Expanded Community Bank Guide to the New Capital Rule for FDIC-Supervised Banks

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Purpose

The FDIC has adopted this new capital rule as an interim final rule, which is substantively identical to the final rules issued by the Federal Reserve Board and the OCC. The FDIC has decided to issue an interim final rule as it allows the FDIC to proceed with the implementation of these revised capital regulations in concert with the other banking agencies while allowing the FDIC to seek comment on the interactions between the new capital rule and the proposed strengthening of the leverage requirements for the largest banks.

The new capital rule implements certain revisions to the regulatory capital framework. The new capital rule takes important steps towards improving the quality and increasing the quantity of capital for all banks as well as setting higher standards for large, internationally active banks. The FDIC believes that the new capital rule will result in capital requirements that better reflect banks' risk profiles, thereby improving the overall resiliency of the banking system. The FDIC has carefully considered the potential impacts on all banks, including community banks, and sought to minimize the potential burden of these changes where consistent with applicable law and the FDIC's goal of establishing a robust and comprehensive capital framework.

This document summarizes the FDIC's interim final rule for smaller, non-complex banks that are not subject to the market risk rule or the advanced approaches capital rule. The FDIC intends for this summary to help these banks navigate the rule and identify the changes most relevant to them. The FDIC notes that this summary does not provide complete coverage of the rule and banks should review the portions of the rule that are relevant to them. The interim final rule is codified at Title 12 of the CFR in Part 324

Timing

Community banks are not required to comply with the requirements until January 1, 2015.

Highlights of the Interim Final Rule

Below are three key changes to the notice of proposed rulemaking (NPR) that the agencies have incorporated in the final capital rule. For a more complete discussion of these and other changes, please consult the preamble of the interim final rule.

Residential Mortgage Exposures: The risk-based capital treatment of one- to four-family residential mortgage exposures remains the same as under the current general risk-based capital rules. This includes a 50% risk weight for prudently underwritten loans that are not past due, reported as nonaccrual, or restructured, and a 100% risk weight for all other residential mortgages. The final capital rule also retains the 120-day safe harbor from recourse treatment for loans sold with certain credit enhancing representations and warranties.

Accumulated Other Comprehensive Income (AOCI) Filter: All banks, other than advanced approaches banks, are given a one-time irrevocable option to continue to treat certain AOCI components as permitted under the current general risk-based capital rules. The AOCI opt-out election must be elected on the first Call Report or FR Y-9C filed after January 1, 2015,

Non-qualifying capital instruments issued prior to May 19, 2009 included in tier 1 capital: For depository institution holding companies with less than $15 billion in total consolidated assets as of December 31, 2009 or organized in mutual form as of May 19, 2010, non-qualifying capital instruments issued prior to May 19, 2010, including trust preferred securities and cumulative perpetual preferred stock, are grandfathered into tier 1 capital (subject to a limit of 25 percent of tier 1 capital).

However, non-qualifying capital instruments issued on or after May 19, 2010, will not qualify for tier 1 capital and may be included in tier 2 capital to the extent that the specific terms of the instruments satisfy the interim final rule's requirements for tier 2 capital.

<u>Community Bank Summary Overview</u>

This summary describes the following aspects of Part 324:

1. Revisions to the minimum capital requirements
2. Establishment of a capital conservation buffer
3. Adjustments to the Prompt Corrective Action (PCA) thresholds
4. Revisions to the definition of capital
5. Changes in risk-weighted assets for items deducted from capital
6. Revisions to the effective dates and the transition period
7. Implementation of the Standardized approach for risk-weighted assets

Also see the following appendices to this guide:

Appendix A: Minimum capital ratios, capital buffers, PCA, regulatory capital components comparison
Appendix B: Risk-weighted assets comparison

<u>1. Revisions to the Minimum Capital Requirements</u>

Subparts B and C include revised definitions of common equity tier 1 capital, additional tier 1 capital, and total capital. These definitions alter the existing definition of capital by imposing, among other requirements, additional constraints on the inclusion of minority interests, mortgage servicing assets (MSAs), deferred tax assets (DTAs) and certain investments in the capital instruments of unconsolidated financial institutions.

In addition, subpart C, section 22 requires that most regulatory capital deductions be made from common equity tier 1 capital. The rule requires that most of a bank's AOCI is included in regulatory capital; however, this section of the rule also provides non-advanced approaches banks the ability to make a one-time irrevocable election to exclude from regulatory capital most of the components of AOCI, consistent with the current regulatory capital rules.

Under subpart B, section 10 a bank will be subject to the following minimum capital ratios:

- A ratio of common equity tier 1 capital to total risk-weighted assets of 4.5 percent;
- A ratio of tier 1 capital to total risk-weighted assets of 6 percent;
- A ratio of total capital to total risk-weighted assets of 8 percent; and
- A leverage ratio of tier 1 capital to adjusted average consolidated assets of 4 percent.[1]

These revisions to the minimum capital requirements, including deductions and adjustments, will be phased-in over a transition period, as set forth in subpart G. For a summary of the transition period, refer to Section 6 of this Community Bank Summary. As noted in subpart B, section 10 banks are generally expected, as a prudential matter, to operate well above these minimum regulatory capital ratios, with capital commensurate to the level and nature of the risks they hold.

2. Capital Conservation Buffer

Under the interim final rule, in addition to the minimum risk-based capital requirements, all banks must hold common equity tier 1 capital in an amount greater than 2.5 percent of total risk-weighted assets to avoid being subject to limits on capital distributions, such as dividend payments, discretionary payments on tier 1 instruments, share buybacks, and certain discretionary bonus payments to executive officers, including heads of major business lines and similar employees (the capital conservation buffer).

Under subpart B, section 11, a bank's capital conservation buffer is the smallest of the following ratios:

- Common equity tier 1 capital ratio (in percent) minus 4.5 percent;
- Tier 1 capital ratio (in percent) minus 6 percent; or
- Total capital ratio (in percent) minus 8 percent.

Under the rule, the maximum dollar amount that a bank can pay out in the form of capital distributions or discretionary bonus payments during the current calendar quarter (the maximum payout amount) is equal to the applicable maximum payout ratio[2] in

[1] Banks should be aware that their leverage ratio requirements would be affected by the new definition of tier 1 capital under subpart C. See Section 4 of this guide on the definition of capital.

[2] The maximum payout ratio is determined by the bank's capital conservation buffer as calculated as of the last day of the previous calendar quarter.

Table 1, multiplied by the bank's eligible retained income. As indicated by the table, a bank with a capital conservation buffer of greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations; a bank with a capital conservation buffer of less than 2.5% of risk-weighted assets would be subject to increasingly stringent limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

Table 1 – Payout Restrictions and Capital Conservation Buffer

Capital Conservation Buffer (as a percentage of risk-weighted assets)	Maximum payout (as a percentage of eligible retained income)
Greater than 2.5 percent	No payout limitation applies
Less than or equal to 2.5 percent and greater than 1.875 percent	60 percent
Less than or equal to 1.875 percent and greater than 1.25 percent	40 percent
Less than or equal to 1.25 percent and greater than 0.625 percent	20 percent
Less than or equal to 0.625 percent	0 percent

Eligible retained income for purposes of this section, means a bank's net income (as reported in the bank's quarterly regulatory reports) for the four calendar quarters preceding the current calendar quarter, net of any capital distributions and associated tax effects not already reflected in net income.

The rule also will prohibit a bank from making capital distributions or certain discretionary bonus payments during a current calendar quarter if: (A) its eligible retained income is negative; and (B) its capital conservation buffer ratio is less than 2.5 percent as of the end of the previous calendar quarter.

Subpart B, section 11 does not diminish the agencies' authority to place additional limitations on capital distributions as a result of supervisory actions or other laws or regulations.

3. Adjustments to Prompt Corrective Action (PCA) Thresholds

Table 2 sets forth the risk-based and leverage capital thresholds under subpart H, which are effective January 1, 2015, for each of the PCA capital categories for all insured depository institutions. As demonstrated in the table, the rule maintains the general structure of the current PCA framework while increasing some of the thresholds for the PCA capital categories. For example, an adequately capitalized bank is required to maintain a tier 1 risk-based capital ratio of 6 percent (increased from the current level of 4 percent). The rule also introduces the common equity tier 1 capital ratio as a new PCA capital category threshold.

In addition, the rule clarifies the existing definition of tangible equity for the critically undercapitalized PCA category. Tangible equity is defined as tier 1 capital (composed of common equity tier 1 and additional tier 1 capital) plus outstanding perpetual preferred stock (including related surplus) not already included in tier 1 capital.

Table 2 - PCA Threshold Requirements*

PCA Capital Category	Threshold Ratios			
	Total Risk-based Capital ratio	**Tier 1 Risk-based Capital ratio**	**Common Equity Tier 1 Risk-based Capital ratio**	**Tier 1 Leverage ratio**
Well capitalized	10%	8%	6.5%	5%
Adequately capitalized	8%	6%	4.5%	4%
Undercapitalized	< 8%	< 6%	< 4.5%	< 4%
Significantly undercapitalized	< 6%	< 4%	< 3%	< 3%
Critically undercapitalized	Tangible Equity/Total Assets ≤ 2%			

*Effective date: January 1, 2015

4. Definition of Capital

Subpart C, section 20 revises the definition of capital and describes the capital components and eligibility criteria for common equity tier 1 capital, additional tier 1 capital and tier 2 capital. These provisions are summarized below and in **Table 6**.

