that any country may include NIB in this preferential risk category since Sweden, a G-10 country, is a shareholder in NIB. Thus, adding NIB to the list of named multilateral lending institutions eligible for a 20 percent risk weight would serve to conform the Board's risk-based capital guidelines more closely to the interpretive guidance adopted by the other G-10 countries that are signatories to the Basle Accord.

The proposed modifications to the risk-based capital guidelines would have the effect of allowing claims collateralized by securities issued by the EBRD, IFC, and NIB to be included in the 20 percent risk category.

The Board is seeking comment on the proposed change to its risk-based capital guidelines. Because the Board wishes to implement in an appropriate and expeditious manner guidance adopted by the G-10 countries in connection with the Basle Accord, and because the proposed revision would reduce rather than expand the regulatory burden on state member banks and bank holding companies, the Board is implementing the proposed change immediately as an interim rule.

Regulatory Flexibility Act Analysis

The Federal Reserve Board does not believe adoption of this proposal would have a significant economic impact on a substantial number of small business entities (in this case, small banking organizations), in accord with the spirit and purposes of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*). In this regard, the proposed revision would reduce certain regulatory burdens on bank holding companies as it would reduce the capital charge on certain transactions. In addition, because the risk-based capital guidelines generally do not apply to bank holding companies with consolidated assets of less than \$150 million, this proposal will not affect such companies.

List of Subjects*12 CFR Part 208*

Accounting, Agriculture, Banks, banking, Confidential business information, Currency, Federal Reserve

¹ International Bank for Reconstruction and Development (World Bank), Latin American Development Bank, Asian Development Bank, African Development Bank, and the European Investment Bank.

System, Reporting and recordkeeping requirements, Securities.

12 CFR Part 225

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities.

For the reasons set forth in the preamble, and pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844 (b)), and section 910 of the International Lending Supervision Act of 1983 (12 U.S.C. 3909), the Board is amending 12 CFR parts 208 and 225 as follows:

PART 208—MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM

1. The authority citation for part 208 is revised to read as follows:

Authority: Sections 9, 11(a), 11(c), 19, 21, 25, and 25(a) of the Federal Reserve Act, as amended (12 U.S.C. 321-338, 248(a), 248(c), 461, 481-486, 601 and 611, respectively); sections 4, 13(j), and 18(o) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1814, 1823(j), and 1828(o), respectively); section 7(a) of the International Banking Act of 1978 (12 U.S.C. 3105); sections 907-910 of the International Lending Supervision Act of 1983 (12 U.S.C. 3906-3909); sections 2, 12(b), 12(g), 12(i), 15B(c) (5), 17, 17A, and 23 of the Securities Exchange Act of 1934 (15 U.S.C. 78b, 78l(b), 78l(g), 78l(i), 78o-4(c) (5), 78q, 78q-1, and 78w, respectively); section 5155 of the Revised Statutes (12 U.S.C. 36) as amended by the McFadden Act of 1927; and sections 1101-1122 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3310 and 3331-3351).

2. Appendix A to part 208 is amended by revising the second sentence of the second paragraph in III.C.2 to read as follows:

Appendix A to Part 208—Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure

* * * * *
 III. * * *
 C. * * *

2. ***In addition, this category also includes claims on, and the portions of claims that are guaranteed by, U.S. government-sponsored³² agencies and claims on, and the

³² For this purpose, U.S. government-sponsored agencies are defined as agencies originally established or chartered by the federal government to serve public purposes specified by the U.S. Congress but whose obligations are *not explicitly* guaranteed by the full faith and credit of the U.S. government. These agencies include the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Farm Credit System, the Federal Home Loan Bank System, and the Student Loan Marketing Association (SLMA). Claims on U.S. government-

portions of claims guaranteed by, the International Bank for Reconstruction and Development (World Bank), the International Finance Corporation, the Interamerican Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank, the European Bank for Reconstruction and Development, the Nordic Investment Bank, and other multilateral lending institutions or regional development banks in which the U.S. government is a shareholder or contributing member.***

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PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL

1. The authority citation for part 225 is revised to read as follows:

Authority: 12 U.S.C. 1817(j) (13), 1818(b), 1828(o), 1831i, 1843(c) (8), 1844(b), 1972(l), 3106, 3108, 3907, 3909, 3310, 3331-3351, and sec. 306 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (Pub. L. 102-242, 105 Stat. 2236 (1991)).

2. Appendix A to part 225 is amended by revising the second sentence of the second paragraph in III.C.2 to read as follows:

Appendix A to Part 225—Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure

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 III. * * *
 C. * * *

2. ***In addition, this category also includes claims on, and the portions of claims that are guaranteed by, U.S. government-sponsored³⁵ agencies and claims on, and the portions of claims guaranteed by, the International Bank for Reconstruction and Development (World Bank), the International Finance Corporation, the Interamerican Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank, the European Bank for Reconstruction and Development, the Nordic Investment Bank, and other multilateral lending institutions or regional development banks in which the U.S. government is a shareholder or contributing member.***

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sponsored agencies include capital stock in a Federal Home Loan Bank that is held as a condition of membership in that Bank.

³⁵ For this purpose, U.S. government-sponsored agencies are defined as agencies originally established or chartered by the federal government to serve public purposes specified by the U.S. Congress but whose obligations are *not explicitly* guaranteed by the full faith and credit of the U.S. government. These agencies include the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Farm Credit System, the Federal Home Loan Bank System, and the Student Loan Marketing Association (SLMA). Claims on U.S. government-sponsored agencies include capital stock in a Federal Home Loan Bank that is held as a condition of membership in that Bank.

Board of Governors of the Federal Reserve System, September 16, 1992.

William W. Wiles,

Secretary of the Board.

[FR Doc. 92-23025 Filed 9-22-92; 8:45 am]

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