

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

August 2, 2004

**BANKING SUPERVISION AND REGULATION:
FINAL RULE: CAPITAL REQUIREMENTS**

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 on Capital Requirements for Asset-Backed Commercial Paper Programs (Docket R-1162)

The federal banking and thrift regulatory agencies have issued a final rule amending their risk-based capital standards. The rule permits sponsoring banks, bank holding companies, and thrifts (banking organizations) to continue to exclude from their risk-weighted asset base for purposes of calculating the risk-based capital ratios asset-backed commercial paper (ABCP) program assets that are consolidated onto sponsoring banking organizations' balance sheets as a result of Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, as revised (FIN 46-R). This provision of the final rule will make permanent an existing interim final rule.

The final rule also requires banking organizations to hold risk-based capital against eligible ABCP liquidity facilities with an original maturity of one year or less that provide liquidity support to ABCP by imposing a 10 percent credit conversion factor on such facilities. Eligible ABCP liquidity facilities with an original maturity exceeding one year remain subject to the current 50 percent credit conversion factor. Ineligible liquidity facilities are treated as direct credit substitutes or recourse obligations and are subject to a 100 percent credit conversion factor. The resulting credit equivalent amount is then risk weighted according to the underlying assets, after consideration of any collateral, guarantees, or external ratings, if applicable. All liquidity facilities that provide liquidity support to ABCP will be treated as eligible liquidity facilities for a one-year transition period.

The rule will become effective on September 30, 2004.

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>.

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

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Attachment: [Docket R-1162](#)