4.a. Common Equity Tier 1 Capital

Subpart C, section 20 defines common equity tier 1 capital as the sum of the common equity tier 1 capital elements, less applicable regulatory adjustments and deductions. Common equity tier 1 capital elements include:

- Common stock instruments (that satisfy specified criteria) and related surplus (net of any treasury stock);
- Retained earnings;
- AOCI;[3]
- Common equity tier 1 minority interest subject to the limitations outlined in subpart C, section 21; and
- Common stock issued as part of an employee stock ownership plan (ESOP), provided that the repurchase of such stock is required solely by virtue of the Employee Retirement Income Security Act (ERISA) for a bank that is not publicly traded.

[3] As noted earlier, banks that chose the one-time irrevocable AOCI opt-out election option will be permitted to exclude from regulatory capital most of the components of AOCI, consistent with the current regulatory capital rules.

4.b. Additional Tier 1 Capital

Subpart C, section 20 defines additional tier 1 capital as the sum of additional tier 1 capital elements and related surplus, less applicable regulatory adjustments and deductions. Additional tier 1 capital instruments include:

- Noncumulative perpetual preferred stock (that satisfy specified criteria in the subpart C, section 20) and related surplus;
- Tier 1 minority interests, subject to limitations described in subpart C, section 21;
- Non-qualifying capital instruments (e.g. TruPS and cumulative perpetual preferred stock) that currently qualify as tier 1 capital under the Federal Reserve's current general risk-based capital rules and that were issued prior to May 19, 2010 by depository institution holding companies with assets less than $15 billion as of December 31,2009 or organized in mutual form as of May 19, 2010;
- "TARP" instruments that currently qualify as tier 1 capital under the agencies' current general risk-based capital rules and that were issued under the Small Business Job's Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008; and
- Additional tier 1 capital instruments issued as part of an ESOP, provided that the repurchase of such instruments is required solely by virtue of ERISA for a bank that is not publicly traded.

4.c. Tier 2 Capital

Subpart C, section 20 defines tier 2 capital as the sum of tier 2 capital elements and related surplus, less regulatory adjustments and deductions. The tier 2 capital instruments include:

- Subordinated debt and preferred stock (that satisfy specified criteria in Subpart C, section 20). This will include most of the subordinated debt currently included in tier 2 capital under the agencies' existing risk-based capital rules;
- Total capital minority interests, subject to the limitations described in subpart C, section 21;
- Allowance for loan and lease losses (ALLL) not exceeding 1.25 percent of the bank's standardized risk-weighted assets;
- Instruments that currently qualify as tier 2 capital under the agencies' current general risk-based capital rules and that were issued under the Small Business Job's Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008; and
- Non-qualifying capital instruments (e.g. TruPS and cumulative perpetual preferred stock) issued before September 10, 2010, that were eligible for treatment as tier 1 capital for non-advanced approaches depository institution holding companies with more than $15 billion in total assets (includable in tier 2 capital once they are phased out of tier 1 capital).

4.d. Minority Interest

Subpart C, section 21 limits the amount of minority interest in a subsidiary that may be included in regulatory capital. Banks that have such a minority interest should refer to this section to determine the limitations that apply to the inclusion of minority interests in regulatory capital.

4.e. Regulatory capital adjustments and deductions

Subpart C, section 22 contains several adjustments and deductions to regulatory capital designed to further ensure its loss absorbing capacity. The adjustments and deductions are as follows:

- Regulatory deductions from common equity tier 1 capital;
- Regulatory adjustments to common equity tier 1 capital;
- Deductions from regulatory capital related to investments in capital instruments of unconsolidated financial institutions;
- Corresponding deduction approach; and
- 10 and 15 percent common equity tier 1 capital deduction thresholds.

The calculation of these adjustments and deductions are described in further detail below and in the rule.

4.e.i. Regulatory deductions from common equity tier 1 capital

Subpart C, section 22 requires that a bank deduct the following from the sum of its common equity tier 1 capital elements:

- Goodwill and all other intangible assets (other than MSAs), which may be net of any associated deferred tax liabilities (DTLs). Goodwill for purposes of this deduction includes any goodwill embedded in the valuation of a significant investment in the capital of an unconsolidated financial institution in the form of common stock;
- DTAs that arise from net operating loss and tax credit carryforwards, which may be net of any valuation allowance and net of DTLs (see subpart C, section 22 for the requirements on the netting of DTLs);
- Any gain-on-sale in connection with a securitization exposure; and

- Any defined benefit pension fund net asset,[4] which may be net of any associated deferred tax liability.[5] (This deduction does not apply to insured depository institutions.[6])
- The aggregate amount of a bank's outstanding equity investment, including the retained earnings of a subsidiary, in its financial subsidiaries, established under section 121 of the Gramm-Leach-Bliley Act.

4.e.ii. Regulatory adjustments to common equity tier 1 capital

Subpart C, section 22 permits banks that are not subject to the advanced approaches rule to make a one-time, irrevocable AOCI opt-out election to retain the current regulatory capital treatment for AOCI, which allows banking organizations to exclude from regulatory capital most of the components of AOCI (most notably, the impact of unrealized gains and unrealized losses on AFS debt securities.)

This section contains the following adjustments:

- Advanced approaches banks and banks that have not made the AOCI opt-out election described above must deduct any unrealized gains and add any unrealized losses related to cash flow hedges included in AOCI that relate to the hedging of items that are not recognized at fair value on the balance sheet; and
- All banks must deduct any unrealized gains and add any unrealized losses related to changes in the fair value of liabilities that are due to changes in the bank's own credit risk.

4.e.iii. Deductions from regulatory capital related to investments in capital instruments

Under subpart C, section 22, a bank is required to deduct investments in the bank's own capital instruments (including any contractual obligation to purchase), whether held directly, indirectly, or synthetically from that component of capital. For example, a bank must deduct from common equity tier 1 capital any investment in its own common stock.

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[4] With prior approval of the FDIC, the bank may reduce the amount to be deducted by the amount of assets of the defined benefit pension fund to which it has unrestricted and unfettered access, provided that the bank includes such assets in its risk-weighted assets as if the bank held them directly. For this purpose, unrestricted and unfettered access means that the excess assets of the defined pension fund would be available to protect depositors or creditors of the bank in a receivership, insolvency, liquidation, or similar proceeding.

[5] The deferred tax liabilities for this deduction exclude those deferred tax liabilities that have already been netted against DTAs.

[6] An insured depository institution with a defined benefit pension net asset should risk weight such asset as if it held the underlying assets directly.

4.e.iv. Corresponding deduction approach

Under subpart C, section 22, a bank must use the corresponding deduction approach to calculate the required deductions from regulatory capital for:

- Reciprocal cross-holdings;
- Non-significant investments in the capital of unconsolidated financial institutions; and
- Significant investments in the capital of unconsolidated financial institutions (see subpart A, section 2 for the definition of financial institutions) that are not in the form of common stock.

Under the corresponding deduction approach, a bank generally must make deductions from the same component of capital for which the underlying instrument would qualify if it were issued by the bank itself. In addition, if the bank does not have a sufficient amount of such component of capital to effect the deduction, the shortfall will be deducted from the next higher (that is, more subordinated) component of regulatory capital. The mechanics of the deduction are explained in the rule.

4.e.iv.1. Reciprocal crossholdings in the capital of financial institutions

Subpart C, section 22 requires a bank to deduct investments in the capital of other financial institutions it holds reciprocally.[7]

4.e.iv.2 .Non-significant investments in the capital of unconsolidated financial institutions

Subpart C, section 22 requires a bank to deduct any non-significant investment in the capital of unconsolidated financial institutions that, in the aggregate, exceed 10 percent of the sum of the bank's common equity tier 1 capital elements less all deductions and other regulatory adjustments required under the rule (the 10 percent threshold for non-significant investments in unconsolidated financial institutions). The mechanics of the deduction are explained in this section. Any amount of such investments that are not deducted must be assigned the appropriate risk weight under subpart D.

4.e.iv.3. Significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock

A bank must deduct its significant investments in the capital of unconsolidated financial institutions not in the form of common stock by applying the corresponding deduction approach.

[7] An instrument is held reciprocally if the instrument is held pursuant to a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

4.e.v. 10 and 15 percent common equity tier 1 capital deduction thresholds

Subpart C, section 22 requires a bank to deduct from common equity tier 1 capital the amount of each of the following assets (together, the threshold deduction items) that individually exceed 10 percent of the sum of the bank's common equity tier 1 capital elements, less all required adjustments and deductions required under this section (the 10 percent common equity deduction threshold):

- DTAs arising from temporary differences that the bank could not realize through net operating loss carrybacks, net of any associated valuation allowance, and DTLs, subject to limitations (described in subpart C, section 22);
- MSAs, which may be net of associated DTLs; and
- Significant investments in the capital of unconsolidated financial institutions in the form of common stock, which may be net of associated DTLs.[8]

