FEDERAL RESERVE BANK OF NEW YORK

[Circular No. **10711**
June 7, 1994]

RISK-BASED CAPITAL STANDARDS

Proposal Regarding the Use of Netting Arrangements

Comments Requested by June 20, 1994

To All State Member Banks and Bank Holding Companies in the Second Federal Reserve District, and Others Concerned:

The following statement was issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve has requested public comment on a proposal that would amend the Federal Reserve's risk-based capital guidelines for state member banks and bank holding companies to recognize the risk-reducing benefits of netting arrangements. This proposal was issued jointly with the Office of the Comptroller of the Currency, which is seeking comment on a similar amendment to its capital guidelines for national banks.

Comments should be received by June 20, 1994.

Under the proposed amendment, institutions would be permitted to net, for risk-based capital purposes, the current exposures of interest and exchange rate contracts subject to qualifying bilateral netting contracts.

The proposed amendment would allow state member banks and bank holding companies to net positive and negative mark-to-market values of rate contracts in determining the current exposure portion of the credit equivalent amount of such contracts to be included in risk-weighted assets.

This proposal is based on a proposed revision to the Basle Accord that would allow the recognition of such netting arrangements.

Printed on the following pages is the text of the interagency notice on this matter, which has been published in the *Federal Register.* Comments on the proposal should be submitted by June 20, and may be sent to the Board of Governors, as specified in the notice, or to our Bank Analysis Department.

WILLIAM J. MCDONOUGH,
President.

DEPARTMENT OF THE TREASURY
Office of the Comptroller of the Currency
12 CFR Part 3
Docket No. 94-08
RIN 1557-AB14

FEDERAL RESERVE SYSTEM
12 CFR Parts 208 and 225
Docket No. R-0837

Risk-Based Capital Standards; Bilateral Netting Requirements

AGENCIES: Office of the Comptroller of the Currency (OCC), Department of the Treasury; and Board of Governors of the Federal Reserve System (Board).

ACTION: Notice of proposed rulemaking.

SUMMARY: The OCC and the Board (the banking agencies) are proposing to amend their risk-based capital standards to recognize the risk reducing benefits of netting arrangements. Under the proposal, institutions regulated by the OCC and the Federal Reserve would be permitted to net, for risk-based capital purposes, interest and exchange rate contracts (rate contracts) subject to legally enforceable bilateral netting contracts that meet certain criteria. The OCC and the Board are proposing these amendments on the basis of proposed revisions to the Basle Accord which would permit the recognition of such netting arrangements. The effect of the proposed amendments would be to allow banks and bank holding companies regulated by the OCC and the Federal Reserve (banking organizations, institutions) to net positive and negative mark-to-market values of rate contracts in determining the current exposure portion of the credit equivalent amount of such contracts to be included in risk-weighted assets.

DATES: Comments must be received by June 20, 1994.

ADDRESSES: Interested parties are invited to submit written comments to either or both of the banking agencies. All comments will be shared by the banking agencies.

OCC: Written comments should be submitted to Docket No. 94-08, Communications Division, Ninth Floor, Office of the Comptroller of the Currency, 250 E Street, S.W., Washington, D.C. 20219. Attention: Karen Carter. Comments will be available for inspection and photocopying at that address.

Board of Governors: Comments, which should refer to Docket No. R-0837, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551; or delivered to Room B-2223, Eccles Building, between 8:45 a.m. and 5:15 p.m. weekdays. Comments may be inspected in Room MP-500 between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in section 261.8 of the Board's Rules Regarding Availability of Information, 12 CFR 261.8.

FOR FURTHER INFORMATION CONTACT:

OCC: For issues relating to netting and the calculation of risk-based capital ratios, Roger Tufts, Senior Economic Advisor (202/874-5070), Office of the Chief National Bank Examiner. For legal issues, Eugene Cantor, Senior Attorney, Securities, Investments, and Fiduciary Practices (202/874-5210), or Ronald Shimabukuro, Senior Attorney, Bank Operations and Asset Division (202/874-4460), Office of the Comptroller of the Currency, 250 E Street, S.W., Washington, D.C. 20219.

Board of Governors: Roger Cole, Deputy Associate Director (202/452-2618), Norah Barger, Manager (202/452-2402), Robert Motyka, Supervisory Financial Analyst (202/452-3621), Barbara Bouchard, Senior Financial Analyst (202/452-3072), Division of Banking Supervision and Regulation; or Stephanie Martin, Senior Attorney (202/452-3198), Legal Division. For the hearing impaired only, Telecommunications Device for the Deaf, Dorothea Thompson (202/452-3544).

SUPPLEMENTARY INFORMATION:

A. Background

The international risk-based capital standards (Basle Accord)[1] include a framework for calculating risk-weighted assets by assigning assets and off-balance sheet items, including interest and exchange rate contracts, to broad risk categories based primarily on credit risk. The OCC and the Federal Reserve both adopted in 1989 similar frameworks to assess the capital adequacy of the banking organizations under their supervision. Banking organizations must hold capital against their overall credit risk, that is, generally, against the risk that a loss will be incurred if a counterparty defaults on a transaction.

Under the risk-based capital framework, off-balance sheet items are incorporated into risk-weighted assets by first determining the on-balance sheet credit equivalent amounts for the items and then assigning the credit equivalent amounts to the appropriate risk category according to the obligor, or if relevant, the guarantor or the nature of the collateral. For many types of off-balance sheet transactions, the on-balance sheet credit equivalent amount is determined by multiplying the face amount of the item by a credit conversion factor. For interest and exchange rate contracts however, credit equivalent amounts are determined by summing two amounts: the current exposure and the estimated potential future exposure.[2]

The current exposure (sometimes referred to as replacement cost) of a contract is derived from its market value. In most instances the initial market value of a contract is zero.[3] A banking organization should mark-to-market all of its rate contracts to reflect the current market value of the contracts in light of changes in the market price of the contracts or in the underlying interest or exchange rates. Unless the market value of a contract is zero, one party will always have a positive mark-to-market value for the contract, while the other party (counterparty) will have a negative mark-to-market value.

