

# FEDERAL RESERVE BANK OF SAN FRANCISCO

101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

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## **BANKING SUPERVISION AND REGULATION: RISK-BASED CAPITAL TREATMENT**

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

### **Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment (SR 05-13)**

On July 28, 2004, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS) (the agencies) published a final rule on the consolidation of asset-backed commercial paper programs (ABCP) that instituted new risk-based capital requirements for ABCP liquidity facilities (ABCP rule).<sup>1</sup> The ABCP rule specifies that the risk-based capital treatment of an ABCP liquidity facility is based, in part, on whether the facility is “eligible” or “ineligible.” Eligibility is determined by whether a liquidity facility has a contractual asset quality test that precludes funding against certain low credit quality assets. The attached guidance clarifies the application of the asset quality test for determining the eligibility or ineligibility of an ABCP liquidity facility and the resulting risk-based capital treatment of such a facility for banks, bank holding companies, and savings associations (banking organizations).<sup>2</sup>

In the attached guidance, the agencies reiterate their position that the primary function of an eligible ABCP liquidity facility should be to provide liquidity – not credit enhancement. An eligible liquidity facility must have an asset quality test that precludes funding against assets that are 90 days or more past due, in default, or below investment grade, which implies that the institution providing the ABCP liquidity facility should not be exposed to the credit risk associated with such assets. An ABCP liquidity facility will meet the asset quality test if, at all times throughout the transaction, (i) the liquidity provider has access to certain types of acceptable credit enhancements that support the liquidity facility and (ii) the notional amount of such credit enhancements exceeds the amount of underlying assets that are 90 days or more past due, defaulted or below investment grade that the liquidity provider may be obligated to fund under the facility.

#### **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 guidance, please contact our Banking Supervision and Regulation Department at (415) 974-2225.

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*Attachment: Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment*

<sup>1</sup> 69 Fed. Reg. 44908 (July 28, 2004).

<sup>2</sup> See 12 C.F.R. part 3, appendix A, § 3(a)(6)(ii)(A) (OCC); 12 C.F.R. parts 208 and 205, appendix A, § III.B.3.a.iv. (FRB); 12 C.F.R. part 3, appendix A, § II.B.5(a)(5) (FDIC); 12 C.F.R. 567.1 (OTS).