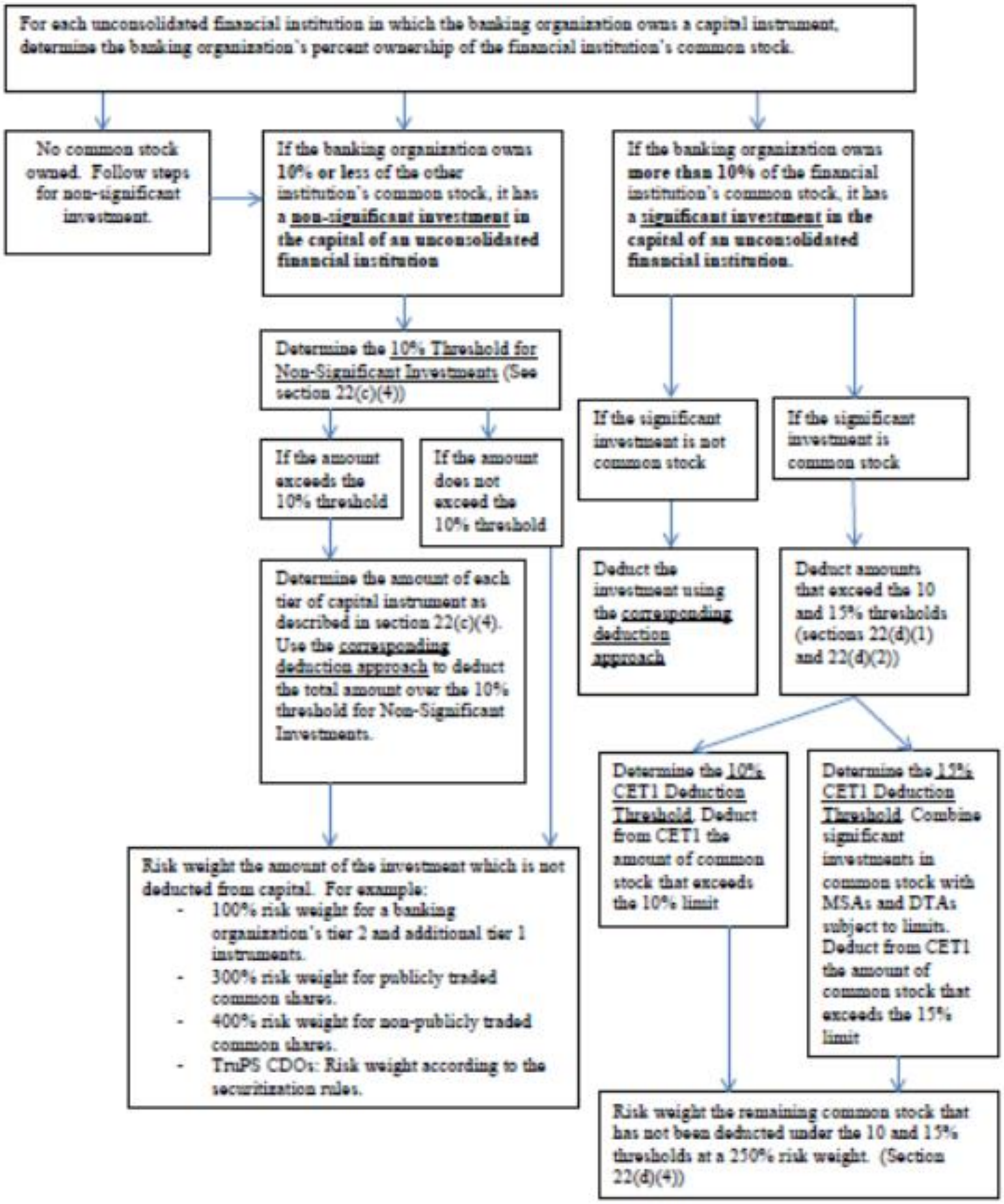
In addition, the aggregate amount of the threshold deduction items in subpart C, section 22 must not exceed 15 percent of the bank's common equity tier 1 capital net of all deductions (the 15 percent common equity deduction threshold). That is, the bank must deduct from common equity tier 1 capital elements, the amount of the threshold deduction items that are not deducted after the application of the 10 percent common equity deduction threshold, and that, in aggregate, exceed 17.65 percent of the sum of the bank's common equity tier 1 capital elements, less all required adjustments and deductions required under subpart C, section 22 and less the threshold deduction items in full.

The following flowchart below may help clarify the treatment of investments in the capital instruments of other financial institutions:

[8] The amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock subject to the 10 percent common equity tier 1 capital deduction threshold may be reduced by any goodwill embedded in the valuation of such investments deducted by the bank.

Treatment of Investments in the Capital of Unconsolidated Financial Institutions

Perform the following steps to determine the capital treatment of capital instruments in unconsolidated financial institutions:



5. Changes in Risk-Weighted Assets for Items Deducted from Capital

The amounts of the threshold deduction items that are not deducted, as described above, will be included in the risk-weighted assets of the bank and assigned a risk weight of 250 percent. In addition, certain exposures that are deducted under the current general risk-based capital rules, such as certain credit enhancing interest-only strips, will receive a 1,250 percent risk weight.

6. Timeline and Transition Period

For community banks, subpart G provides for a multi-year implementation as summarized in Table 4 below:

Table 4 – Transition Schedule for New Ratios and Capital Definitions

Year (as of Jan. 1)	2015	2016	2017	2018	2019
Minimum common equity tier 1 capital ratio	4.5%	4.5%	4.5%	4.5%	4.5%
Common equity tier 1 capital conservation buffer		0.625%	1.25%	1.875%	2.50%
Minimum common equity tier 1 capital ratio plus capital conservation buffer	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of most deductions from common equity tier 1 (including 10% & 15% common equity tier 1 threshold deduction items[9] that are over stated limits)	40%	60%	80%	100%	100%
Minimum tier 1 capital ratio	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum tier 1 capital ratio plus capital conservation buffer		6.625%	7.25%	7.875%	8.5%
Minimum total capital ratio	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total capital ratio plus conservation buffer	8.0%	8.625%	9.25%	9.875%	10.5%

When the rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the PCA well-capitalized thresholds.

Capital instruments that no longer qualify as additional tier 1 or tier 2 capital, and have not been grandfathered by subpart C, section 20, must be phased out over a period of time beginning in 2015 as summarized in Table 5 below:

Table 5 – Phase out for non-qualifying capital instruments

Transition Period (Calendar year)	Percentage of non-qualifying capital instruments issued prior to September 2010 includable in additional tier 1 or tier 2 capital for depository institutions
Calendar year 2014 (advanced approaches FDIC-supervised institutions only)	80
Calendar year 2015	70

[9] During the transition period, a bank must apply a 100% risk-weight to the aggregate amount of the items subject to the 10 and 15 percent common equity tier 1 capital deduction thresholds that are not deducted.

Table 5 – Phase out for non-qualifying capital instruments

Transition Period (Calendar year)	Percentage of non-qualifying capital instruments issued prior to September 2010 includable in additional tier 1 or tier 2 capital for depository institutions
Calendar year 2016	60
Calendar year 2017	50
Calendar year 2018	40
Calendar year 2019	30
Calendar year 2020	20
Calendar year 2021	10
Calendar year 2022 and thereafter	0

The table on the following page is a summary of the revisions to the components of capital.

Table 6 - Summary of Capital Components in Subpart C, Section 20

	Components and Tiers	Explanation
(1)	COMMON EQUITY TIER 1 CAPITAL	
(a)	+ Qualifying common stock instruments	Instruments must meet all of the common equity tier 1 criteria (Note 1)
(b)	+ Retained earnings	
(c)	+ AOCI	With the exception for banks which make a one-time, irrevocable opt-out election to retain the current treatment for AOCI, and the exception in Note 2 below, AOCI flows through to common equity tier 1 capital.
(d)	+ Qualifying common equity tier 1 minority interest	Subject to specific calculation method and limitation.
(e)	+ ESOP shares	Common stock issued as part of an ESOP, provided that the repurchase of such stock is required solely by virtue of ERISA for a bank that is not publicly traded.
(f)	- Regulatory deductions from common equity tier 1 capital	Deduct: Goodwill and intangible assets (other than MSAs); DTAs that arise from operating loss and tax credit carryforwards; any after-tax gain on sale in association with securitization; if not an insured depository institution, any defined benefit pension fund asset; and investments in the bank's own common stock instruments.
(g)	+/- Regulatory adjustments to common equity tier 1 capital	Adjust for unrealized gains and losses that have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk.
(h)	- 10 and 15 percent common equity tier 1 capital deduction thresholds	Deduct amount of threshold items that are above the 10 and 15 percent common equity tier 1 thresholds. (See Section 4.e.v above).
(i)	- Common equity tier 1 capital deductions per the corresponding deduction approach	See Section 4.e.iv above.
=	Common equity tier 1 capital	Sum
(2)	ADDITIONAL TIER 1 CAPITAL	
(a)	+ Additional tier 1 capital instruments	Instruments must meet all of the additional tier 1 criteria (Note 1).
(b)	+ Tier 1 minority interest that is not included in common equity tier 1 capital	Subject to specific calculation method and limitation
(c)	+ Grandfathered non-qualifying capital instruments	Non-qualifying capital instruments (e.g. TruPS and cumulative perpetual preferred stock) that currently qualify as tier 1 capital under the FRB's current general risk-based capital rules and that were issued prior to May 19, 2010 by depository institution holding companies with assets less than $15 billion as of December 31, 2009 or organized in mutual form as of May 19, 2010;
(d)	+ Non-qualifying tier 1 capital instruments subject to transition phase-out	
(e)	+ Tier 1 TARP related instruments	See Note 3
(f)	+ ESOP shares	Additional tier 1 capital instruments issued as part of an ESOP, provided

Table 6 - Summary of Capital Components in Subpart C, Section 20

	Components and Tiers	Explanation
		that the repurchase of such instruments is required solely by virtue of ERISA for a bank that is not publicly traded.
(g)	- Investments in a bank's own additional tier 1 capital instruments	
(h)	- Additional tier 1 capital deductions per the corresponding deduction approach	See Section 4.e.iv above.
=	Additional tier 1 capital	Sum
(3)	TIER 2 CAPITAL	
(a)	+ Tier 2 capital instruments	Instruments must meet all of the tier 2 criteria (Note 1)
(b)	+ Total capital minority interest that is not included in tier 1	Subject to specific calculation method and limitation.
(c)	+ ALLL	Up to 1.25% of risk weighted assets
(d)	+ Up to 45% of pre-tax net unrealized gains on AFS equity securities.	Only for bank that make an AOCI opt-out election.
(e)	+ Grandfathered non-qualifying capital instruments phased out of Tier 1 capital	Non-qualifying capital instruments (e.g. TruPS and cumulative perpetual preferred stock) issued before September 10, 2010, that were eligible for treatment as tier 1 capital for non-advanced approaches depository institution holding companies with more than $15 billion in total assets, are includable tier 2 capital once they are phased out of tier 1 capital.
(f)	+ Non-qualifying tier 2 capital instruments subject to transition phase-out	
(g)	+ Tier 2 TARP related instruments	(Note 3)
(h)	- Investments in a bank's own tier 2 capital instruments	
(i)	- Tier 2 capital deductions per the Corresponding Deduction Approach	See Section 4.e.iv above.
=	Tier 2 capital	Sum
	TOTAL CAPITAL = common equity tier 1 + additional tier 1 + tier 2	

Notes to Table:

Note 1 Includes surplus related to the instruments.

