Tier 1 (core) capital to risk-weighted assets. The Basle Accord requires banking organizations to have total capital equal to at least 8 percent, and Tier 1 capital equal to at least 4 percent, of risk-weighted assets after a phase-in period that ended on December 31, 1992. Tier 1 capital is principally comprised of common shareholders' equity and qualifying perpetual preferred stock, less disallowed intangibles, such as goodwill. The other component of total capital, Tier 2, may include certain supplementary capital items, such as general loan loss reserves and subordinated debt. The risk-based capital requirements are viewed by the three banking agencies and the OTS as minimum standards, and most institutions are expected to, and generally do, maintain capital levels well above the minimums.

In addition to specifying identical ratios, the risk-based capital framework implemented by the three banking agencies includes a common definition of regulatory capital and a uniform system of risk weights and categories. While the minimum standards and risk weighting framework are common to all the banking agencies, there are some technical differences in language and interpretation among the agencies. The OTS employs a similar risk-based capital framework, although it differs in some respects from that adopted by the three banking agencies. These differences, as well as other technical differences in the agencies' capital standards, are discussed in Section One of this report.

In addition to the risk-based capital requirements, the agencies also have established leverage standards setting forth minimum ratios of capital to total assets. As discussed in Section One, the three banking agencies employ uniform leverage standards, while the OTS has established, pursuant to FIRREA, somewhat different standards.

The staffs of the agencies meet regularly to identify and address differences and inconsistencies in their capital standards. The agencies are committed to continuing this process in an effort to achieve full uniformity in their capital standards. In this regard, Section One contains discussions of the banking agencies' efforts during the past year to achieve uniformity with respect to the capital treatment of the sale of assets with recourse, implementation of proposed amendments made by the Basle Supervisors' Committee to the Basle Accord, and the capital treatment of assets to address recent accounting changes issued by the Financial Accounting Standards Board (FASB).

In addition, the agencies have continued to coordinate efforts in revising the risk-based capital requirements as required by provisions of section 305 of FDICIA to take into account interest rate risk and risks arising from concentrations of credit and nontraditional activities. With regard to interest rate risk, the agencies, on the basis of public comments received, are considering a revision to their notice of proposed rulemaking issued on September 14, 1993, that is expected to be issued sometime in the near future. With regard to the risks arising from concentrations of credit and nontraditional activities, in 1994 the Federal Reserve, FDIC, and OTS approved uniform final rules. These rules will become effective once the OCC's final rule has been approved, as it is expected to be in the near future.

During 1994, one difference between the risk-based capital guidelines of the three banking agencies and the OTS was eliminated. The difference concerned the treatment of multifamily mortgages. The three banking agencies had placed such mortgages in the 100 percent risk category, while the OTS had permitted a 50 percent risk weight for multifamily mortgage loans secured by buildings with 5–36 units with at least an 80 percent loan-to-value ratio and 80 percent occupancy rate. Late last year and early this year, the three banking agencies and OTS adopted uniform amendments to their rules to implement section 618(b) of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991. This Act mandated the lowering under the risk-based capital framework of the risk category for multifamily loans meeting certain criteria to 50 percent.

Accounting Standards

Over the years, the three banking agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), have developed Uniform Reports of Condition and Income (Call Reports) for all commercial banks and FDIC-supervised savings banks. The reporting standards followed by the three banking agencies are substantially consistent, aside from a few limited exceptions, with generally accepted accounting principles (GAAP) as they are applied by commercial banks.[3] The uniform bank Call Report serves as the basis for calculating risk-based capital and leverage ratios, as well as for other regulatory purposes. Thus, material differences in regulatory accounting and reporting standards among commercial banks and FDIC-supervised savings banks do not exist.

The OTS requires each thrift institution to file the Thrift Financial Report (TFR), which is generally consistent with GAAP. The TFR differs in some respects from the bank Call Report in that, as previously mentioned, there are a few areas in which the bank Call Report departs from GAAP. A summary of the differences between the bank Call Report and the TFR is presented in Section Two.

As in the past, the agencies are continuing interagency efforts to reduce paperwork and regulatory burdens. The Federal Reserve has taken a leadership role in coordinating these efforts in developing supervisory guidance to further improve regulatory reporting requirements. For example, during 1994 Federal Reserve and FASB officials have met to discuss major accounting issues affecting the banking industry, as well as the remaining few differences between GAAP and regulatory reporting standards. The agencies are also working on projects that are intended to refine and improve policies and address the few reporting differences that currently exist between the banking agencies and the OTS. On December 21, 1993, the three banking agencies and the OTS, under the auspices of the FFIEC, issued an interagency policy statement on the allowance for loan and lease losses (ALLL). The policy statement, which was developed on an interagency basis to provide comprehensive guidance on the ALLL, is consistent with GAAP. The agencies are also coordinating actions to reduce the possibility that new differences in accounting and reporting policies may arise. In this regard, the agencies recently adopted the same regulatory reporting requirements for FAS 114, a new accounting standard covering loan impairment that becomes effective in 1995.

Section One

Differences in Capital Standards Among Federal Banking and Thrift Supervisory Agencies

Overview

Leverage Capital Ratios

The three banking agencies employ a leverage standard based upon the common definition of Tier 1 capital contained in their risk-based capital guidelines. These standards, established in the second half of 1990 and in early 1991, require the most highly-rated

[3] In those cases where bank Call Report standards are different from GAAP, the regulatory reporting requirements are intended to be more conservative than GAAP.