DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Part 3

[Docket No. 95–28]

RIN 1557–AB14

FEDERAL RESERVE SYSTEM

12 CFR Parts 208 and 225

[Regulations H and Y; Docket No. R–0849]

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 325

RIN 3064–AB54

Capital; Capital Adequacy Guidelines

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

ACTION: Joint final rule.

SUMMARY: The OCC, Board, and the FDIC (Agencies) are amending their respective risk-based capital guidelines to modify the definition of the OECD-based group of countries. The amendment excludes from the OECD-based group of countries any country that has rescheduled its external sovereign debt within the previous five years. The amendment also clarifies that the OECD-based group of countries includes all countries that are members of the OECD, regardless of their date of entry into the OECD. The effect of the amendment would be to increase the amount of capital that banks are required to hold against claims on the governments and banks of an OECD country, in the event that the country were to reschedule its external sovereign debt. This action is being taken to conform with a change in the Basle Accord on risk-based capital that was adopted by the Basle Committee on Banking Supervision (Basle Committee) on April 15, 1995.

EFFECTIVE DATE: April 1, 1996.

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Board: Roger Cole, Deputy Associate Director, (202) 452–2618; Norah Barger, Manager, (202) 452–2402; Robert Motyka, Supervisory Financial Analyst, (202) 452–3621; Division of Banking Supervision and Regulation; or Greg Baer, Managing Senior Counsel, Legal Division, (202) 452–3236; Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551. For the hearing impaired *only,* Telecommunication Device for the Deaf, Dorothea Thompson, (202) 452–3544.

FDIC: For supervisory purposes, Stephen G. Pfeifer, Examination Specialist, Accounting Section, Division of Supervision, (202) 898–8904; for legal purposes, Dirck A. Hargraves, Attorney, Legal Division, (202) 898–7049; Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

SUPPLEMENTARY INFORMATION:

I. Background

In 1988, the central bank governors of the Group of Ten (G–10) countries endorsed a framework for international risk-based capital guidelines entitled ''International Convergence of Capital Measurement and Capital Standards'' (commonly referred to as the Basle Accord).[1] Under the framework, risk-weighted assets are calculated by assigning assets and off-balance-sheet items to broad categories based primarily on their credit risk: that is, the risk that a banking organization will incur a loss due to an obligor or counterparty default on a transaction. Risk weights range from zero percent, for assets with minimal credit risk (such as U.S. Treasury securities), to 100 percent, which is the risk weight that applies to most private sector claims, including commercial loans. In 1989, the Agencies adopted risk-based capital guidelines implementing the Basle Accord for the banking organizations they supervise.

While the Basle Accord focuses primarily on credit risk, it also incorporates country transfer risk considerations. Transfer risk generally refers to the possibility that an asset cannot be serviced in the currency of payment because of a lack of, or restraints on, the availability of needed foreign exchange in the country of the obligor.

In addressing transfer risk, the Basle Committee members examined several methods for assigning obligations of foreign countries to the various risk categories. Ultimately, the Basle Committee decided to use a defined group of countries considered to be of high credit standing as the basis for differentiating claims on foreign governments and banks. For this purpose, the Basle Committee determined this group to be the full members of the Organization for Economic Cooperation and Development (OECD), as well as countries that have concluded special lending arrangements with the International Monetary Fund (IMF) associated with the IMF's General Arrangements to Borrow.[2] These countries, referred to in the Agencies' risk-based capital guidelines as the OECD-based group of countries, encompass most of the world's major industrial countries, including all members of the G–10 and the European Union.

Under both the Basle Accord and the Agencies' risk-based capital guidelines, claims on the governments and banks of the OECD-based group of countries generally receive lower risk weights than corresponding claims on the governments and banks of non-OECD countries. Specifically, the Agencies' guidelines provide for the following treatment:

- Direct claims on, and the portions of claims that are directly and unconditionally guaranteed by, OECD-based central governments (including central banks) are assigned to the zero percent risk weight category. Corresponding claims on the central government of a country outside the OECD-based group are assigned to the zero percent risk weight category only to the extent that the claims are denominated in the local currency and the bank has local currency liabilities in that country.
- Claims conditionally guaranteed by OECD-based central governments and

[1] The Basle Accord was proposed by the Basle Committee, which comprises representatives of the central banks and supervisory authorities from the G–10 countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) and Luxembourg.

[2] The OECD is an international organization of countries which are committed to market-oriented economic policies, including the promotion of private enterprise and free market prices; liberal trade policies; and the absence of exchange controls. Full members of the OECD at the time the Basle Accord was endorsed included Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. In May 1994, Mexico was accepted as a full member of the OECD. In addition, Saudi Arabia has concluded special lending arrangements associated with the IMF's General Arrangements to Borrow.