Note 2 Regulatory adjustments: A bank that does not make an AOCI opt-out election must deduct any unrealized gain and add any unrealized loss for cash flow hedges included in AOCI relating to hedging of items not reflected at fair value on the balance sheet.

Note 3 Grandfathered TARP related instruments: These are instruments issued under the Small Business Lending Facility (SBLF) or prior to Oct. 4, 2010 under the Emergency Economic Stabilization Act of 2008. If the instrument qualified as tier 1 capital under rules at the time of issuance, it would count as additional tier 1 capital under subpart C, section 20. If the instrument qualified as tier 2 capital under the rules at that time, it would count as tier 2 capital under the rule.

7. Standardized Approach for Risk Weighted Assets

7.a. Zero Percent Risk-Weighted Items

The following exposures receive a zero percent risk weight under subpart D, section 32:

- Cash;
- Gold bullion;[10]
- Direct and unconditional claims on the U.S. government, its central bank, or a U.S. government agency;
- Portions of exposures that are unconditionally guaranteed by the U.S. government, its central bank, or a U.S. government agency, including exposures insured or otherwise unconditionally guaranteed by the FDIC or National Credit Union Administration (NCUA);
- Claims on certain supranational entities (such as the International Monetary Fund) and certain multilateral development banks; and
- Claims on and exposures unconditionally guaranteed by sovereign entities that meet certain criteria (as discussed below).

Also refer to Section 7.s. below for information on exposures to foreign governments and their central banks.

7.b. 20 Percent Risk-Weighted Items

The following exposures receive a 20 percent risk weight under subpart D, section 32:

- Cash items in the process of collection;
- Portions of exposures that are conditionally guaranteed by the U.S. government, its central bank, or a U.S. government agency, including exposures that are conditionally guaranteed by the FDIC or NCUA;
- Claims on government-sponsored enterprises (GSEs);
- Claims on U.S. depository institutions and NCUA-insured credit unions;
- General obligation claims on, and claims guaranteed by the full faith and credit of state and local governments (and any other public sector entity, as defined in subpart A, section 2) in the United States; and
- Claims on and exposures guaranteed by foreign banks and public sector entities if the sovereign of incorporation of the foreign bank or public sector entity meets certain criteria (as described below).

[10] Zero percent risk weight applies only to gold bullion held in a bank's own vaults or held in another depository institution's vaults on an allocated basis to the extent that gold bullion assets are offset by gold bullion liabilities.

A conditional guarantee is one that requires the beneficiary to satisfy certain conditions, such as servicing requirements.

Also refer to Section 7.s. below for information on exposures to foreign bank and public sector entities.

7.c. 50 Percent Risk-Weighted Exposures

The following exposures receive a 50 percent risk weight under subpart D, section 32:

- Statutory multifamily mortgage loans meeting certain criteria;
- Prudently underwritten first-lien residential mortgage exposures meeting certain criteria;[11]
- Presold residential construction loans meeting certain criteria;
- Revenue bonds issued by state and local governments in the United States; and
- Claims on and exposures guaranteed by sovereign entities, foreign banks, and foreign public sector entities that meet certain criteria (as described below).

The criteria for residential mortgage exposures, multifamily loans and presold residential construction loans are generally the same as in the current general risk-based capital rules. The criteria for multifamily loans and presold residential construction loans are required under federal law.[12] Consistent with the current general risk-based capital rules and requirements under federal law, the rule assigns a 100 percent risk weight to pre-sold construction loans where the contract is cancelled.

Also refer to subpart A, section 2 for relevant definitions:

- *First-lien residential mortgage exposure*
- *Pre-sold construction loan;*
- *Residential mortgage exposure;*
- *Revenue obligation; and*
- *Statutory multifamily mortgage.*

7.d. One- to Four-Family Residential Mortgage Loans

Under subpart D, section 32, the treatment for one- to four-family residential mortgages remains the same as under the current general risk-based capital rules. This includes a 50% risk weight for prudently underwritten loans that are not past due, reported as nonaccrual, or restructured, and a 100% risk weight for all other residential mortgages. The 120-day safe harbor from recourse treatment for loans sold with certain credit

[11] Residential mortgage exposures that do not meet the criteria to qualify for the 50 percent risk weight and junior-lien residential mortgage exposures receive a 100 percent risk weight.
[12] See Sections 618(a)(1) or (2) and 618(b)(1) of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.

enhancing representations and warranties safe harbor is also retained.

Also refer to subpart A, section 2 for relevant definitions:

- *Residential mortgage exposure;*
- *First-lien residential mortgage exposure; and*
- *Junior-lien residential mortgage exposure.*

7.e. Past Due Exposures

Subpart D, section 32 assigns a 150 percent risk weight to loans and other exposures that are 90 days or more past due. This applies to all exposure categories *except for* the following:

- Residential mortgage exposures (1-4 family loans over 90 days past due would be risk weighted as described in this section); and
- A sovereign exposure where the sovereign has experienced a sovereign default.

Also refer to subpart A, section 2 for relevant definitions:

- *Sovereign default.*

7.f. High Volatility Commercial Real Estate Loans (HVCRE)

Subpart 32, section 32 assigns a 150 percent risk weight to HVCRE exposures. An HVCRE exposure (which is further defined in subpart A, section 2) is a credit facility that finances or has financed the acquisition, development, or construction (ADC) of real property, *unless* the facility finances:

- One- to four-family residential properties;
- Certain community development projects;
- The purchase or development of agricultural land; or
- Commercial real estate projects in which:
  - The LTV ratio is less than or equal to the applicable maximum supervisory LTV ratio;
  - The borrower has contributed capital to the project in the form of cash or unencumbered readily marketable assets[13] (or has paid development expenses out-of-pocket) of at least 15 percent of the real estate's appraised "as completed" value; and
  - The borrower contributed the amount of capital required by this definition before the bank advances funds under the credit facility, and the capital contributed by the borrower, or internally generated by the project, is contractually required to

[13] Consistent with existing guidance, cash used to purchase land is a form of borrower contributed capital under the HVCRE definition.

remain in the project throughout the life of the project. The life of a project concludes only when the credit facility is converted to permanent financing or is sold or paid in full. Permanent financing may be provided by the bank that provided the ADC facility as long as the permanent financing conforms to the bank's underwriting criteria for long-term mortgage loans.

Also refer to subpart A, section 2 for relevant definitions:

- *High volatility commercial real estate exposure (HVCRE).*

7.g. Commercial Loans / Corporate Exposures

Subpart D, section 32 assigns a 100 percent risk weight to all corporate exposures. The definition of a corporate exposure excludes exposures that are specifically covered elsewhere in the proposal, such as HVCRE, pre-sold residential construction loans, and statutory multifamily mortgages.

Also refer to subpart A, section 2 for relevant definitions:

- *Corporate exposures.*

7.h. Consumer Loans and Credit Cards

Under the rule, consumer loans and credit cards continue to receive a 100 percent risk weight. The interim final rule does not specifically list these assets, but they fall into the "other assets" category that would receive a 100 percent risk weight.

7.i. Other Assets and Exposures

Where the rule does not assign a specific risk weight to an asset or exposure type, the applicable risk weight is 100 percent. For example, premises, fixed assets, and other real estate owned receive a risk weight of 100 percent. For bank holding companies and savings and loan holding companies, the rule provides specific risk weights for certain insurance-related assets. Also included is preferred stock issued by a GSE.

7.j. Conversion Factors for Off-Balance Sheet Items

Similar to the current general risk-based capital rules, under subpart D, section 33, a bank is required to calculate the exposure amount of an off-balance sheet exposure using the credit conversion factors (CCFs) below. The rule increases the CCF for commitments with an original maturity of one year or less from zero percent to 20 percent.

Zero percent CCF. A bank must apply a zero percent CCF to the unused portion of commitments that are unconditionally cancellable by the bank.

20 percent CCF. A bank must apply a 20 percent CCF to:

- Commitments with an original maturity of one year or less that are not unconditionally cancellable by the bank; and
- Self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less.

50 percent CCF. A bank must apply a 50 percent CCF to:

- Commitments with an original maturity of more than one year that are not unconditionally cancellable by the bank; and
- Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit.

100 percent CCF. A bank must apply a 100 percent CCF to the following off-balance-sheet items and other similar transactions:

- Guarantees;
- Repurchase agreements (the off-balance sheet component of which equals the sum of the current market values of all positions the bank has sold subject to repurchase);
- Credit-enhancing representations and warranties (see the definition for the inclusion for the 120-day safe harbor);
- Off-balance sheet securities lending transactions (the off-balance sheet component of which equals the sum of the current market values of all positions the bank has lent under the transaction);
- Off-balance sheet securities borrowing transactions (the off-balance sheet component of which equals the sum of the current market values of all non-cash positions the bank has posted as collateral under the transaction);
- Financial standby letters of credit; and
- Forward agreements.

