

Summary of the ANPR

The regulations of the FDIC and the other federal banking agencies include various references to and requirements on the use of credit ratings issued by nationally recognized statistical rating organizations. Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires all federal agencies to review regulations that reference or require the use of credit ratings to assess an instrument's creditworthiness. The agencies also are directed to remove requirements that refer to or rely on credit ratings and substitute in their place uniform standards of creditworthiness.

This ANPR describes areas in the risk-based capital standards that reference credit ratings and requests comment on alternatives to the use of credit ratings. The agencies generally believe that any creditworthiness standard should:

- appropriately distinguish the credit risk associated with a particular exposure within an asset class;
- be sufficiently transparent, replicable, and defined to allow banks of varying size and complexity to arrive at the same assessment of creditworthiness for similar exposures and to allow for appropriate supervisory review;
- provide for the timely and accurate measurement of negative and positive changes in creditworthiness;
- minimize opportunities for regulatory capital arbitrage;
- be reasonably simple to implement and not add undue burden on banks; and
- foster prudent risk management.

The agencies are considering several approaches of varying complexity and risk sensitivity for developing creditworthiness standards for purposes of the risk-based capital standards. This includes developing risk weights for exposure categories based on objective criteria established by regulators, similar to the current risk-category approach in the general risk-based capital rules. In addition, subject to supervisory oversight, broad quantitative and qualitative creditworthiness standards could be developed for banks to use to measure credit risk associated with exposures by category.

Risk Weights Based on Exposure Category: Before 2001, the risk-based capital rules did not rely on credit ratings to determine risk weights. A return to this approach would mean all affected assets and exposures generally would receive a 100 percent risk weight unless otherwise specified by the gross-up requirements. Alternatively, the agencies could introduce revised risk-weight categories for exposures by type of entity, for example, sovereign, bank, public sector entity, corporate, and securitization exposures, which could increase the risk sensitivity of the risk-based capital requirements.

Exposure-Specific Risk Weights: Under this approach, banks could assign risk weights to individual exposures using qualitative and quantitative credit risk-measurement standards established for exposure types broadly based on creditworthiness metrics used in the marketplace. For instance, exposures could be assigned a risk weight based on certain market-based measures, such as credit spreads or ranges of probability of default

and obligor-specific financial data, such as debt-to-equity ratios or other sound underwriting criteria.

The agencies identified several exposure types that rely on the use of credit ratings in the risk-based capital rules, including sovereign, public sector entity, bank, corporate, and securitization exposures. Credit ratings also are used to define eligibility for certain guarantees and collateral. Among other things, the ANPR solicits comment on standards of creditworthiness, other than credit ratings, that may be used to assign risk weights to these exposures based on the criteria discussed above.