

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105

April 17, 2002

**BANKING SUPERVISION AND REGULATION:
RISK-BASED CAPITAL STANDARDS**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Final Rule Lowering Risk Weighting for Claims on Securities Firms (R-1085)

The federal banking agencies has issued a final rule amending their risk-based capital standards for banks, bank holding companies, and savings associations (institutions) to reduce the risk weight applied to claims on, or guaranteed by, qualifying securities firms. Please see our letter dated December 28, 2000, to review the proposal.

The final rule lowers the risk weight applied to certain claims on qualifying securities firms from 100 percent to 20 percent. This change is consistent with the treatment of claims on securities firms under an April 1998 amendment to the Basel Accord. The Accord is an international framework for assessing the capital adequacy of depository institutions by risk weighting their assets and off-balance-sheet exposures and serves as a basis for the banking agencies' risk-based capital standards.

Under the final rule, qualifying securities firms are:

- Securities firms incorporated in the United States that are broker-dealers registered with the Securities and Exchange Commission (SEC) and are in compliance with the SEC's net capital requirements.
- Securities firms incorporated in other member countries of the Organization for Economic Cooperation and Development (OECD) that are subject to supervisory and regulator arrangements, including risk-based capital requirements, comparable to those imposed on banks in OECD countries.

There are three ways in which a 20 percent risk weight on a claim against a qualifying securities firm may apply:

- The qualifying securities firm has a long-term credit rating in one of the three highest investment-grade credit rating categories used by a nationally recognized statistical rating organization.
- The qualifying securities firm's parent company satisfies the rating requirement and guarantees the claim.
- The claim on the qualifying securities firm arises from a repurchase/reverse repurchase agreement or securities lending/borrowing transaction and satisfies certain collateral and other requirements.

Consistent with the existing rules of the Board and the OCC, the FDIC, and the OTS also are amending their risk-based capital standards to permit a zero percent risk weight for certain claims on qualifying securities firms that are collateralized by cash or by securities issued or guaranteed by the U.S. or OECD central governments.

The rule will be effective **July 1, 2002**. However, institutions may choose to immediately apply the provisions of the final rule, including in the risk-based capital calculations for the March 31, 2002, Reports of Condition and Income (Call Reports) filed by banks; the March 2002 Thrift Financial Reports filed by savings associations; and the March 31, 2002, Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) filed by bank holding companies.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. Paper copies of the Board's notice (**Docket R-1085**) are available from our Corporate Services Department. To request copies to be sent by mail, please call (415) 974-2060.

For additional information about the above matter, please contact our Banking Supervision and Regulation Department at (415) 974-2936.

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