Also refer to subpart A, section 2 for relevant definitions:

- *Unconditionally cancellable; and*
- *Credit-enhancing representations and warranties.*

7.k. Over-the-Counter (OTC) Derivative Contracts

Subpart D, section 34 provides a method for determining the risk-based capital requirement for an OTC derivative contract that is consistent with the current general risk-based capital rules. However, in contrast to the current general risk-based capital rules, which place a 50 percent risk weight cap on derivatives, the rule does not include a risk weight cap and introduces specific credit conversion factors for credit derivatives. The bank determines the exposure amount and then assigns a risk weight based on the counterparty or collateral. The exposure amount is the sum of current exposure plus potential future credit exposure (PFE).

The current credit exposure is the greater of zero or the mark-to-market value of the derivative contract.

The PFE is generally the notional amount of the derivative contract multiplied by a credit conversion factor for the type of derivative contract. The table below shows the credit conversion factors for derivative contracts:

Table 7 - Credit Conversion Factors for Derivative Contracts[1]

Remaining maturity[2]	Interest rate	Foreign exchange rate and gold	Credit (investment grade[3] reference asset)[4]	Credit (non-investment-grade reference asset)	Equity	Precious metals (except gold)	Other
One year or less	0.0 percent	1.0 percent	5.0 percent	10.0 percent	6.0 percent	7.0 percent	10.0 percent
Greater than one year and less than or equal to five years	0.5 percent	5.0 percent	5.0 percent	10.0 percent	8.0 percent	7.0 percent	12.0 percent
Greater than five years	1.5 percent	7.5 percent	5.0 percent	10.0 percent	10.0 percent	8.0 percent	15.0 percent

[1] For a derivative contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the derivative contract
[2] For an OTC derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero, the remaining maturity equals the time until the next reset date. For an interest rate derivative contract with a remaining maturity of greater than one year that meets these criteria, the minimum conversion factor is 0.005
[3] In the interim final rule, "investment grade" means that the entity to which the bank is exposed through a loan or security, or the reference entity with respect to a credit derivative, has adequate capacity to meet financial commitments for the projected life of the asset or exposure. Such an entity or reference entity has adequate capacity to meet financial commitments if the risk of its default is low and the full and timely repayment of principal and interest is expected.
[4] A bank must use the column labeled "Credit (investment-grade reference asset)" for a credit derivative whose reference asset is an outstanding unsecured long-term debt security without credit enhancement that is investment grade. A bank must use the column labeled "Credit (non-investment-grade reference asset)" for all other credit derivatives.

Also refer to subpart A, section 2 for relevant definitions:

- *Effective notional amount;*
- *Eligible credit derivative;*
- *Eligible derivative contract;*
- *Exposure amount; and*
- *Interest rate derivative contract.*

7.I. Securitization Exposures

Subpart D, section 41 introduces due diligence requirements for banks that own, originate or purchase securitization exposures and introduces a new definition of securitization exposure. If a bank is unable to demonstrate to the satisfaction of the FDIC a comprehensive understanding of the features of a securitization exposure that would materially affect the performance of the exposure, the bank is required to assign the securitization exposure a risk weight of 1,250 percent. The bank's analysis must be commensurate with the complexity of the securitization exposure and the materiality of the exposure in relation to capital.

Note that mortgage-backed pass-through securities (for example, those guaranteed by FHLMC or FNMA) do not meet the definition of a securitization exposure because they do not involve a tranching of credit risk. Rather, only those mortgage-backed securities that involve tranching of credit risk are considered securitization exposures for the purposes of the risk-based capital rules. For securitization exposures guaranteed by the U.S. Government or GSEs, there are no changes relative to the existing risk-based capital rules:

- The Government National Mortgage Association (Ginnie Mae) securities receive a zero percent risk-weight to the extent they are unconditionally guaranteed;
- The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) guaranteed securities receive a 20 percent risk weight; and
- Fannie Mae and Freddie Mac non-credit enhancing IO securities receive a 100 percent risk weight.

The risk-based capital requirements for securitizations under subpart D, section 42 are as follows:

- A bank must deduct any after-tax gain-on-sale in connection with a securitization. (This requirement will usually pertain to banks that are originators rather than purchasers of securitization exposures);
- A bank must assign a 1,250 percent risk weight to a credit-enhancing interest-only strip (CEIO); and
- A bank must assign a 100 percent risk weight to non-credit enhancing interest-only mortgage-backed securities (IOs).

For privately issued mortgage securities and all other securitization exposures, a bank must choose among the following approaches, provided that the bank consistently applies such approach to all securitization exposures:[14]

[14] The ratings-based approach for externally rated positions is no longer available.

- A bank may use the existing gross-up approach to risk weight all of its securitizations. Under the existing gross-up approach, senior securitization tranches are assigned the associated weighted average risk weight of the underlying exposures. For subordinate securitization tranches, a bank must hold capital for the subordinate tranche, as well as all more senior tranches for which the subordinate tranche provides credit support;
- A bank may determine the risk weight for the securitization exposure using the simplified supervisory formula approach (SSFA). The SSFA formula requires a bank to apply a supervisory formula that requires various data inputs including the risk weight applicable to the underlying exposures; the attachment and detachment points of the securitization tranche, which reflects the relative position of the securitization position in the structure (subordination); and the current percentage of the underlying exposures that are 90 days or more past due, in default, or in foreclosure. Banks considering the SSFA approach should carefully review subpart D, sections 43 and 44; or
- A bank may apply a 1,250 percent risk weight to any of its securitization exposures.

Also refer to subpart A, section 2 *for relevant definitions:*

- *Credit-enhancing interest-only strip;*
- *Gain-on-sale;*
- *Resecuritization;*
- *Resecuritization exposure;*
- *Securitization exposure;*
- *Securitization special purpose entity (securitization SPE);*
- *Synthetic securitization;*
- *Traditional securitization; and*
- *Underlying exposure.*

7.m. Equity Exposures

Under subpart D, section 52, a bank applies a simple risk-weight approach (SRWA) to determine the risk weight for equity exposures that are not exposures to an investment fund. The following table indicates the risk weights that apply to equity exposures under the SRWA:

Table 8 – Risk weights for Equity Exposures

Risk weight (in percent)	Equity exposure
0	An equity exposure to a sovereign entity, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, a MDB, and any other entity whose credit exposures receive a zero percent risk weight under subpart D, section 32
20	An equity exposure to a public sector entity, Federal Home Loan Bank or the Federal Agricultural Mortgage Corporation (Farmer Mac)
100	• Community development equity exposures[1] • The effective portion of a hedge pair • Non-significant equity exposures to the extent that the aggregate adjusted carrying value of the exposures does not exceed 10 percent of tier 1 capital plus tier 2 capital
250	A significant investment in the capital of an unconsolidated financial institution that is not deducted under subpart C, section 22
300	A publicly traded equity exposure (other than an equity exposure that receives a 600 percent risk weight and including the ineffective portion of a hedge pair)
400	An equity exposure that is not publicly traded (other than an equity exposure that receives a 600 percent risk weight)
600	An equity exposure to a hedge fund or other investment firm that has greater than immaterial leverage

[1] Subpart A, section 2 generally defines Community Development Exposures as exposures that would qualify as community development investments under 12 U.S.C. 24 (Eleventh), excluding equity exposures to an unconsolidated small business investment company and equity exposures held through a consolidated small business investment company described in Section 302 of the Small Business Investment Act of 1958 (15 U.S.C. 682).

Also refer to subpart A, section 2 for relevant definitions:

- *Equity exposure; and*
- *Equity derivative contract.*

7.n. Equity Exposures to Investment Funds

The treatment described in this section applies to equity exposures to investment funds, such as mutual funds, as well as investments in a separate account, such as bank-owned life insurance. The treatment does not apply to hedge funds or other leveraged investment funds (refer to section above). For exposures to investment funds other than community development exposures, a bank must use one of three risk-weighting approaches described below, which are each subject to a 20 percent risk weight floor:

7.n.i. Full Look-Through Approach

For this two-step approach, a bank is required to obtain information regarding the asset pool underlying the investment fund as of the date of the calculation, as well as the bank's proportional share of ownership in the fund. For the first step, the bank assigns risk weights to each asset of the investment fund and calculates the sum of those risk-weighted assets. For the second step, the bank multiplies the sum of the fund's risk-weighted assets by the bank's proportional ownership in the fund.

7.n.ii. Simple Modified Look-Through Approach

Similar to the current general risk-based capital rules, under this approach a bank multiplies the adjusted carrying value of its investment in the fund by the highest risk weight that applies to any exposure the fund is permitted to hold as described in the prospectus or fund documents.

7.n.iii. Alternative Modified Look-Through Approach

Similar to the current general risk-based capital rules, under this approach a bank assigns the adjusted carrying value of an equity exposure to an investment fund on a pro-rata basis to different risk weight categories based on the investment limits described in the fund's prospectus. The bank's risk-weighted asset amount is the sum of each portion of the adjusted carrying value assigned to an exposure type multiplied by the applicable risk weight. For purposes of the calculation, the bank must assume the fund is invested in assets with the highest risk weight permitted by its prospectus and to the maximum amounts permitted.

For community development equity exposures, a bank's risk-weighted asset amount is equal to its adjusted carrying value for the fund.

