FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 325

RIN 3064–AB54

Capital Maintenance

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Proposed Rule.

SUMMARY: The FDIC is proposing to amend its risk-based capital guidelines to modify the definition of the OECD-based group of countries. Claims on the governments and banks of this group generally receive lower risk weights than corresponding claims on the governments and banks of non-OECD-based countries. The FDIC is proposing this amendment on the basis of an announcement, made on July 15, 1994, by the Basle Committee on Banking Supervision (Basle Committee) that, subject to national consultation, the Basle Committee plans to introduce a change to the Basle Accord in 1995. The effect of the proposed modification would be to exclude from the OECD-based group of countries which are eligible for the lower risk weights any country that has rescheduled its external sovereign debt within the previous five years.

DATES: Comments on the proposal must be received by March 17, 1995.

ADDRESSES: All comments should be submitted to Robert E. Feldman, Acting Executive Secretary, Attention: Room F–402, Federal Deposit Insurance Corporation, 550 17 Street NW., Washington, D.C. 20429. Comments may be hand delivered to Room F–402, 1776 F Street NW., Washington, DC, on business days between 8:30 a.m. and 5:00 p.m. [Fax number: (202)898–3838.] Comments will be available for inspection at the FDIC's Reading Room, Room 7118, 550 17th Street NW., Washington, D.C. between 9:00 a.m. and 4:30 p.m. on business days.

FOR FURTHER INFORMATION CONTACT: 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).

SUPPLEMENTARY INFORMATION:

I. Background

In 1988 the central bank governors of the G–10 countries endorsed international capital standards (the Basle Accord)[1] establishing a risk-based framework for measuring the capital adequacy of internationally-active banks. 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.

While the Basle Accord primarily focuses on credit risk, it also incorporates country transfer risk considerations.[2] 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 as 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.[3] These countries are referred to as the OECD-based group of countries and encompass most of the major industrial countries, including all members of the G–10 and the European Union.

Under both the Basle Accord and the FDIC's 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 FDIC's risk-based capital policy statement provides 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. Claims on central governments outside the OECD-based group are assigned to the zero percent risk weight category only if such claims are denominated in the national currency (i.e., local currency claims) and funded by liabilities in the same currency.
- Claims conditionally guaranteed by OECD-based central governments and claims collateralized by securities issued or guaranteed by OECD-based central governments generally are assigned to the 20 percent risk weight category. The same types of claims on non-OECD countries are assigned to the 100 percent risk category.
- Long-term claims on OECD banks are assigned to the 20 percent risk-weight category. Long-term claims on non-OECD banks are assigned to the 100 percent risk category. (Short-term claims on all banks, whether they are members of the OECD-based group of countries or not, are assigned a 20 percent risk weight.)
- General obligation bonds that are obligations of states or other political subdivisions of the OECD-based group of countries are assigned to the 20 percent risk category. Revenue bonds of such political subdivisions are assigned to the 50 percent risk category. Both general obligation and revenue bonds of political subdivisions of non-OECD countries are assigned to the 100 percent risk category.

Recently, the OECD has taken steps to expand its membership. In light of these steps, the Basle Committee was urged to clarify an ambiguity in the Basle Accord as to whether the OECD members eligible for the lower risk weights include only those members that were in the OECD when the Basle Accord was endorsed in 1988 or all members, regardless of entry date into the OECD. The Basle Committee also reviewed the overall appropriateness of the criteria the Basle Accord uses to determine whether claims on a foreign government

[1] The Basle Accord was issued in 1988 by the Basle Committee, which is comprised of 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. In 1989 the FDIC adopted a Statement of Policy on Risk-Based Capital (Appendix A to Part 325) to implement the Basle Accord. This risk-based capital policy statement applies to the state nonmember banks for which the FDIC is the appropriate federal banking agency.

[2] 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.

[3] 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 International Monetary Fund's General Arrangements to Borrow.