An institution holding a contract with a positive mark-to-market

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[1]The Basle Accord is a risk-based framework that was proposed by the Basle Committee on Banking Supervision (Basle Supervisors' Committee) and endorsed by the central bank governors of the Group of Ten (G-10) countries in July 1988. The Basle Supervisors' Committee is comprised of representatives of the central banks and supervisory authorities from the G-10 countries (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) and Luxembourg.

[2]Exchange rate contracts with an original maturity of 14 calendar days or less and instruments traded on exchanges that require daily payment of variation margin are excluded from the risk-based ratio calculations.

[3]An options contract has a positive value at inception, which reflects the premium paid by the purchaser. The value of the option may be reduced due to market movements but it cannot become negative. Therefore, unless an option has zero value, the purchaser of the option contract will always have some credit exposure, which may be greater than or less than the original purchase price, and the seller of the option contract will never have credit exposure.

value is "in-the-money," that is, it would have the right to receive payment from the counterparty if the contract were terminated. Thus, an institution that is in-the-money on a contract is exposed to counterparty credit risk, since the counterparty could fail to make the expected payment. The potential loss is equal to the cost of replacing the terminated contract with a new contract that would generate the same expected cash flows under the existing market conditions. Therefore, the in-the-money institution's current exposure on the contract is equal to the market value of the contract. An institution holding a contract with a negative mark-to-market value, on the other hand, is "out-of-the-money" on that contract, that is, if the contract were terminated, the institution would have an obligation to pay the counterparty. The institution with the negative mark-to-market value has no counterparty credit exposure because it is not entitled to any payment from the counterparty in the case of counterparty default. Consequently, a contract with a negative market value is assigned a current exposure of zero. A current exposure of zero is also assigned to a contract with a market value of zero, since neither party would suffer a loss in the event of contract termination. In summary, the current exposure of a rate contract equals either the positive market value of the contract or zero.

The second part of the credit equivalent amount for rate contracts, the estimated potential future exposure (often referred to as the add-on), is an amount that represents the potential future credit exposure of a contract over its remaining life. This exposure is calculated by multiplying the notional principal amount of the underlying contract by a credit conversion factor that is determined by the remaining maturity of the contract and the type of contract.[4] The potential future credit exposure is calculated for all contracts, regardless of whether the mark-to-market value is zero, positive, or negative.

The potential future exposure is added to the current exposure to arrive at a credit equivalent amount.[5] Each credit equivalent amount is then assigned to the appropriate risk category, according to the counterparty or, if relevant, the guarantor or the nature of the collateral. The maximum risk weight applied to such rate contracts is 50 percent.

B. Netting and Current Risk-Based Capital Treatment

The OCC, the Board, and the Basle Supervisors' Committee have long recognized the importance and encouraged the use of netting contracts as a means of improving interbank efficiency and reducing counterparty credit exposure. Netting contracts are increasingly being used by institutions engaging in rate contracts. Often referred to as master netting contracts, these arrangements typically provide for both payment and close-out netting. Payment netting provisions permit an institution to make payments to a

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[4]For interest rate contracts with a remaining maturity of one year or less, the factor is 0% and for those with a remaining maturity of over one year, the factor is .5%. For exchange rate contracts with a remaining maturity of one year or less, the factor is 1% and for those with a remaining maturity of over one year, the factor is 5%.

Because exchange rate contracts involve an exchange of principal upon maturity and are generally more volatile, they carry a higher conversion factor. No potential future credit exposure is calculated for single-currency interest-rate swaps in which payments are made based on two floating indices (basis swaps).

[5]This method of determining credit equivalent amounts for rate contracts is known as the current exposure method, which is used by most international banks. The Basle Accord permits, subject to each country's discretion, an alternative method for determining the credit equivalent amount known as the original exposure method. Under this method, the capital charge is derived by multiplying the notional principal amount of the contract by a credit conversion factor, which varies according to the original maturity of the contract and whether it is an interest or exchange rate contract. The conversion factors, which are greater than those used under the current exposure method, make no distinction between current exposure and potential future exposure.

counterparty on a net basis by offsetting payments it is obligated to make with payments it is entitled to receive and, thus, to reduce its costs arising out of payment settlements.

Close-out netting provisions permit the netting of credit exposures if a counterparty defaults or upon the occurrence of another event such as insolvency or bankruptcy. If such an event occurs, all outstanding contracts subject to the close-out provisions are terminated and accelerated, and their market values are determined. The positive and negative market values are then netted, or set off, against each other to arrive at a single net exposure to be paid by one party to the other upon final resolution of the default or other event.

The potential for close-out netting provisions to reduce counterparty credit risk, by limiting an institution's obligation to the net credit exposure, depends upon the legal enforceability of the netting contract, particularly in insolvency or bankruptcy.[6] In this regard, the Basle Accord noted that while close-out netting could reduce credit risk exposure associated with rate contracts, the legal status of close-out netting in many of the G-10 countries was uncertain and insufficiently developed to support a reduced capital charge for such contracts.[7] There was particular concern that a bank's credit exposure to a counterparty was not reduced if liquidators of a failed counterparty might assert the right to "cherry-pick," that is, demand performance on those contracts that are favorable and reject contracts that are unfavorable to the defaulting party.

Concern over "cherry-picking" led the Basle Supervisors' Committee to limit the recognition of netting in the Basle Accord. The only type of netting that was considered to genuinely reduce counterparty credit risk at the time the Accord was endorsed was netting accomplished by novation.[8] Under legally enforceable netting by novation "cherry-picking" cannot occur and, thus, counterparty risk is genuinely reduced. The Accord stated that the Basle Supervisors' Committee would continue to monitor and assess the effectiveness of other forms of netting to determine if close-out netting provisions could be recognized for risk-based capital purposes.

The OCC and the Board's risk-based capital standards provide for the same treatment of rate contracts as the Basle Accord, but require that banking organizations use the current exposure method. The banking agencies, in adopting their standards, generally stated they would work with the Basle Supervisors' Committee in its continuing efforts with regard to the

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[6]The primary criterion for determining whether a particular netting contract should be recognized in the risk-based capital framework is the enforceability of that netting contract in insolvency or bankruptcy. In addition, the netting contract as well as the individual contracts subject to the netting contract must be legally valid and enforceable under non-insolvency or non-bankruptcy law, as is the case with all contracts.

[7]While payment netting provisions can reduce costs and the credit risk arising out of daily settlements with a counterparty, such provisions are not relevant to the risk-based capital framework since they do not in any way affect the counterparty's gross obligations.

