

**FEDERAL RESERVE SYSTEM**

**12 CFR Parts 208, 217, and 225**

**Regulations H, Q, and Y**

**Docket No. R-1459**

**RIN No. 7100 AD-98**

**Risk-Based Capital Guidelines; Market Risk**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Notice of proposed rulemaking (NPR).

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**SUMMARY:** The Board of Governors of the Federal Reserve System (Board) proposes to revise its market risk capital rule (market risk rule) to address recent changes to the Country Risk Classifications (CRCs) published by the Organization for Economic Cooperation and Development (OECD), which are referenced in the Board's market risk rule; to clarify the treatment of certain traded securitization positions; to make a technical amendment to the definition of covered position; and to clarify the timing of the required market risk disclosures. These changes would conform the Board's current market risk rule to the requirements in the Board's new capital framework and thereby allow the current market risk rule to serve as a bridge until the new capital framework becomes fully effective for all banking organizations.

**DATES:** Comments must be submitted on or before September 3, 2013.

**ADDRESSES:** Comments should be directed to:

When submitting comments, please consider submitting your comments by email or fax because paper mail in the Washington, DC area and at the Board may be subject to delay. You may submit comments, identified by Docket No. R-1459 and RIN No. 7100 AD-98, by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- Email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include the Docket and RIN numbers in the subject line of the message.
- Fax: (202) 452-3819 or (202) 452-3102.
- Mail: Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551.

All public comments are available from the Board's Web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Street NW., Washington, DC 20551) between 9 a.m. and 5 p.m. on weekdays.

**FOR FURTHER INFORMATION CONTACT:** Constance Horsley, Manager, (202) 452-5239, or Tim Geishecker, Senior Supervisory Financial Analyst, (202) 475-6353, Capital and Regulatory Policy, Division of Banking Supervision and Regulation; or Benjamin McDonough, Senior Counsel, (202) 452-2036, or Mark Buresh, Attorney (202) 452-5270, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (202) 263-4869.

## SUPPLEMENTARY INFORMATION:

### I. Background

On August 30, 2012, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) published a final rule to revise their respective market risk rules (the August 2012 final rule).<sup>1</sup> The rule revised the market risk rule to better capture positions for which the market risk rule is appropriate; reduce pro-cyclicality; enhance the rules' sensitivity to risks that were not adequately captured under the existing methodologies; and increase transparency through enhanced disclosures.

As described in more detail in the August 2012 final rule, the revisions to the market risk rule were designed to incorporate features of documents published by the Basel Committee on Bank Supervision (BCBS) and the International Organizations of Securities Commissions (IOSCO) in 2005, 2009, and 2010 that revised the market risk framework,<sup>2</sup> and to implement

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<sup>1</sup> 77 FR 53060 (August 30, 2012). The agencies' market risk rules are at 12 CFR part 3, appendix B (OCC); 12 CFR parts 208 and 225, appendix E (Board); and 12 CFR part 325, appendix C (FDIC).

<sup>2</sup> The BCBS published a revised capital framework in 2004 entitled *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* (Basel II Accord) (available at <http://www.bis.org/publ/bcbs107.htm>) and, between 2005 and 2010, made revisions included in the 2005 publication of *The Application of Basel II to Trading Activities and the Treatment of Double Default Effects* (available at <http://www.bis.org/publ/bcbs111.htm>); the 2009 publications of *Revisions to the Basel II Market Risk Framework* (available at <http://www.bis.org/publ/bcbs158.htm>), *Guidelines for Computing Capital for Incremental Risk in the Trading Book* (available at <http://www.bis.org/publ/bcbs159.htm>), and *Enhancements to the Basel II Framework* (available at <http://www.bis.org/publ/bcbs/basel2enh0901.htm>); and the 2010 publication that established a floor on the risk-based capital requirement for modeled correlation trading positions (available at <http://www.bis.org/press/p100618/annex.pdf>). The agencies provided additional detail on this history in the preamble to the August 2012 final rule. See, 77 FR 53060, 53060-53062 (August 30, 2012).

certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), including the prohibition against including references to credit ratings in Federal regulations set forth in section 939A.<sup>3</sup>

Revisions to the market risk framework from both 2005 and 2009 included provisions that reference credit ratings. The 2005 revisions also expanded the "government" category of debt positions to include all sovereign debt and changed the standardized specific risk-weighting factor for sovereign debt from 0 percent to a range of between 0 and 12 percent based on the credit rating of the obligor and the remaining contractual maturity of the debt position.