Also refer to subpart A, section 2 *for relevant definitions:*

- *Adjusted carrying value; and*
- *Investment fund.*

7.o. Treatment of Guarantees

Subpart D, section 36 allows a bank to substitute the risk weight of an eligible guarantor for the risk weight otherwise applicable to the guaranteed exposure. This treatment applies only to <u>eligible guarantees</u> and <u>eligible credit derivatives</u>, and provides certain adjustments for maturity mismatches, currency mismatches, and situations where restructuring is not treated as a credit event.

Eligible guarantors include sovereign entities, certain supranational entities such as the International Monetary Fund, Federal Home Loan Banks, Farmer Mac, multilateral development banks, depository institutions, bank holding companies, savings and loan holding companies, foreign banks, or an entity that has investment grade debt, whose creditworthiness is not positively correlated with the credit risk of the exposures for which it provides guarantees. Eligible guarantors *do not* include monoline insurers, re-insurers, or special purpose entities.

To be an eligible guarantee, the guarantee would be required to be from an eligible guarantor and must meet the requirements of subpart D, section 36, including that the guarantee must:

- Be written;
- Be either:
  - Unconditional; or
  - A contingent obligation of the U.S. government or its agencies, the enforceability of which to the beneficiary is dependent upon some affirmative action on the part of the beneficiary of the guarantee or a third party (for example, servicing requirements);
- Cover all or a *pro-rata* portion of all contractual payments of the obligor on the reference exposure;
- Give the beneficiary a direct claim against the protection provider; and
- Meet other requirements of subpart D, section 36.

Also refer to subpart A, section 2 *for relevant definitions:*

- *Eligible guarantee; and*
- *Eligible guarantor.*

7.p. Treatment of Collateralized Transactions

Subpart D, section 37 allows banks to recognize the risk mitigating benefits of financial collateral in risk-weighted assets, and defines financial collateral to include:

- Cash on deposit at the banks or third-party custodian;
- Gold;
- Investment grade long-term securities (excluding resecuritizations);
- Investment grade short-term instruments (excluding resecuritizations);
- Publicly traded equity securities;
- Publicly traded convertible bonds; and
- Money market mutual fund shares and other mutual fund shares if a price is quoted daily.

In all cases the bank is required to have a perfected, first priority interest in the financial collateral.

7.p.i. Simple Approach

A bank may apply a risk weight to the portion of an exposure that is secured by the market value of financial collateral by using the risk weight of the collateral – subject to a risk weight floor of 20 percent. To apply the simple approach, the collateral must be subject to a collateral agreement for at least the life of the exposure; the collateral must be revalued at least every 6 months; and the collateral (other than gold) must be in the same currency. There are a few limited exceptions to the 20 percent risk weight floor:

- A bank may assign a zero percent risk weight to the collateralized portion of an exposure where:
  - The financial collateral is cash on deposit; or
  - The financial collateral is an exposure to a sovereign that qualifies for a zero percent risk weight (including the United States) and the bank has discounted the market value of the collateral by 20 percent;
- A bank may assign a zero percent risk weight to an exposure to an OTC derivative contract that is marked to market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contract is collateralized by cash on deposit; and
- A bank may assign a 10 percent risk weight to an exposure to an OTC derivative contract that is marked to market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contract is collateralized by U.S. government securities or an exposure to a sovereign that qualifies for a zero percent risk weight under the proposal.

7.p.ii. Collateral Haircut Approach

For an eligible margin loan, a repo-style transaction, a collateralized derivative contract, or a single-product netting set of such transactions, a bank *may* instead decide to use the collateral haircut approach to recognize the credit risk mitigation benefits of eligible collateral by reducing the amount of the exposure to be risk weighted rather than by substituting the risk weight of the collateral. Banks considering the collateral haircut approach should carefully read subpart D, section 37. The collateral haircut approach takes into account the value of the bank's exposure, the value of the collateral, and haircuts to account for potential volatility in position values and foreign exchange rates. The haircuts may be determined using one of two methodologies: standard supervisory market price volatility haircuts or own estimates.

A bank may use standard haircuts based on the table below and a standard foreign exchange rate haircut of 8 percent.

Table 9 - Standard Supervisory Market Price Volatility Haircuts[1]

Residual Maturity	Haircut (in percent) assigned based on: Sovereign issuers risk weight under subpart D, section 32 (in percent)			Non-sovereign issuers risk weight under subpart D, section 32 (in percent)			Investment grade securitization exposures (in percent)
	Zero	20 or 50	100	20	50	100	
Less than 1 year	0.5	1.0	15.0	1.0	2.0	4.0	4.0
Greater than 1 year and less than or equal to 5 years	2.0	3.0	15.0	4.0	6.0	8.0	12.0
Greater than 5 years	4.0	6.0	15.0	8.0	12.0	16.0	24.0
Main index equities (including convertible bonds) and gold				15.0			
Other publicly traded equities (including convertible bonds)				25.0			
Mutual funds				Highest haircut applicable to any security in which the fund can invest.			
Cash collateral held				zero			
Other exposure types				25.0			

[1] The market price volatility haircuts in Table 2 are based on a 10 business-day holding period
[2] Includes a foreign PSE that receives a zero percent risk weight

Alternatively, a bank may, with supervisory approval, use own estimates of collateral haircuts when calculating the risk-weighted asset amount for an eligible margin loan, a repo-style transaction, or a collateralized derivative contract. subpart D, section 37 provides the requirements for calculating own estimates, including the requirement that such estimates be determined based on a period of market stress appropriate for the collateral under this approach.

Also refer to subpart A, section 2 *for relevant definitions:*

- *Financial collateral; and*
- *Repo-style transaction.*

7.q. Treatment of Cleared Transactions

Subpart D, section 35 introduces a specific capital treatment for exposures to central counterparties (CCPs), including certain transactions conducted through clearing members by banks that are not themselves clearing members of a CCP. This section describes the capital treatment of cleared transactions and of default fund contributions to CCPs, including more favorable capital treatment for cleared transactions through certain CCPs that meet certain prudential criteria.

7.r. Unsettled Transactions

Subpart D, section 38 provides for a separate risk-based capital requirement for transactions involving securities, foreign exchange instruments, and commodities that have a risk of delayed settlement or delivery. The capital requirement would not, however, apply to certain types of transactions, including cleared transactions that are marked-to-market daily and subject to daily receipt and payment of variation margin. Subpart D, section 38 contains separate treatments for delivery-versus-payment (DvP) and payment-versus-payment (PvP) transactions with a normal settlement period, and non-DvP/non-PvP transactions with a normal settlement period.

7.s. Foreign Exposures

Under subpart D, section 32 a bank must assign a risk weight to an exposure to a foreign government, foreign public sector entity (PSE), and a foreign bank based on the Country Risk Classification (CRC) that is applicable to the foreign government, or the home country of the foreign PSE or foreign bank. If the foreign government does not receive a CRC, the applicable risk weight will vary depending on whether or not the foreign government is a member of the Organization for Economic Cooperation and Development (OECD).

<u>Country risk classification (CRC)</u> for a sovereign means the CRC published by the OECD.

The risk weights for foreign sovereigns, foreign bank, and foreign PSEs are shown in the tables below.

Table 10 – Risk Weights for Foreign Sovereign Exposures

		Risk Weight (in percent)
Sovereign CRC	0-1	0
	2	20
	3	50
	4-6	100
	7	150
OECD Member with No CRC		0
Non-OECD Member with No CRC		100
Sovereign Default		150

- A sovereign exposure must be assigned a 150 percent risk weight immediately upon an event of sovereign default (as defined in the interim final rule), or if an event of sovereign default has occurred during the previous five years.

Table 11 – Risk Weights for Exposures to Foreign Banks

		Risk Weight (in percent)
Sovereign CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non OECD Member		100
Sovereign Default		150

Table 12 – Risk Weights for Foreign PSE General Obligations

		Risk Weight (in percent)
Sovereign CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non OECD Member		100
Sovereign Default		150

Table 13 – Risk Weights for foreign PSE Revenue Obligations

		Risk Weight (in percent)
Sovereign CRC	0-1	50
	2-3	100
	4-7	150
OECD Member with No CRC		50
Non OECD Member		100
Sovereign Default		150

For more information, please refer to subpart d, section 32*. Also refer to* subpart A, section 2 *for relevant definitions:*

- *Home country;*
- *Public sector entity;*
- *Sovereign;*
- *Sovereign default; and*
- *Sovereign exposure.*

Appendix A – Minimum capital ratios, Capital Buffers, PCA, Regulatory Capital Components Comparison