[8]Netting by novation is accomplished under a written bilateral contract providing that any obligation to deliver a given currency on a given date is automatically amalgamated with all other obligations for the same currency and value date. The previously existing contracts are extinguished and a new contract, for the single net amount, is legally substituted for the amalgamated gross obligations. Parties to the novation contract, in effect, offset their obligations to make payments on individual transactions subject to the novation contract with their right to receive payments on other transactions subject to the contract.

recognition of netting provisions for capital purposes.

C. Basle Supervisors' Committee Proposal

Since the Basle Accord was adopted, a number of studies have confirmed that close-out netting provisions can serve to reduce counterparty risk. In response to the conclusions of these studies, as well as to industry support for greater acceptance of netting contracts under the risk-based capital framework, the Basle Supervisors' Committee issued a consultative paper on April 30, 1993, proposing an expanded recognition of netting arrangements in the Basle Accord.[9] Under the proposal, for purposes of determining the current exposure of rate contracts subject to legally enforceable bilateral close-out netting provisions (that is, close-out netting provisions with a single counterparty), an institution could net the contracts' positive and negative mark-to-market values.

Specifically, the Basle proposal states that a banking organization would be able to net rate contracts subject to a legally valid bilateral netting contract for risk-based capital purposes if it satisfied the appropriate national supervisor(s) that:

> (1) in the event of a counterparty's failure to perform due to default, bankruptcy or liquidation, the banking organization's claim (or obligation) would be to receive (or pay) only the net value of the sum of unrealized gains and losses on included transactions; (2) it has obtained written and reasoned legal opinions stating that in the event of legal challenge, the netting would be upheld in all relevant jurisdictions; and (3) it has procedures in place to ensure that the netting arrangements are kept under review in light of changes in relevant law.

The Basle Supervisors' Committee agreed that if a national supervisor is satisfied that a bilateral netting contract meets these minimum criteria, the netting contract may be recognized for risk-based capital purposes without raising safety and soundness concerns. The Basle Supervisors' Committee's proposal includes a footnote stating that if any of the relevant supervisors is dissatisfied with the status of the enforceability of a netting contract under its laws, the netting contract would not be recognized for risk-based capital purposes by either counterparty.

In addition, the Basle Supervisors' Committee is proposing that any netting contract that includes a walkaway clause be disqualified as an acceptable netting contract for risk-based capital purposes. A walkaway clause is a provision in a netting contract that permits the non-defaulting counterparty to make only limited payments, or no payments at all, to the defaulter or the estate of the defaulter even if the defaulter is a net creditor under the contract.

Under the proposal, a banking organization would calculate one current exposure under each qualifying bilateral netting contract. The current exposure would be determined by adding together (netting) the positive and negative market values for all individual interest rate and exchange rate contracts subject to the netting contract. If the net market value is positive, that value would equal the current exposure. If the net market value is negative or zero, the current exposure would be zero. The add-on for

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[9]The paper is entitled "The Prudential Supervision of Netting, Market Risks and Interest Rate Risk." The section applicable to netting is subtitled "The Supervisory Recognition of Netting for Capital Adequacy Purposes." This paper is available for review through the banking agencies' Freedom of Information Offices (FOIA) or through public information offices at the Federal Reserve Banks or OCC District Offices.

potential future credit exposure would be determined by calculating individual potential future exposures for each underlying contract subject to the netting contract in accordance with the procedure already in place in the Basle Accord.[10] A banking organization would then add together the potential future credit exposure (always a positive value) of each individual contract subject to the netting contract to arrive at the total potential future exposure it has under those contracts with the counterparty. The total potential future exposure would be added to the net current exposure to arrive at one credit equivalent amount that would be assigned to the appropriate risk category.

D. The Banking Agencies' Proposal

The OCC and the Board concur with the Basle Supervisors' Committee's determination that the legal status of close-out netting provisions has developed sufficiently to support the expanded recognition of such provisions for risk-based capital purposes. Therefore, the banking agencies are proposing to amend their respective risk-based capital standards in a manner consistent with the Basle Supervisors' Committee's proposed revision to the Basle Accord. The banking agencies' proposed amendments would allow banking organizations regulated by the OCC and the Federal Reserve to net the positive and negative market values of interest and exchange rate contracts subject to a qualifying, legally enforceable bilateral netting contract to calculate one current exposure for that netting contract.

The banking agencies' proposed amendments would add provisions to their standards setting forth criteria for a qualifying bilateral netting contract and an explanation of how the credit equivalent amount should be calculated for such contracts. The risk-based capital treatment of an individual contract that is not subject to a qualifying bilateral netting contract would remain unchanged.

For interest and exchange rate contracts that are subject to a qualifying bilateral netting contract under the proposed standards, the credit equivalent amount would equal the sum of (i) the current exposure of the netting contract and (ii) the total of the add-ons for all individual contracts subject to the netting contract. (As with all contracts, mark-to-market values for netted contracts would be measured in dollars, regardless of the currency specified in the contract.) The current exposure of the bilateral netting contract would be determined by adding together all positive and negative mark-to-market values of the individual contracts subject to the bilateral netting contract.[11] The current exposure would equal the sum of the market values if that sum is positive, or zero if the sum of the market values is zero or negative. The potential future exposure (add-on) for each individual contract subject to the bilateral netting contract would be calculated in the same manner as for non-netted contracts. These individual potential future exposures would then be added together to arrive at one total

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[10]Under the proposal, a banking organization could net in this manner for risk-based capital purposes if it uses, as all U.S. banking organizations are required to use, the current exposure method for calculating credit equivalent amounts of rate contracts. Organizations using the original exposure method would use revised conversion factors until market risk-related capital requirements are implemented, at which time the original exposure method will no longer be available for netted transactions.

[11]For regulatory capital purposes, the agencies would expect that institutions would normally calculate the current exposure of a bilateral netting contract by consistently including all contracts covered by that netting contract. In the event a netting contract covers transactions that are normally excluded from the risk-based ratio calculation--for example, exchange rate contracts with an original maturity of fourteen calendar days or less or instruments traded on exchanges that require daily payment of variation margin--institutions may elect to consistently either include or exclude all mark-to-market values of such transactions when determining net current exposures.

add-on amount.

