

## 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)<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> These countries are referred to as the OECD-based group of countries and encompass

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.

<sup>2</sup> 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.

<sup>3</sup> 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.

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

<sup>1</sup> The Basle Accord was issued in 1988 by the Basle Committee, which is comprised of

or bank qualify for placement in a lower risk category. As part of this review, the Basle Committee reassessed whether membership in the OECD (or the conclusion of special lending arrangements with the IMF) would, by itself, be sufficient to ensure that only countries with relatively low transfer risk would continue to be eligible for lower risk weight treatment.

On July 15, 1994, the Basle Committee made an announcement to clarify that the reference in the Basle Accord to OECD members applies to all current members of the organization. The announcement also stated that it is the Basle Committee's intention, subject to national consultation, to record a change to the Basle Accord in 1995 that would modify the definition of the OECD-based group of countries for risk-based capital purposes. The change, if adopted, would exclude from lower risk weight treatment any country within the OECD-based group of countries that has rescheduled its external sovereign debt within the previous five years. The Basle Committee announcement was endorsed by the G-10 Governors.

## II. Proposed Rule

In view of the Basle Committee's announcement, the FDIC is proposing to amend its risk-based capital guidelines to modify the definition of the OECD-based group of countries. Under the proposal, the OECD-based group of countries would continue to include countries that are currently full members of the OECD, regardless of entry date, as well as countries that have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow, but would exclude any country within this group that has rescheduled its external sovereign debt within the previous five years. The effect of the proposed modification would be to clarify that membership in the OECD-based group of countries must coincide with relatively low transfer risk in order for a country to be eligible for differentiated capital treatment.

For purposes of this proposal, an event of rescheduling of external sovereign debt generally would include renegotiations of terms arising from the country's inability or unwillingness to meet its external debt service obligations. Renegotiations of debt in the normal course of business generally do not indicate transfer risk of the kind that would preclude an OECD-based country from qualifying for lower risk weight treatment. One example of such a routine renegotiation would be a renegotiation to allow the borrower to take advantage of a change in market

conditions, such as a decline in interest rates.

The FDIC invites comment on all aspects of this proposal.

## III. Regulatory Flexibility Act

The Board of Directors of the FDIC hereby certifies that adoption of this proposed amendment to part 325 will not have a significant economic impact on a substantial number of small business entities (in this case, small banking organizations) within the meaning of the Regulatory Flexibility Act requirements (5 U.S.C. 601 et seq.). This amendment will not necessitate the development of sophisticated recordkeeping or reporting systems by small institutions nor will small institutions need to seek out the expertise of specialized accountants, lawyers, or managers to comply with this regulation. In light of this certification, the Regulatory Flexibility Act requirements (at 5 U.S.C. 603, 604) to prepare initial and final regulatory flexibility analyses do not apply.

## IV. Paperwork Reduction Act

The FDIC has determined that the proposed amendment, if adopted, would not increase the regulatory paperwork burden of state nonmember banks pursuant to the provisions of the Paperwork Reduction Act (44 U.S.C. 3501 et seq.). Consequently, no information has been submitted to the Office of Management and Budget for review.

### List of Subjects in 12 CFR Part 325

Bank deposit insurance, Banks, Banking, Capital adequacy, Reporting and recordkeeping requirements, Savings Associations, State nonmember banks.

For the reasons set forth in the preamble, the Board of Directors of the Federal Deposit Insurance Corporation proposes to amend part 325 of title 12 of the Code of Federal Regulations as follows:

## PART 325—CAPITAL MAINTENANCE

1. The authority citation for Part 325 continues to read as follows:

**Authority:** 12 U.S.C. 1815(a), 1815(b), 1816, 1818(a), 1818(b), 1818(c), 1818(t), 1819(Tenth), 1828(c), 1828(d), 1828(i), 1828(n), 1828(o), 1831o, 3907, 3909; Pub. L. 102-233, 105 Stat. 1761, 1789, 1790 (12 U.S.C. 1831n note); Pub. L. 102-242, 105 Stat. 2236, 2355, 2386 (12 U.S.C. 1828 note).

2. Appendix A to part 325 is amended by revising footnote 12 in section II.B.2. to read as follows:

## Appendix A to Part 325—Statement of Policy on Risk-Based Capital

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 II. \* \* \*  
 B. \* \* \*  
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By order of the Board of Directors.

Dated at Washington, D.C. this 31st day of January, 1995.

Federal Deposit Insurance Corporation

**Robert E. Feldman,**

*Acting Executive Secretary.*

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## 12 CFR Part 363

RIN 3064-AA83

## Annual Independent Audits and Reporting Requirements

**AGENCY:** Federal Deposit Insurance Corporation (FDIC or Corporation).

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** Section 314 of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCRDRIA) amends sections 36(i) and 36(g)(2) of the Federal Deposit Insurance Act (FDI Act). Section 36 of the FDI Act is generally intended to facilitate early identification of problems in financial management through annual independent audits, assessments of the effectiveness of internal controls and of compliance with designated laws and regulations, and more stringent reporting requirements. Section 314(a) provides relief from certain duplicative reporting under section 36 of the FDI Act for sound, well managed insured depository institutions with over \$9 billion in total assets which are subsidiaries of multibank holding companies. Section 314(b) requires the Corporation to notify a large insured depository institution in writing if it decides a review by an independent public accountant of such institution's quarterly financial reports is required.

<sup>12</sup>The OECD-based group of countries comprises all 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, but excludes any country that has rescheduled its external sovereign debt within the previous five years. The OECD includes the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Saudi Arabia has concluded special lending arrangements with the IMF associated with the IMF's General Arrangements to Borrow.