



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-40-2016
June 22, 2016

Proposed Rulemaking to Remove References to Credit Ratings from the FDIC's International Banking Regulations

Summary: On June 21, 2016, the FDIC Board of Directors adopted the attached Notice of Proposed Rulemaking (NPR) and request for comment, which would amend the FDIC's international banking regulations related to permissible investment activities and the pledging of assets. The proposed rule would remove references to external credit ratings and replace them with appropriate standards of creditworthiness. The proposed changes in the FDIC Rules and Regulations Part 347, subparts A and B, are consistent with Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Comments will be solicited on this NPR for 60 days following publication in the *Federal Register*.

Statement of Applicability to Institutions Under \$1 Billion in Total Assets: The NPR applies to insured state nonmember banks that operate foreign branches and insured U.S. branches of foreign banks. Generally, these institutions do not have less than \$1 billion in assets.

Distribution:
FDIC-supervised institutions

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Investment Officer
Chief Risk Officer

Attachment:
[Notice of Proposed Rulemaking : Alternatives to References to Credit Ratings with Respect to Permissible Activities for Foreign Branches of Insured State Nonmember Banks and Pledge of Assets by Insured Domestic Branches of Foreign Banks](#)

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Highlights:

- The proposed rule would conform the FDIC's international banking regulations with the requirements of Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act by removing references to external credit ratings.
- Subparts A and B of Part 347 would be amended to replace references to credit ratings in the definition of "investment grade" with a standard of creditworthiness that has been adopted in other federal regulations that conform to Section 939A.
- Investment grade would be defined as a security issued by an entity that has adequate capacity to meet financial commitments for the projected life of the security or exposure. An entity would have adequate capacity to meet financial commitments if its default risk is low, and the full and timely repayment of principal and interest is expected.
- Subpart B amendments would also require that assets pledged to the FDIC by the insured branches of foreign banks satisfy a liquidity standard and be subject to a fair value discount.
- The proposed rule would add two asset categories to the list of assets eligible for pledging: cash and obligations issued by government-sponsored enterprises.