The proposed amendments provide that a banking organization may net, for risk-based capital purposes, interest and exchange rate contracts only under a written bilateral netting contract that creates a single legal obligation covering all included individual rate contracts and that does not contain a walkaway clause. In addition, if a counterparty fails to perform due to default, insolvency, bankruptcy, liquidation or similar circumstances, the banking organization must have a claim to receive a payment, or an obligation to make a payment, for only the net amount of the sum of the positive and negative market values on included individual contracts.

The banking agencies' proposal requires that a banking organization obtain a written and reasoned legal opinion(s), representing that an organization's claim or obligation, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, would be found by the relevant court and administrative authorities to be the net sum of all positive and negative market values of contracts included in the bilateral netting contract.[12] The legal opinion normally would cover: (i) the law of the jurisdiction in which the counterparty is chartered or the equivalent location in the case of noncorporate entities, and if a branch of the counterparty is involved, the law of the jurisdiction in which the branch is located; (ii) the law that governs the individual contracts covered by the bilateral netting contract; and (iii) the law that governs the netting contract. The multiple jurisdiction requirement is designed to ensure that the netting contract would be upheld in any jurisdiction where the contract would likely be enforced or whose law would likely be applied in an enforcement action, as well as the jurisdiction where the counterparty's assets reside.

A legal opinion could be prepared by either an outside law firm or in-house counsel. If a banking organization obtained an opinion on the enforceability of a bilateral netting contract that covered a variety of underlying contracts, it generally would not need a legal opinion for each individual underlying contract that is subject to the netting contract, so long as the individual underlying contracts were of the type contemplated by the legal opinion covering the netting contract.

The complexity of the legal opinions will vary according to the extent and nature of the organization's involvement in rate contracts. For instance, a banking organization that is active in the international financial markets may need opinions covering multiple foreign jurisdictions as well as domestic law. The banking agencies expect that in many cases a legal opinion will focus on whether a contractual choice of law would be recognized in the event of default, insolvency, bankruptcy or similar circumstances in a particular jurisdiction rather than whether the jurisdiction recognizes netting. For example, a U.S. institution might engage in interest rate swaps with a non-U.S. institution under a netting contract that includes a provision that the contract will be governed by U.S. law. In this case the U.S. institution should obtain a legal opinion as to whether the netting would be upheld in the U.S. and whether the foreign courts would honor the choice of U.S. law in default or in an insolvency, bankruptcy, or similar proceeding.

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[12]The Financial Accounting Standards Board (FASB) has issued Interpretation No. 39 (FIN 39) relating to the "Offsetting of Amounts Related to Certain Contracts." FIN 39 generally provides that assets and liabilities meeting specified criteria may be netted under generally accepted accounting principles (GAAP). However, FIN 39 does not specifically require a written and reasoned legal opinion regarding the enforceability of the netting contract in bankruptcy and other circumstances. Therefore, under this proposal a banking organization might be able to net certain contracts in accordance with FIN 39 for GAAP reporting purposes, but not be able to net those contracts for risk-based capital purposes.

For a banking organization that engages solely in domestic rate contracts, the process of obtaining a legal opinion may be much simpler. For example, for an institution that is an end-user of a relatively small volume of domestic rate contracts, the standard contracts used by the dealer bank may already have been subject to the mandated legal review. In this case the end-user institution may obtain a copy of the opinion covering the standard dealer contracts, supported by the bank's own legal opinion.

The proposed amendments require a banking organization to establish procedures to ensure that the legal characteristics of netting contracts are kept under review in the light of possible changes in relevant law. This review would apply to any conditions that, according to the required legal opinions, are a prerequisite for the enforceability of the netting contract, as well as to any adverse changes in the law.

As with all of the provisions of the risk-based capital standards, a banking organization must maintain in its files documentation adequate to support any particular risk-based capital treatment. In the case of a bilateral netting contract, a banking organization must maintain in its files documentation adequate to support the bilateral netting contract. In particular, this documentation should demonstrate that the bilateral netting contract would be honored in all relevant jurisdictions as set forth in this rule. Typically, these documents would include a copy of the bilateral netting contract, legal opinions and any related English translations.

The banking agencies would have the discretion to disqualify any or all contracts from netting treatment for risk-based capital purposes if the bilateral netting contract, individual contracts, or associated legal opinions do not meet the requirements set out in the applicable standards. In the event of such a disqualification, the affected individual contracts subject to the bilateral netting contract would be treated as individual non-netted contracts under the standards.

As a general matter, relevant legal provisions for banking organizations in the U.S. make it clear that netting contracts with close-out provisions enable such organizations to setoff included individual transactions and reduce the obligations to a single net amount in the event of default, insolvency, bankruptcy, liquidation or similar circumstances.

The banking agencies' proposal provides that netting by novation arrangements would <u>not</u> be grandfathered under the standards if such arrangements do not meet all of the requirements proposed for qualifying bilateral netting contracts. Although netting by novation would continue to be recognized under the proposed standards, institutions may not have the legal opinions or procedures in place that would be required by the proposed amendments. The banking agencies believe that holding all bilateral netting contracts to the same standards will promote certainty as to the legal enforceability of the contracts and decrease the risks faced by counterparties in the event of a default.

E. Request for Comment

The banking agencies are seeking comment on all aspects of their proposed amendments to the risk-based capital standards. In addition, the agencies note that under current risk-based capital standards for individual contracts, the degree to which collateral is recognized in assigning the appropriate risk weight is based on the market value of the collateral in relation to the credit equivalent amount of the rate contract. The agencies are seeking comment on the nature of collateral arrangements and the extent to which collateral might be recognized in bilateral netting contracts, particularly taking into account legal implications of collateral arrangements (e.g., whether the collateral pledged for an individual transaction would be available to cover the net counterparty exposure in the event of legal

challenge) and procedural difficulties in monitoring collateral levels.

Regulatory Flexibility Act Analysis

Pursuant to section 605(b) of the Regulatory Flexibility Act, the banking agencies hereby certify that this proposed rule will not have a significant impact on a substantial number of small business entities. Accordingly, a regulatory flexibility analysis is not required.

The banking agencies believe that a small institution is more likely than a large institution to enter into relatively uncomplicated transactions under standard bilateral netting contracts and may need only to review a legal opinion that has already been obtained by its counterparties.