In the United States, section 939A the Dodd-Frank Act prevents the agencies from implementing those aspects of the BCBS revisions that relied on the use of credit ratings. Instead, the agencies developed alternative standards of creditworthiness and, in a joint notice of proposed rulemaking (NPR) published in December 2011, the agencies proposed to incorporate the non-credit rating based standards into the market risk rule's calculation of specific risk capital requirements for sovereign debt positions, certain other covered debt positions, and securitization positions.<sup>4</sup> The August 2012 final rule incorporated those non-credit ratings based standards for measuring specific risk capital requirements.

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<sup>3</sup> Pub. L. 111-203, 124 Stat. 1376 (July 21, 2010). Section 939A(a) of the Dodd-Frank Act provides that not later than 1 year after the date of enactment, each Federal agency shall: (1) review any regulation issued by such agency that requires the use of an assessment of the credit-worthiness of a security or money market instrument; and (2) any references to or requirements in such regulations regarding credit ratings. Section 939A further provides that each such agency "shall modify any such regulations identified by the review under subsection (a) to remove any reference to or requirement of reliance on credit ratings and to substitute in such regulations such standard of credit-worthiness as each respective agency shall determine as appropriate for such regulations." *See* 15 U.S.C. 78o-7 note.

<sup>4</sup> 76 FR 79380 (December 21, 2011).

In this NPR, the Board is proposing to revise its market risk rule to address recent changes to the country risk classifications (CRCs) published by the Organization for Economic Cooperation and Development (OECD); clarify the treatment of certain traded securitization positions; make a technical amendment to the definition of covered position; and clarify the timing of required market risk disclosures. These proposed changes would conform the Board's current market risk rule to the material requirements in the Board's new capital framework and thereby allow the current market risk rule to serve as a bridge until the new capital framework becomes fully effective for all banking organizations.

## **II. Description of Proposed Revisions to the Market Risk Rule**

### *A. Sovereign debt positions*

Under the current market risk rule, a sovereign entity is defined as a central government (including the U.S. government) or an agency, department, ministry, or central bank of a central government. The specific risk capital requirement for a sovereign debt position that is not backed by the full faith and credit of the United States is determined, in part, using CRCs based on the OECD's CRC methodology. The OECD's CRCs are an assessment of country risk, used to set interest rates for transactions covered by the OECD arrangement on export credits.

The OECD's CRC methodology was established in 1999 and classifies countries into categories based on the application of two basic components: (1) the country risk assessment model (CRAM), which is an econometric model that produces a quantitative assessment of country credit risk; and (2) the qualitative assessment of the CRAM results, which integrates political risk and other risk factors not fully captured by the CRAM. The two components of the CRC methodology are combined and result in countries being classified into one of eight risk categories (0-7), with countries assigned to the 0 category having the lowest possible risk

assessment and countries assigned to the 7 category having the highest. The OECD regularly updates CRCs for over 150 countries.<sup>5</sup> Also, CRCs are recognized by the BCBS as an alternative to credit ratings.<sup>6</sup>

As noted in the preamble to the August 2012 final rule, the agencies determined that the use of CRCs to measure sovereign risk for purposes of their respective risk-based capital regulations is permissible under section 939A of the Dodd-Frank Act, because section 939A was not intended to apply to assessments made by organizations such as the OECD. Additionally, the agencies noted that the use of the CRCs was limited in scope.

Following the publication of the August 2012 final rule, the OECD determined that it will no longer classify certain high-income countries that previously received a CRC of zero. Under the August 2012 final rule, sovereign debt positions without a CRC generally receive a specific risk-weighting factor of 8 percent (the equivalent of a 100 percent risk weight). According to the OECD, the CRAM was not used to categorize high-income OECD and Euro Area countries, therefore, the OECD determined that applying a CRC to such countries was no longer appropriate.<sup>7</sup> However, the OECD stated that such countries “will remain subject to the same market credit risk pricing disciplines that are applied to all Category Zero countries. This means

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<sup>5</sup> Please refer to [http://www.oecd.org/document/49/0,3343,en\\_2649\\_34169\\_1901105\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/49/0,3343,en_2649_34169_1901105_1_1_1_1,00.html) for more information on the OECD CRC methodology.

<sup>6</sup> See, *Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version* (June 2006). See paragraph 55 at page 20. Available at <http://www.bis.org/publ/bcbs128b.pdf>.