Minimum regulatory capital ratios			
	Current Rule	**NPR**	**Subpart B**
Common equity tier 1 capital / RWA	N/A	4.5%	4.5%
Tier 1 capital / RWA	4%	6%	6%
Total capital / RWA	8%	8%	8%
Leverage ratio	≥ 4% (or ≥ 3%)	≥ 4%	≥ 4%
Capital buffers			
	Current Rule	**NPR**	**Subpart B**
Capital conservation buffer	N/A	Capital conservation buffer equivalent to 2.5% of risk-weighted assets; composed of common equity tier 1 capital	Capital conservation buffer equivalent to 2.5% of risk-weighted assets; composed of common equity tier 1 capital
Prompt Corrective Action			
	Current levels	**NPR levels**	**Subpart H**
Common equity tier 1 capital	N/A	Well capitalized: ≥ 6.5% Adequately capitalized: ≥ 4.5% Undercapitalized: < 4.5% Significantly undercapitalized: < 3%	Well capitalized: ≥ 6.5% Adequately capitalized: ≥ 4.5% Undercapitalized: < 4.5% Significantly undercapitalized: < 3%
Tier 1 capital	Well capitalized: ≥ 6% Adequately capitalized: ≥ 4% Undercapitalized < 4% Significantly undercapitalized: < 3%	Well capitalized: ≥ 8% Adequately capitalized: ≥ 6% Undercapitalized < 6% Significantly undercapitalized: < 4%	Well capitalized: ≥ 8% Adequately capitalized: ≥ 6% Undercapitalized < 6% Significantly undercapitalized: < 4%
Total capital	Well capitalized: ≥ 10% Adequately capitalized: ≥ 8% Undercapitalized < 8% Significantly undercapitalized: < 6%	Well capitalized: ≥ 10% Adequately capitalized: ≥ 8% Undercapitalized < 8% Significantly undercapitalized: < 6%	Well capitalized: ≥ 10% Adequately capitalized: ≥ 8% Undercapitalized < 8% Significantly undercapitalized: < 6%
Leverage ratio	Well capitalized: ≥ 5% Adequately capitalized: ≥ 4% (or ≥ 3%) Undercapitalized < 4% (or < 3%) Significantly undercapitalized: < 3%	Well capitalized: ≥ 5% Adequately capitalized: ≥ 4% Undercapitalized < 4% Significantly undercapitalized: < 3%	Well capitalized: ≥ 5% Adequately capitalized: ≥ 4% Undercapitalized < 4% Significantly undercapitalized: < 3%
Critically undercapitalized category	*Tangible equity to total assets ratio ≤ 2*	*Tangible equity to total assets ≤ 2*	*Tangible equity to total assets ≤ 2*
Regulatory Capital Components			
	Current definition / instruments	**NPR definition / instruments**	**Subpart C**
Common equity tier 1 capital	No specific definition	Mostly retained earnings and common stock that meets specified eligibility criteria (plus limited amounts of minority interest in the	Mostly retained earnings and common stock that meets specified eligibility criteria (plus limited amounts of minority interest in the form of common

		form of common stock) less the majority of the regulatory deductions	stock) less the majority of the regulatory deductions
Additional tier 1 capital	No specific definition	Equity capital instruments that meet specified eligibility criteria (plus limited amounts of minority interest in the form of tier 1 capital instruments)	Equity capital instruments that meet specified eligibility criteria (plus limited amounts of minority interest in the form of tier 1 capital instruments) less any deductions
Tier 2 capital	Certain capital instruments (e.g., subordinated debt) and limited amounts of ALLL	Capital instruments that meet specified eligibility criteria (e.g., subordinated debt) and limited amounts of ALLL	Capital instruments that meet specified eligibility criteria (e.g., subordinated debt) and limited amounts of ALLL less any deductions
Regulatory deductions and adjustments			
	Current treatment	**NPR treatment**	**Subpart C**
Regulatory deductions	Current deductions from regulatory capital include goodwill and other intangibles, DTAs (above certain levels), and MSAs (above certain levels)	Proposed deductions from common equity tier 1 capital include goodwill and other intangibles, DTAs (above certain levels), MSAs (above certain levels), after-tax gains-on-sale in connection with a securitization exposure, any defined benefit pension fund net asset (for banks that are not insured depository institutions), investments in a bank's own capital instruments and investments in unconsolidated financial institutions (above certain levels)	Deductions from common equity tier 1 capital include goodwill and other intangibles, DTAs (above certain levels), after-tax gains-on-sale in connection with a securitization exposure, any defined benefit pension fund net asset (for banks that are not insured depository institutions), investments in a bank's own capital instruments, MSAs (above certain levels) and investments in unconsolidated financial institutions (above certain levels)
Regulatory adjustments	Current adjustments include the exclusion of unrealized gains and losses on available for sale debt securities for regulatory capital purposes (consistent with current general risk-based capital rules)	Under the proposal, AOCI would generally flow through to regulatory capital	For banks that make a one-time, irrevocable AOCI opt-out election, adjustments include the exclusion of unrealized gains and losses on available for sale debt securities for regulatory capital purposes
MSAs, certain DTAs arising from temporary differences, and certain significant investments in the common stock of unconsolidated financial	MSAs and DTAs that are not deducted are subject to a 100 percent risk weight	Items that are not deducted are subject to a 250 percent risk weight	Items that are not deducted are subject to a 250 percent risk weight

institutions			
The portion of a CEIO that does not constitute an after-tax-gain-on-sale	Dollar-for-dollar capital requirement for amounts not deducted based on a concentration limit	Subject to a 1,250 percent risk weight	Subject to a 1,250 percent risk weight

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Cash	0%	0%	0%
Direct and unconditional claims on the U.S. Government, its agencies, and the Federal Reserve	0%	0%	0%
Claims on certain supranational entities and multilateral development banks	20%	0%	0%
Cash items in the process of collection	20%	20%	20%
Conditional claims on the U.S. government	20%	20%	20%
Claims on government-sponsored enterprises (GSEs)	20% 100% on GSE preferred stock (20% for national banks)	20% on exposures other than equity exposures. 100% on GSE preferred stock	20% on exposures other than equity exposures. 100% on GSE preferred stock
Claims on U.S. depository institutions and NCUA-insured credit unions	20% 100% risk weight for an instrument included in the depository institution's regulatory capital	20% 100% risk weight for an instrument included in the depository institution's regulatory capital (unless that instrument is an equity exposure or is deducted)	20% 100% risk weight for an instrument included in the depository institution's regulatory capital (unless that instrument is an equity exposure or is deducted)
Claims on U.S. public sector entities (PSEs)	20% for general obligations 50% for revenue obligations	20% for general obligations 50% for revenue obligations	20% for general obligations 50% for revenue obligations
Industrial development bonds	100%	100%	100%

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Claims on qualifying securities firms	20% in general	100% See commercial loans and corporate exposures to financial companies below	100% See commercial loans and corporate exposures to financial companies below
1-4 family loans	50% if first lien, prudently underwritten, owner occupied or rented, current or <90 days past due 100% otherwise	Category 1: 35%, 50%, 75%, 100% depending on LTV Category 2: 100%, 150%, 200% depending on LTV	50% if first lien, prudently underwritten, owner occupied or rented, current or <90 days past due; and not restructured or modified 100% otherwise
1-4 family loans modified under HAMP	50% and 100% The bank must use the same risk weight assigned to the loan prior to the modification so long as the loan continues to meet other applicable prudential criteria	35% to 200% The bank must determine whether the modified terms make the loan a Category 1 or a Category 2 mortgage	50% and 100% The bank must use the same risk weight assigned to the loan prior to the modification so long as the loan continues to meet other applicable prudential criteria
Loans to builders secured by 1-4 family properties presold under firm contracts	50% if the loan meets all criteria in the regulation 100% if the contract is cancelled 100% for loans not meeting the criteria	50% if the loan meets all criteria in the regulation; 100% if the contract is cancelled 100% for loans not meeting the criteria	50% if the loan meets all criteria in the regulation 100% if the contract is cancelled 100% for loans not meeting the criteria
Loans on multifamily properties	50% if the loan meets all the criteria in the regulation 100% otherwise	50% if the loan meets all the criteria in the regulation 100% otherwise	50% if the loan meets all the criteria in the regulation 100% otherwise
Corporate exposures	100%	100% However, if the exposure is an instrument included in the capital of the financial company, deduction treatment may apply	100% However, if the exposure is an instrument included in the capital of a financial institution, deduction treatment may apply
High volatility commercial real estate (HVCRE) loans	100%	150%	150%

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Consumer loans	100%	100%	100%
Past due exposures	Generally the risk weight does not change when the loan is past due; however, 1-4 family loans that are past due 90 days or more are 100% risk weight	150% for the portion that is not guaranteed or secured (does not apply to sovereign exposures or 1-4 family residential mortgage exposures)	150% for the portion that is not guaranteed or secured (does not apply to sovereign exposures or 1-4 family residential mortgage exposures)
Assets not assigned to a risk weight category, including fixed assets, premises, and other real estate owned	100%	100%	100%
Claims on foreign governments and their central banks	0% for direct and unconditional claims on OECD governments 20% for conditional claims on OECD governments 100% for claims on non-OECD governments that entail some degree of transfer risk	Risk weight depends on Country Risk Classification (CRC) applicable to the sovereign and ranges between 0% and 150% 100% for sovereigns that do not have a CRC 150% for a sovereign that has defaulted within the previous 5 years	Risk weight depends on Country Risk Classification (CRC) applicable to the sovereign and ranges between 0% and 150% 0% for sovereigns which are OECD members with no CRC 100% for sovereigns that do not have a CRC 150% for a sovereign that has defaulted within the previous 5 years

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Claims on foreign banks	20% for claims on banks in OECD countries 20% for short-term claims on banks in non-OECD countries 100% for long-term claims on banks in non-OECD countries	Risk weight depends on home country's CRC rating and ranges between 20% and 50%. 100% for foreign bank whose home country does not have a CRC 150% in the case of a sovereign default in the bank's home country 100% for an instrument included in a bank's regulatory capital (unless that instrument is an equity exposure or is deducted)	Risk weight depends on home country's CRC rating and OECD membership status and ranges between 20% and 150% 100% for foreign bank whose home country does not have a CRC 20% for sovereigns which are OECD members with no CRC 150% in the case of a sovereign default in the bank's home country 100% for an instrument included in a bank's regulatory capital (unless that instrument is an equity exposure or is deducted)
Claims on foreign PSEs	20% for general obligations of states and political subdivisions of OECD countries 50% for revenue obligations of states and political subdivisions of OECD countries 100% for all obligations of states and political subdivisions of non-OECD countries	Risk weight depends on the home country's CRC and ranges between 20% and 150% for general obligations; and between 50% and 150% for revenue obligations 100% for exposures to a PSE in a home country that does not have a CRC 150% for a PSE in a home country with a sovereign default	Risk weight depends on the home country's CRC and OECD membership status and ranges between 20% and 150% for general obligations; and between 50% and 150% for revenue obligations 100% for exposures to a PSE in a home country that does not have a CRC 20% for sovereigns which are OECD members with no CRC (general obligation bonds) 50% for sovereigns which are OECD members with no CRC (revenue bonds) 150% for a PSE in a home country with a sovereign default