Executive Order 12866

It has been determined that this proposal is not a significant regulatory action as defined in Executive Order 12866.

Paperwork Reduction Act

The Federal Reserve has determined that its proposed amendments, if adopted, would not increase the regulatory paperwork burden of banking organizations pursuant to the provisions of the Paperwork Reduction Act (44 U.S.C. 3501 et seq.). The OCC has determined that there are no reporting or recordkeeping requirements in its proposed amendments; accordingly, the provisions of the Paperwork Reduction Act do not apply.

List of Subjects

12 CFR Part 3

Administrative practice and procedure, Capital, National banks, Reporting and recordkeeping requirements, Risk.

12 CFR Part 208

Accounting, Agriculture, Banks, banking, Branches, Capital adequacy, Confidential business information, Currency, Reporting and recordkeeping requirements, Securities, State member banks.

12 CFR Part 225

Administrative practice and procedure, Banks, banking, Capital adequacy, Holding companies, Reporting and recordkeeping requirements, Securities.

COMPTROLLER OF THE CURRENCY

AUTHORITY AND ISSUANCE:

For the reasons set out in the preamble, appendix A to part 3 of title 12, chapter I of the Code of Federal Regulations is proposed to be amended as set forth below.

PART 3--MINIMUM CAPITAL RATIOS; ISSUANCE OF DIRECTIVES

1. The authority citation for part 3 is revised to read as follows:

AUTHORITY: 12 U.S.C. 93a, 161, 1818, 1828(n), 1828 note, 1831n note, 3907 and 3909.

2. In appendix A, paragraph (c)(15) of section 1 is removed, paragraphs (c)(16) through (c)(28) are redesignated as paragraphs (c)(15) through (c)(27), and a new paragraph (c)(28) is added to read as follows:

APPENDIX A--RISK-BASED CAPITAL GUIDELINES

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Section 1. Purpose, Applicability of Guidelines, and Definitions.

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contract that permits a nondefaulting counterparty to make a lower payment than it would make otherwise under the bilateral netting contract, or no payment at all, to a defaulter or the estate of a defaulter, even if a defaulter or the estate of a defaulter is a net creditor under the bilateral netting contract.

3. In appendix A, paragraph (b)(5) of section 3 is revised to read as follows:

Section 3. Risk Categories/Weights for On-Balance Sheet Assets and Off-Balance Sheet Items

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(b) * * *

(5) Off-Balance Sheet Contracts--Interest Rate and Foreign Exchange Rate Contracts.

(i) Calculation of credit equivalent amounts. The credit equivalent amount of an off-balance sheet interest rate or foreign exchange rate contract is equal to the sum of the current credit exposure (also referred to as the replacement cost) and the potential future credit exposure of the off-balance sheet rate contract. The calculation of credit equivalent amounts must be measured in U.S. dollars, regardless of the currency or currencies specified in the off-balance sheet rate contract.

(A) Current credit exposure. The current credit exposure for a single off-balance sheet rate contract is determined by the mark-to-market value of the off-balance sheet rate contract. If the mark-to-market value is positive, then the current exposure is equal to that mark-to-market value. If the mark-to-market value is zero or negative, then the current exposure is zero. However, in determining its current credit exposure for multiple off-balance sheet rate contracts executed with a single counterparty, a bank may net positive and negative mark-to-market values of off-balance sheet rate contracts if subject to a bilateral netting contract as provided by section 3(b)(5)(ii) of this appendix A. If the net mark-to-market value is positive, then the current credit exposure is equal to that net mark-to-market value. If the net mark-to-market value is zero or negative, then the current exposure is zero.

(B) Potential future credit exposure. The potential future credit exposure on an off-balance sheet rate contract, including contracts with negative mark-to-market values, is estimated by multiplying the notional principal[18a] by one of the following credit conversion factors, as appropriate:[19]

[18a]For purposes of calculating potential future credit exposure for foreign exchange contracts and other similar contracts, in which notional principal is equivalent to cash flows, total notional principal is defined as the net receipts to each party falling due on each value date in each currency.

[19]No potential future credit exposure is calculated for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; the credit equivalent amount is measured solely on the basis of the current credit exposure.

Remaining Maturity	Interest Rate Contracts (Percents)	Foreign Exchange Rate Contracts (Percents)
One year or less	0	1.0
Over one year	0.5	5.0

(ii) Off-balance sheet rate contracts subject to bilateral netting contracts. In determining its current credit exposure for multiple off-balance sheet rate contracts executed with a single counterparty, a bank may net off-balance sheet rate contracts subject to a bilateral netting contract by offsetting positive and negative mark-to-market values, provided that:

(A) The bilateral netting contract is in writing;

(B) The bilateral netting contract creates a single legal obligation for all individual off-balance sheet rate contracts covered by the bilateral netting contract, and provides, in effect, that the bank would have a single claim or obligation either to receive or pay only the net amount of the sum of the positive and negative mark-to-market values on the individual off-balance sheet contracts covered by the bilateral netting contract in the event that a counterparty, or a counterparty to whom the bilateral netting contract has been validly assigned, fails to perform due to any of the following events: default, insolvency, bankruptcy, or other similar circumstances.

(C) The bank obtains a written and reasoned legal opinion(s) that represents that in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, the relevant court and administrative authorities would find the bank's exposure to be the net amount under:

(I) The law of the jurisdiction in which the counterparty is chartered or the equivalent location in the case of noncorporate entities, and if a branch of the counterparty is involved, then also under the law of the jurisdiction in which the branch is located;

(II) The law that governs the individual off-balance sheet rate contracts covered by the bilateral netting contract; and

(III) The law that governs the bilateral netting contract;

(D) The bank establishes and maintains procedures to monitor possible changes in relevant law and to ensure that the bilateral netting contract continues to satisfy the requirements of this section; and

(E) The bank maintains in its files documentation adequate to support the netting of an off-balance sheet rate contract.[19a]

(F) The bilateral netting contract is not subject to a walkaway clause.

(iii) Risk weighting. Once the bank determines the credit equivalent amount for an off-balance sheet rate contract, that amount is assigned to the risk weight category appropriate to the counterparty, or, if relevant, the nature of any collateral or guarantee. However, the maximum weight that will be applied to the credit equivalent amount of such off-balance sheet rate contracts is 50 percent.

