



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

**Financial Institution Letter**  
**FIL-74-2005**  
**August 4, 2005**

## **CAPITAL STANDARDS**

### **Supervisory Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment**

**Summary:** The FDIC, along with the other federal banking and thrift regulatory agencies, has issued the attached supervisory guidance clarifying the application of the asset quality test for liquidity facilities that provide support to an asset-backed commercial paper (ABCP) program.

**Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

**Suggested Routing:**

Chief Executive Officer  
Chief Financial Officer  
Chief Accounting Officer

**Related Topics:**

ABCP Programs  
Liquidity Facilities  
Credit Enhancements  
Risk-Based Capital Rules – Part 325

**Attachment:**

Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment

**Contact:**

Jason C. Cave, Chief, Capital Markets Policy Section, at [jcave@fdic.gov](mailto:jcave@fdic.gov) or (202) 898-3548

Bobby R. Bean, Senior Quantitative Risk Analyst, at [bbean@fdic.gov](mailto:bbean@fdic.gov) or (202) 898-3575

**Note:**

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at [www.fdic.gov/news/news/financial/2005/index.html](http://www.fdic.gov/news/news/financial/2005/index.html).

To receive FILs electronically, please visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (1-877-275-3342 or 202-416-6940).

**Highlights:**

The supervisory guidance:

- Supplements the "Final Rule on Capital Requirements for Asset-Backed Commercial Paper Programs" issued on July 28, 2004 (see FIL-87-2004).
- Provides clarification on the application of the asset quality test for determining the eligibility or ineligibility of an ABCP liquidity facility and the resulting risk-based capital treatment for banks that provide liquidity facilities.
- Provides the agencies' determination of the forms of credit enhancements that are acceptable for mitigating credit risk that would otherwise be assumed by a liquidity facility for purposes of satisfying the asset quality test.
- Allows banks that meet the criteria set forth in the final rule or in this guidance to continue to apply a credit conversion factor of 10 percent for short-term liquidity facilities and 50 percent for long-term liquidity facilities. Banks that fail to meet either the criteria set forth in the final rule or in this guidance will be required to apply a 100 percent credit conversion factor on the liquidity facility starting with the reporting period ending September 30, 2005.
- Generally applies to large banks that provide liquidity facilities to ABCP programs.