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
MBS, ABS, and structured securities	Ratings Based Approach: - 20%:AAA&AA; - 50%:A-rated - 100%:BBB - 200%:BB-rated Securitizations with short-term ratings – 20, 50, 100, and for unrated positions, where the bank determines the credit rating – 100 or 200 Gross-up approach the risk-weighted asset amount is calculated using the risk weight of the underlying assets amount of the position and the full amount of the assets supported by the position (that is, all of the more senior positions) Dollar for dollar capital for residual interests Deduction for CEIO strips over concentration limit 100% for stripped MBS (IOs and POs) that are not credit enhancing	Deduction for the after-tax gain-on-sale of a securitization 1,250% risk weight for a CEIO 100% for interest-only MBS that are not credit-enhancing Banks may elect to follow a gross up approach, similar to existing rules Simplified Supervisory Formula Approach – the risk weight for a position is determined by a formula and is based on the risk weight applicable to the underlying exposures, the relative position of the securitization position in the structure (subordination), and measures of delinquency and loss on the securitized assets 1,250% otherwise	Deduction for the after-tax gain-on-sale in association with a securitization 1,250% risk weight for a CEIO 100% for interest-only MBS that are not credit-enhancing Banks may elect to follow a gross up approach, similar to existing rules Simplified Supervisory Formula Approach – the risk weight for a position is determined by a formula and is based on the risk weight applicable to the underlying exposures, the relative position of the securitization position in the structure (subordination), and measures of delinquency and loss on the securitized assets 1,250% otherwise

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Unsettled transactions	Not addressed.	100%, 625%, 937.5%, and 1,250% for DvP or PvP transactions depending on the number of business days past the settlement date 1,250% for non-DvP, non-PvP transactions more than 5 days past the settlement date The proposed capital requirement for unsettled transactions would not apply to cleared transactions that are marked-to-market daily and subject to daily receipt and payment of variation margin	100%, 625%, 937.5%, and 1,250% for DvP or PvP transactions depending on the number of business days past the settlement date 1,250% for non-DvP, non-PvP transactions more than 5 days past the settlement date The capital requirement for unsettled transactions would not apply to cleared transactions that are marked-to-market daily and subject to daily receipt and payment of variation margin

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Equity Exposures	100% or incremental deduction approach for nonfinancial equity investments.	0% risk weight: equity exposures to a sovereign, certain supranational entities, or an MDB whose debt exposures are eligible for 0% risk weight 20%: Equity exposures to a PSE, a FHLB, or Farmer Mac 100%: Equity exposures to community development investments and small business investment companies and non-significant equity investments 250%: Significant investments in the capital of unconsolidated financial institutions that are not deducted from capital pursuant to subpart C, section 22 300%: Most publicly traded equity exposures 400%: Equity exposures that are not publicly traded 600%: Equity exposures to certain investment funds	0% risk weight: equity exposures to a sovereign, certain supranational entities, or an MDB whose debt exposures are eligible for 0% risk weight 20%: Equity exposures to a PSE, a FHLB, or Farmer Mac 100%: Equity exposures to community development investments and small business investment companies and non-significant equity investments 250%: Significant investments in the capital of unconsolidated financial institutions that are not deducted from capital pursuant to subpart C, section 22 300%: Most publicly traded equity exposures 400%: Equity exposures that are not publicly traded 600%: Equity exposures to certain investment funds

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Equity exposures to investment funds	There is a 20% risk weight floor on investment fund holdings General rule: Risk weight is the same as the highest risk weight investment the fund is permitted to hold Option: A bank may assign risk weights pro-rata according to the investment limits in the fund's prospectus	<u>i. Full Look-Through</u> Risk weight each asset of the fund (as if owned directly) *multiplied by* the bank's proportional ownership in the fund <u>ii. Simple Modified Look-Through</u> Multiply the bank's exposure by the risk weight of the highest risk weight asset in the fund <u>iii. Alternative Modified Look-Through</u> Assign risk weight on a pro-rata basis based on the investment limits in the fund's prospectus For community development equity exposures, risk-weighted asset amount = adjusted carrying value	There is a 20% risk weight floor on investment fund holdings <u>i. Full Look-Through</u> Risk weight each asset of the fund (as if owned directly) *multiplied by* the bank's proportional ownership in the fund <u>ii. Simple Modified Look-Through</u> Multiply the bank's exposure by the risk weight of the highest risk weight asset in the fund <u>iii. Alternative Modified Look-Through</u> Assign risk weight on a pro-rata basis based on the investment limits in the fund's prospectus For community development equity exposures, risk-weighted asset amount = adjusted carrying value

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Conversion Factors for off-balance sheet items	0% for the unused portion of a commitment with an original maturity of one year or less, or which is unconditionally cancellable at any time 10% for unused portions of eligible ABCP liquidity facilities with an original maturity of one year or less 20% for self-liquidating, trade-related contingent items 50% for the unused portion of a commitment with an original maturity of more than one year that is not unconditionally cancellable 50% for transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit) 100% for guarantees, repurchase agreements, securities lending and borrowing transactions, financial standby letters of credit, and forward agreements	0% for the unused portion of a commitment that is unconditionally cancellable by the bank 20% for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable 20% for self-liquidating trade-related contingent items 50% for the unused portion of a commitment over one year that are not unconditionally cancellable 50% for transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit) 100% for guarantees, repurchase agreements, securities lending and borrowing transactions, financial standby letters of credit, and forward agreements	0% for the unused portion of a commitment that is unconditionally cancellable by the bank 20% for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable 20% for self-liquidating trade-related contingent items 50% for the unused portion of a commitment over one year that are not unconditionally cancellable 50% for transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit) 100% for guarantees, repurchase agreements, securities lending and borrowing transactions, financial standby letters of credit, forward agreements, and credit-enhancing representations and warranties that are not securitization exposures
Derivative contracts	Conversion to an on-balance sheet amount based on current exposure plus potential future exposure and a set of conversion factors *50% risk weight cap*	Conversion to an on-balance sheet amount based on current exposure plus potential future exposure and a set of conversion factors *No risk weight cap*	Conversion to an on-balance sheet amount based on current exposure plus potential future exposure and a set of conversion factors *No risk weight cap*

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Guarantees	Generally recognizes guarantees provided by central governments, GSEs, PSEs in OECD countries, multilateral lending institutions, regional development banks, U.S. depository institutions, foreign banks, and qualifying securities firms in OECD countries Substitution approach that allows the bank to substitute the risk weight of the protection provider for the risk weight ordinarily assigned to the exposure	Recognizes guarantees from eligible guarantors: sovereign entities, BIS, IMF, ECB, European Commission, FHLBs, Farmer Mac, a multilateral development bank, a depository institution, a bank holding company, a savings and loan holding company, a foreign bank, or an entity other than a SPE that has investment grade debt, whose creditworthiness is not positively correlated with the credit risk of the exposures for which it provides guarantees and is not a monoline insurer or re-insurer Substitution treatment allows the bank to substitute the risk weight of the protection provider for the risk weight ordinarily assigned to the exposure. Applies only to eligible guarantees and eligible credit derivatives, and adjusts for maturity mismatches, currency mismatches, and where restructuring is not treated as a credit event	Recognizes guarantees from eligible guarantors: sovereign entities, BIS, IMF, ECB, European Commission, FHLBs, Farmer Mac, a multilateral development bank, a depository institution, a bank holding company, a savings and loan holding company, a foreign bank, a qualifying central counterparty bank, or an entity other than a SPE that has investment grade debt, whose creditworthiness is not positively correlated with the credit risk of the exposures for which it provides guarantees and is not a monoline insurer or re-insurer Substitution treatment allows the bank to substitute the risk weight of the protection provider for the risk weight ordinarily assigned to the exposure. Applies only to eligible guarantees and eligible credit derivatives, and adjusts for maturity mismatches, currency mismatches, and where restructuring is not treated as a credit event

Appendix B – Risk Weighted Assets Comparison

Category	Current Risk Weight (in general)	NPR	Subpart D
Collateralized transactions	Recognize only cash on deposit, securities issued or guaranteed by OECD countries, securities issued or guaranteed by the U.S. government or a U.S. government agency, and securities issued by certain multilateral development banks Substitute risk weight of collateral for risk weight of exposure, sometimes with a 20% risk weight floor	For financial collateral only, the proposal provides two approaches i. Simple Approach A bank may apply a risk weight to the portion of an exposure that is secured by the market value of collateral by using the risk weight of the collateral – with a risk weight floor of 20% ii. Collateral Haircut Approach Using standard supervisory haircuts or own estimates of haircuts for eligible margin loans, repo-style transactions, collateralized derivative contracts	For financial collateral only, the interim final rule provides two approaches i. Simple Approach A bank may apply a risk weight to the portion of an exposure that is secured by the market value of collateral by using the risk weight of the collateral – with a risk weight floor of 20% ii. Collateral Haircut Approach Using standard supervisory haircuts or own estimates of haircuts for eligible margin loans, repo-style transactions, collateralized derivative contracts