

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

February 28, 2006

**BANKING SUPERVISION AND REGULATION:
RISK-BASED CAPITAL TREATMENT FOR
CASH COLLATERAL**

To State Member Banks, Bank
Holding Companies,
and Others Concerned,
in the Twelfth Federal Reserve District

**Final Rule Revises the Risk-Based Capital Treatment for Cash Collateral and Securities
Borrowing Transactions (Docket R-1087)**

The Federal Reserve Board has announced the approval of a final rule for state member banks and bank holding companies that revises the risk-based capital treatment for cash collateral posted in connection with securities borrowing transactions. This final rule makes permanent, and expands the scope of, an interim final rule issued in 2000, that reduced risk-based capital requirements for certain cash-collateralized securities borrowing transactions.

Under the interim rule, a banking organization could exclude receivables associated with securities borrowing transactions that met certain criteria from its risk-weighted assets to the extent the transactions were collateralized by the market value of the securities borrowed. The final rule is substantially similar to the interim rule, but broadens its application so that securities borrowing transactions that would not be eligible for certain exemptions from U.S. federal bankruptcy or receivership law may qualify for the beneficial risk-based capital treatment provided certain operational and legal conditions are met.

The Federal Reserve will not object if banking organizations apply the treatment set forth in the final rule in their fourth quarter 2005 regulatory reports.

The final rule is pending approval by other federal banking regulators and would take effect upon its publication in the Federal Register. A draft final rule is attached.

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) 974-2225.

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[Attachment: Docket R-1087](#)