Standardized Approach NPR

Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements

Preamble Section	Questions
I. Introduction and Overview	1. The agencies seek comment on the advantages and disadvantages of the proposed standardized approach rule as it would apply to smaller and less complex banking organizations (community banking organizations). What specific changes, if any, to the rule would accomplish the agencies' goals of establishing improved risk-sensitivity and quality of capital in an appropriate manner? For example, in which areas might the proposed standardized approach for calculating risk-weighted assets include simpler approaches for community banking organizations or longer transition periods? Provide specific suggestions. 2. The agencies also seek comment on the advantages and disadvantages of allowing certain community banking organizations to continue to calculate their risk-weighted assets based on the methodology in the current general risk-based capital rules, as modified to meet the new Basel III requirements and any changes required under U.S. law, and as incorporated into a comprehensive regulatory framework. For example, under this type of alternative approach, community banking organizations would be subject to the proposed new prompt corrective action thresholds, a capital conservation buffer, and other Basel III revisions to the capital framework including the definition of capital, as well as any changes related to section 939A of the Dodd-Frank Act. As modified with these revisions, community banking organizations would continue using most of the same risk weights as under the current general risk-based capital rules, including for commercial and residential mortgage exposures. Under this approach, banking organizations other than community banking organizations would use the proposed standardized approach risk weights to calculate the denominator of the risk-based capital ratio. The agencies request comment on the criteria they should consider when determining which banking organizations, if any, should be permitted to continue to calculate their risk-weighted assets using the methodology in the current general risk-based capital rules (revised as described above). Which banking organizations, consistent with section 171 of the Dodd-Frank Act, should be required to use the standardized approach? What factors should the agencies consider in making this determination?
II. Standardized Approach for Risk-Weighted Assets	
A. Calculation of Standardized Total Risk-Weighted Assets	
B. Risk Weights for General Credit Risk (Residential Mortgages, High Volatility Commercial Real Estate, Past Due Exposures)	3. The agencies solicit comment on the proposed methodology for risk weighting sovereign exposures. Are there other alternative methodologies for risk weighting sovereign exposures that would be more appropriate? Provide specific examples and supporting data. 4. The agencies request comment on the proposed treatment of exposures to public service entities. 5. The agencies solicit comments on all aspects of this notice of proposed rulemaking for determining the risk weights of residential mortgage loans, including the use of the loan-to-value ratio to determine the risk-based capital treatment. What alternative criteria or approaches to categorizing mortgage loans would enable the agencies to appropriately and consistently differentiate among the levels of risk inherent in different mortgage exposures? For example, should all residential mortgages that meet the "qualified mortgage" criteria to be established for the purposes of the Truth in Lending Act pursuant to section 1412 of the Dodd-Frank Act be included in category 1? For category I residential mortgage exposures with interest rates that adjust or reset, would a proposed limit based directly on the amount the mortgage payment increases rather than on a change in interest rate be more appropriate? Why or why not? Does this proposal appropriately address loans with balloon payments and the risk of reverse mortgage loans? Why or why not? Provide detailed explanations and supporting data wherever possible. 6. The agencies solicit comment on whether to allow banking organizations to recognize mortgage insurance for purposes of calculating the loan-to-value ratio of a residential mortgage exposure under the standardized approach. What criteria could the agencies use to ensure that only financially sound private mortgage insurance providers are recognized? 7. The agencies request comment on whether loan modifications made pursuant to federal or state housing programs warrant specific provisions in the agencies' risk-based capital regulations at all, and if they do what criteria should be considered when determining the appropriate risk-based capital treatment for modified residential mortgages, given the risk characteristics of loans that require modification..

	8. The agencies solicit comment on the proposed treatment for high-volatility commercial real estate exposures. 9. The agencies solicit comments on the proposed treatment of past due exposures.
C. Off-balance Sheet Items	10. The agencies solicit comment on the proposed treatment of credit-enhancing representations and warranties.
D. Over-the-Counter (OTC) Derivative Contracts	11. The agencies solicit comment on the proposed risk-based capital treatment for OTC derivatives, including the definition of an OTC derivative and the removal of the 50 percent cap on risk weighting for OTC derivative contracts.
E. Cleared Transactions	12. The agencies request comment on whether the proposal provides an appropriately risk-sensitive treatment of (1) a transaction between a banking organization that is clearing member and its client and (2) a clearing member's guarantee of its client's transaction with a central counterparty by treating these exposures as OTC derivative contracts. The agencies also request comment on whether the adjustment of the exposure amount would address possible disincentives for banking organizations that are clearing members to facilitate the clearing of their clients' transactions. What other approaches should the agencies consider? 13. The agencies are seeking comment on the proposed calculation of the risk-based capital for cleared transactions, including the proposed risk-based capital requirements for exposures to a qualifying central counterparty. Are there specific types of exposures to certain qualifying central counterparties that would warrant an alternative risk-based capital approach? Please provide a detailed description of such transactions or exposures, the mechanics of the alternative risk-based approach, and the supporting rationale.
F. Credit Risk Mitigation	14. The agencies solicit comments on whether banking organizations should be permitted to use the simple value-at-risk to calculate exposure amounts for margin lending, and repo-style transactions. 15. The agencies request comment on the appropriateness of including the internal models methodology for calculating exposure amounts for OTC derivatives, eligible margin loans, repo-style transactions and cleared transactions for all banking organizations. (For purposes of reviewing the internal models methodology in the advanced approaches rule, commenters should substitute the term "exposure amount" for the term "exposure at default" each time these terms appear in the advanced approaches rule.)
G. Unsettled Transactions	16. Are there other transactions with a central counterparty that the agencies should consider excluding from the treatment for unsettled transactions? If so, what are the specific transaction types that should be excluded and why would exclusion be appropriate?
H. Risk-Weighted Assets for Securitization Exposures	17. What, if any, are specific challenges that are involved with meeting the proposed due diligence requirements and for what types of securitization exposures? How might the agencies address these challenges while ensuring that a banking organization conducts an appropriate level of due diligence commensurate with the risks of its exposures? 18. The agencies solicit commenters' views on the proposed gross-up approach.
I. Equity Exposures	19. The agencies solicit comment on an alternative proposal to simplify the risk-based capital treatment of banking organizations' non-significant equity exposures by assigning a 100 percent risk weight to equity exposures to small business investment companies and to debts previously contracted equity exposures, consistent with the treatment of community development investments and the effective portion of hedged pairs. What other types of equity exposures (excluding exposures to small business investment companies and equities taken for debts previously contracted) should be excluded from the non-significant equity exposure calculation under the alternative approach and what is the approximate amount of these exposures in relation to banking organizations' total capital? What would be an appropriate measure or level for determining whether equity exposures in the aggregate are "non-significant" for a banking organization?
III. Insurance-related Activities	20. The agencies request comment on how the proposed definition of a separate account interacts with state law. What are the significant differences and what is the nature of the implications of these differences? 21. The agencies solicit comment on all aspects of the proposed treatment of insurance underwriting activities. 22. What are the specific terms and features of capital instruments (including surplus notes) unique to insurance companies that diverge from current eligibility requirements under the proposal? Are there ways in which such terms and features might be modified in order to bring the instruments into compliance with the proposal? 23. The agencies seek data on the amount and issuers of surplus notes currently outstanding. What proportion of insurance company capital is comprised of surplus notes?
IV. Market Discipline and Disclosure Requirements	24. The agencies seek commenters' views on all of the elements of the proposed public disclosure requirements. In particular, the agencies seek views on specific disclosure requirements that are problematic, and why.