[19a]By netting individual off-balance sheet rate contracts for the purpose of calculating its credit equivalent amount, a bank represents that documentation adequate to support the netting of an off-balance sheet rate contract is in the bank's files and available for inspection by the OCC. Upon determination by the OCC that a bank's files are inadequate or that a bilateral netting contract may not be legally enforceable under any one of the bodies of law described in section 3(b)(5)(ii)(C)(I) through (III) of this appendix A, the underlying individual off-balance sheet rate contracts may not be netted for the purposes of this section.

(iv) Exceptions. The following off-balance sheet rate contracts are not subject to the above calculation, and therefore, are not considered part of the denominator of a national bank's risk-based capital ratio:

(A) A foreign exchange rate contract with an original maturity of 14 calendar days or less; and

(B) Any interest rate or foreign exchange rate contract that is traded on an exchange requiring the daily payment of any variations in the market value of the contract.

* * * * *

3. The table title and the introductory text to Table 3 are revised to read as follows:

TABLE 3--TREATMENT OF INTEREST RATE AND FOREIGN EXCHANGE RATE CONTRACTS

The current exposure method is used to calculate the credit equivalent amounts of these off-balance sheet rate contracts. These amounts are assigned a risk weight appropriate to the obligor or any collateral or guarantee. However, the maximum risk weight is limited to 50 percent. Multiple off-balance sheet rate contracts with a single counterparty may be netted if those contracts are subject to a qualifying bilateral netting contract.

* * * * *

This signature page relates to the joint Notice of Proposed Rulemaking titled Risk-Based Capital Standards; Bilateral Netting Requirements, Office of the Comptroller of the Currency, Department of the Treasury, Docket Number 94-08.

Office of the Comptroller of the Currency

_____
Date

_____
Eugene A. Ludwig
Comptroller of the Currency

FEDERAL RESERVE SYSTEM

AUTHORITY AND ISSUANCE:

For the reasons set out in the preamble, part 208 of chapter II of title 12 of the Code of Federal Regulations is proposed to be amended as set forth below.

PART 208--MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM (REGULATION H)

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

AUTHORITY: 12 U.S.C. 36, 248(a) and (c), 321-338a, 371d, 461, 481-486, 601, 611, 1814, 1823(j), 1828(o), 1831o, 1831p-1, 3105, 3310, 3331-3351 and 3906-3909; 15 U.S.C. 78b, 78l(b), 78l(g), 78l(i), 78o-4(c)(5), 78q, 78q-1 and 78w; 31 U.S.C. 5318.

2. Appendix A to part 208 is amended by revising section III.E.2.; section III.E.3.; section III.E.5.; the last sentence of Attachment IV; and Attachment V to read as follows:

APPENDIX A TO PART 208--CAPITAL ADEQUACY GUIDELINES FOR STATE MEMBER BANKS: RISK-BASED MEASURE

* * * * *

III. Procedures for Computing Weighted Risk Assets and Off-Balance Sheet Items

* * * * *

E. Interest Rate and Foreign Exchange Rate Contracts

* * * * *

2. Calculation of credit equivalent amounts. The credit equivalent amount of an off-balance sheet rate contract that is not subject to a qualifying bilateral netting contract in accordance with section III.E.5. of this appendix A is equal to the sum of (i) the current exposure (sometimes referred to as the replacement cost) of the contract and (ii) an estimate of the potential future credit exposure over the remaining life of the contract.

The current exposure is determined by the mark-to-market value of the contract. If the mark-to-market value is positive, then the current exposure is equal to that mark-to-market value. If the mark-to-market value is zero or negative, then the current exposure is zero. Mark-to-market values are measured in dollars, regardless of the currency or currencies specified in the contract and should reflect changes in both interest rates and counterparty credit quality.

The potential future credit exposure on a contract, including contracts with negative mark-to-market values, is estimated by multiplying the notional principal amount of the contract by one of the following credit conversion factors, as appropriate:

[in percent]

Remaining Maturity	Interest rate contracts	Exchange rate contracts
One year or less	0	1.0
Over one year	0.5	5.0

Examples of the calculation of credit equivalent amounts for these instruments are contained in Attachment V of this appendix A.

Because exchange rate contracts involve an exchange of principal upon maturity, and exchange rates are generally more volatile than interest rates, higher conversion factors have been established for foreign exchange rate contracts than for interest rate contracts.

No potential future credit exposure is calculated for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; the credit exposure on these contracts is evaluated solely on the basis of their mark-to-market values.

3. Risk weights. Once the credit equivalent amount for interest rate and exchange rate instruments has been determined, that amount is assigned to the risk weight category appropriate to the counterparty, or, if relevant, the guarantor or the nature of any collateral.[49] However, the maximum weight that will be applied to the credit equivalent amount of such instruments is 50 percent.

* * * * *

5. Netting. For purposes of this appendix A, netting refers to the offsetting of positive and negative mark-to-market values when determining a current exposure to be used in the calculation of a credit equivalent amount. Any legally enforceable form of bilateral netting (that is, netting with a single counterparty) of rate contracts is recognized for purposes of calculating the credit equivalent amount provided that:

(a) The netting is accomplished under a written netting contract that creates a single legal obligation, covering all included individual contracts, with the effect that the bank would have a claim or obligation to receive or pay, respectively, only the net amount of the sum of the positive and negative mark-to-market values on included individual contracts in the event that a counterparty, or a counterparty to whom the contract has been validly assigned, fails to perform due to any of the following events: default, insolvency, bankruptcy, or similar circumstances.

(b) The bank obtains a written and reasoned legal opinion(s) representing that in the event of a legal challenge, including one resulting from default, insolvency, liquidation or similar circumstances, the relevant court and administrative authorities would find the bank's exposure to be such a net amount under:

(i) the law of the jurisdiction in which the counterparty is chartered or the equivalent location in the case of noncorporate entities, and if a branch of the counterparty is involved, then also under the law of the jurisdiction in which the branch is located;

(ii) the law that governs the individual contracts covered by the netting contract; and

(iii) the law that governs the netting contract.

(c) The bank establishes and maintains procedures to ensure that the legal characteristics of netting contracts are kept under review in the light of possible changes in relevant law.

(d) The bank maintains in its files documentation adequate to support the netting of rate contracts, including a copy of the bilateral netting contract and necessary legal opinions.

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[49]For interest and exchange rate contracts, sufficiency of collateral or guaranties is determined by the market value of the collateral or the amount of the guarantee in relation to the credit equivalent amount. Collateral and guarantees are subject to the same provisions noted under section III.B. of this appendix A.

A contract containing a walkaway clause is not eligible for netting for purposes of calculating the credit equivalent amount.[50]

By netting individual contracts for the purpose of calculating its credit equivalent amount, a bank represents that it has met the requirements of this appendix A and all the appropriate documents are in the bank's files and available for inspection by the Federal Reserve. Upon determination by the Federal Reserve that a bank's files are inadequate or that a netting contract may not be legally enforceable under any one of the bodies of law described in (b)(i) through (iii) above, underlying individual contracts may be treated as though they were not subject to the netting contract.

The credit equivalent amount of rate contracts that are subject to a qualifying bilateral netting contract is calculated by adding (i) the current exposure of the netting contract and (ii) the sum of the estimates of the potential future credit exposure on all individual contracts subject to the netting contract.

The current exposure of the netting contract is determined by summing all positive and negative mark-to-market values of the individual contracts included in the netting contract. If the net sum of the mark-to-market values is positive, then the current exposure of the netting contract is equal to that sum. If the net sum of the mark-to-market values is zero or negative, then the current exposure of the netting contract is zero.

For each individual contract included in the netting contract, the potential future credit exposure is estimated in accordance with section E.2. of this appendix A.[51]

Examples of the calculation of credit equivalent amounts for these types of contracts are contained in Attachment V of this appendix A.

* * * * *

ATTACHMENT IV--CREDIT CONVERSION FACTORS FOR OFF-BALANCE SHEET ITEMS FOR STATE MEMBER BANKS

* * * * *

* * * Qualifying netting by novation contracts and other qualifying bilateral netting contracts may be recognized.

* * * * *

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[50]For purposes of this section, a walkaway clause means a provision in a netting contract that permits a non-defaulting counterparty to make lower payments than it would make otherwise under the contract, or no payment at all, to a defaulter or to the estate of a defaulter, even if a defaulter or the estate of a defaulter is a net creditor under the contract.

[51]For purposes of calculating potential future credit exposure for foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, total notional principal is defined as the net receipts to each party falling due on each value date in each currency.

Attachment V--CALCULATION OF CREDIT EQUIVALENT AMOUNTS FOR INTEREST RATE AND FOREIGN EXCHANGE RATE RELATED TRANSACTIONS FOR STATE MEMBER BANKS

	Potential Exposure			+	Current Exposure		Credit equivalent amount
Type of Contract (Remaining Maturity)	Notional principal (dollars)	x	Potential exposure conversion	= Potential exposure (dollars)	Mark-to-market value[1]	Current exposure (dollars)[2]	
(1) 120-day forward foreign exchange....	5,000,000		.01	50,000	100,000	100,000	150,000
(2) 120-day forward foreign exchange....	6,000,000		.01	60,000	-120,000	0	60,000
(3) 3-year single currency fixed/floating interest rate swap..	10,000,000		.005	50,000	200,000	200,000	250,000
(4) 3-year single currency fixed/floating interest rate swap..	10,000,000		.005	50,000	-250,000	0	50,000
(5) 7-year cross-currency floating/floating interest rate swap..	20,000,000		.05	1,000,000	-1,300,000	0	1,000,000
TOTAL				1,210,000		300,000	1,510,000

If contracts (1) through (5) above are subject to a qualifying bilateral netting contract, then the following applies:

	Potential Exposure (dollars) (from above)		Mark-to-market value (from above)	Current Exposure (dollars)	Credit Equivalent amount
(1)	50,000		100,000		
(2)	60,000		-120,000		
(3)	50,000		200,000		
(4)	50,000		-250,000		
(5)	1,000,000		-1,300,000		
			-1,370,000		
TOTAL	1,210,000	+		0	1,210,000

1These numbers are purely for illustration.
2The larger of zero or a positive mark-to-market value.

FEDERAL RESERVE SYSTEM

AUTHORITY AND ISSUANCE

For the reasons set out in the joint Notice of Proposed Rulemaking, part 225 of chapter II of title 12 of the Code of Federal Regulations is proposed to be amended as set forth below:

PART 225--BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

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

AUTHORITY: 12 U.S.C. 1817(j)(13), 1818(b), 1828(o), 1831i, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3907, and 3909.

2. Appendix A to part 225 is amended by revising section III.E.2., section III.E.3.; section III.E.5.; the last sentence of Attachment IV; and Attachment V to read as follows:

APPENDIX A TO PART 225--CAPITAL ADEQUACY GUIDELINES FOR BANK HOLDING COMPANIES: RISK-BASED MEASURE

* * * * *

III. PROCEDURES FOR COMPUTING WEIGHTED RISK ASSETS AND OFF-BALANCE SHEET ITEMS

* * * * *

E. Interest Rate and Foreign Exchange Rate Contracts

* * * * *

2. Calculation of credit equivalent amounts. The credit equivalent amount of an off-balance sheet rate contract that is not subject to a qualifying bilateral netting contract in accordance with section III.E.5. of this appendix A is equal to the sum of (i) the current exposure (sometimes referred to as the replacement cost) of the contract and (ii) an estimate of the potential future credit exposure over the remaining life of the contract.

The current exposure is determined by the mark-to-market value of the contract. If the mark-to-market value is positive, then the current exposure is equal to that mark-to-market value. If the mark-to-market value is zero or negative, then the current exposure is zero. Mark-to-market values are measured in dollars, regardless of the currency or currencies specified in the contract and should reflect changes in both interest rates and counterparty credit quality.

The potential future credit exposure on a contract, including contracts with negative mark-to-market values, is estimated by multiplying the notional principal amount of the contract by one of the following credit conversion factors, as appropriate:

[in percent]

Remaining Maturity	Interest rate contracts	Exchange rate contracts
One year or less	0	1.0
Over one year	0.5	5.0

Examples of the calculation of credit equivalent amounts for these instruments are contained in Attachment V of this appendix A.

Because exchange rate contracts involve an exchange of principal upon maturity, and exchange rates are generally more volatile than interest rates, higher conversion factors have been established for foreign exchange contracts than for interest rate contracts.

No potential future credit exposure is calculated for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; the credit exposure on these contracts is evaluated solely on the basis of their mark-to-market values.

3. Risk weights. Once the credit equivalent amount for interest rate and exchange rate instruments has been determined, that amount is assigned to the risk weight category appropriate to the counterparty, or, if relevant, the guarantor or the nature of any collateral.[53] However, the maximum weight that will be applied to the credit equivalent amount of such instruments is 50 percent.

* * * * *

5. Netting. For purposes of this appendix A, netting refers to the offsetting of positive and negative mark-to-market values when determining a current exposure to be used in the calculation of a credit equivalent amount. Any legally enforceable form of bilateral netting (that is, netting with a single counterparty) of rate contracts is recognized for purposes of calculating the credit equivalent amount provided that:

(a) The netting is accomplished under a written netting contract that creates a single legal obligation, covering all included individual contracts, with the effect that the organization would have a claim or obligation to receive or pay, respectively, only the net amount of the sum of the positive and negative mark-to-market values on included individual contracts in the event that a counterparty, or a counterparty to whom the contract has been validly assigned, fails to perform due to any of the following events: default, insolvency, bankruptcy, or similar circumstances.

(b) The banking organization obtains a written and reasoned legal opinion(s) representing that, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, the relevant court and administrative authorities would find the organization's exposure to be such a net amount under:

(i) the law of the jurisdiction in which the counterparty is chartered or the equivalent location in the case of noncorporate entities and, if a branch of the counterparty is involved, then also under the law of the jurisdiction in which the branch is located;

(ii) the law that governs the individual contracts covered by the netting contract; and

(iii) the law that governs the netting contract.

(c) The banking organization establishes and maintains procedures to ensure that the legal characteristics of netting contracts are kept under review in the light of possible changes in relevant law.

(d) The banking organization maintains in its files documentation adequate to support the netting of rate contracts, including a copy of the bilateral netting contract and necessary legal opinions.

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[53] For interest and exchange rate contracts, sufficiency of collateral or guaranties is determined by the market value of the collateral or the amount of the guarantee in relation to the credit equivalent amount. Collateral and guarantees are subject to the same provisions noted under section III.B. of this appendix A.

A contract containing a walkaway clause is not eligible for netting for purposes of calculating the credit equivalent amount.[54]

By netting individual contracts for the purpose of calculating its credit equivalent amount, a banking organization represents that it has met the requirements of this appendix A and all the appropriate documents are in the organization's files and available for inspection by the Federal Reserve. Upon determination by the Federal Reserve that a banking organization's files are inadequate or that a netting contract may not be legally enforceable under any one of the bodies of law described in (b)(i) through (iii) above, underlying individual contracts may be treated as though they were not subject to the netting contract.

The credit equivalent amount of rate contracts that are subject to a qualifying bilateral netting contract is calculated by adding (i) the current exposure of the netting contract and (ii) the sum of the estimates of the potential future credit exposure on all individual contracts subject to the netting contract.

The current exposure of the netting contract is determined by summing all positive and negative mark-to-market values of the individual transactions included in the netting contract. If the net sum of the mark-to-market values is positive, then the current exposure of the netting contract is equal to that sum. If the net sum of the mark-to-market values is zero or negative, then the current exposure of the netting contract is zero.

For each individual contract included in the netting contract, the potential future credit exposure is estimated in accordance with section E.2. of this appendix A.[55]

Examples of the calculation of credit equivalent amounts for these types of contracts are contained in Attachment V of this appendix A.

* * * * *

ATTACHMENT IV--CREDIT CONVERSION FACTORS FOR OFF-BALANCE SHEET ITEMS FOR BANK HOLDING COMPANIES

* * * * *

* * * Qualifying netting by novation contracts and other qualifying bilateral netting contracts may be recognized.

* * * * *

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[54]For purposes of this section, a walkaway clause means a provision in a netting contract that permits a non-defaulting counterparty to make lower payments than it would make otherwise under the contract, or no payment at all, to a defaulter or the estate of a defaulter, even if a defaulter or the estate of a defaulter is a net creditor under the contract.

[55]For purposes of calculating potential future credit exposure for foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, total notional principal is defined as the net receipts to each party falling due on each value date in each currency.

Attachment V--CALCULATION OF CREDIT EQUIVALENT AMOUNTS FOR INTEREST RATE AND FOREIGN EXCHANGE RATE RELATED TRANSACTIONS FOR BANK HOLDING COMPANIES

	Potential Exposure				Current Exposure			Credit equivalent amount
Type of Contract (Remaining Maturity)	Notional principal (dollars)	x	Potential exposure conversion	= Potential exposure (dollars)	+ Mark-to-market value1	Current exposure (dollars)2	=	
(1) 120-day forward foreign exchange....	5,000,000		.01	50,000	100,000	100,000		150,000
(2) 120-day forward foreign exchange.....	6,000,000		.01	60,000	-120,000	0		60,000
(3) 3-year single currency fixed/floating interest rate swap..	10,000,000		.005	50,000	200,000	200,000		250,000
(4) 3-year single currency fixed/floating interest rate swap..	10,000,000		.005	50,000	-250,000	0		50,000
(5) 7-year cross-currency floating/floating interest rate swap..	20,000,000		.05	1,000,000	-1,300,000	0		1,000,000
TOTAL				1,210,000		300,000		1,510,000

If contracts (1) through (5) above are subject to a qualifying bilateral netting contract, then the following applies:

	Potential Exposure (dollars) (from above)		Mark-to-market value (from above)	Current Exposure (dollars)	Credit equivalent amount
(1)	50,000		100,000		
(2)	60,000		-120,000		
(3)	50,000		200,000		
(4)	50,000		-250,000		
(5)	1,000,000		1,300,000		
			-1,370,000		
TOTAL	1,210,000	+		0	1,210,000

1These numbers are purely for illustration.
2The larger of zero or a positive mark-to-market value.

Board of Governors of the Federal Reserve System,

May 17, 1994.

William W. Wiles,
Secretary of the Board.
[FR Doc. 94-00000 Filed 00-00-94; 8:45 am]
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