<sup>7</sup> “Changes agree to the Participant Country Risk Classification System,” available at: <http://www.oecd.org/tad/xcred/cat0.htm>.

that the change will have no practical impact on the rules that apply to the provision of official export credits.”<sup>8</sup>

In light of these changes and recognizing that CRCs have certain limitations, the Board continues to believe that referencing CRCs in its market risk rule is appropriate and represents a reasonable alternative to credit ratings for sovereign exposures. Moreover, the CRC methodology is more granular and risk-sensitive than the previous risk-weighting methodology, which was based solely on a sovereign entity’s OECD membership. Furthermore, referencing CRCs poses moderate additional burden for banking organizations, because the OECD regularly updates CRCs and makes the assessments available on its public Web site. Additionally, the use of CRCs is consistent with the treatment of sovereign debt positions in the Basel II Accord.<sup>9</sup>

Consistent with the August 2012 final rule, the proposal would map the risk weights to CRCs in a manner consistent with the Basel II standardized approach, which provides risk weights for exposures to foreign sovereigns based on CRCs. This proposal would amend the Board’s market risk rule to allow exposures to OECD member countries that are covered positions and that no longer receive a CRC to continue to receive a zero percent specific risk-weighting factor (except in cases of default by the sovereign entity). The revised specific risk-weighting factors for sovereign debt positions, with the new category for OECD members with no CRC rating, are set forth in Table 1.

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<sup>8</sup> Id.

<sup>9</sup> See footnote 2.

**Table 1 – Specific Risk-weighting Factors for Sovereign Debt Positions**

		<b>Remaining Contractual Maturity</b>	<b>Risk-weighting Factor (in percent)</b>
Sovereign CRC	0-1		0
	2-3	6 months or less	0.25
		Greater than 6 months and up to and including 24 months	1.0
		Exceeds 24 months	1.6
	4-6		8.0
	7		12.0
OECD Member with No CRC			0.0
Non-OECD Member with No CRC			8.0
Sovereign Default			12.0

A banking organization may assign to a sovereign debt position a specific risk-weighting factor lower than the applicable specific risk-weighting factor in Table 1 if the position is denominated in the sovereign entity’s currency, the banking organization has at least an equivalent amount of liabilities in that foreign currency, and the sovereign entity allows banks under its jurisdiction to assign the lower specific risk-weighting factor to the same exposures to the sovereign entity.

The Board notes that the specific risk-weighting factors for debt positions that are exposures to a public sector entity (PSE), depository institution, foreign bank, or credit union will continue to be tied to the CRC of the applicable sovereign entity. Therefore, under the proposed changes to the market risk rule, a banking organization must assign a specific risk-weighting factor of 0.25, 1.0, or 1.6 percent (depending on the remaining contractual maturity of the position), to a debt position that is an exposure to a PSE, depository institution, foreign bank,



or credit union, if the applicable sovereign entity does not have a CRC but is a member of the OECD, unless the sovereign debt position must otherwise be assigned a higher specific risk-weighting factor (for example, in the case of default by the sovereign entity). For each applicable table of specific risk-weighting factors in the rule, the Board proposes to add an “OECD Member with No CRC” category and to revise the current “No CRC” category to read “Non-OECD Member with No CRC,” each with appropriate corresponding specific risk-weighting factors. This additional category would address those situations, discussed above, where a sovereign entity that had received a CRC of zero will no longer receive a CRC going forward. This approach to an exposure to a sovereign entity, PSE, depository institution, foreign bank, or credit union is consistent with the approach that the agencies are finalizing in their new comprehensive capital framework.

Following the publication of the August 2012 final rule and the three interagency proposals to revise the agencies’ risk-based capital rules consistent with the Basel III Accord and with the Dodd-Frank Act, some commenters contended that the OECD’s CRC methodology unduly benefits certain jurisdictions with unstable fiscal positions, because certain countries that restructured their sovereign debt due to financial distress were able to retain their preferential CRC.<sup>10</sup> This concern is misplaced, however, because the August 2012 final rule requires a banking organization to apply a higher 12 percent specific risk-weighting factor (the equivalent of a 150 percent risk weight) to sovereign debt positions upon determining that an event of sovereign default has occurred during the previous five years. Under the proposal, the Board’s market risk rule will retain this treatment for defaulted sovereign exposures. Under the proposal, as under the current rule, default by a sovereign entity would be defined as noncompliance by the

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<sup>10</sup> 77 FR 52793 (August 30, 2012); 77 FR 52888 (August 30, 2012); 77 FR 52978 (August 30, 2012).

sovereign entity with its external debt service obligations or the inability or unwillingness of a sovereign government to service an existing loan according to its original terms, as evidenced by failure to pay principal and interest timely and fully, arrearages, or restructuring. A default includes a voluntary or involuntary restructuring that results in a sovereign not servicing an existing obligation in accordance with the obligation's original terms.

*B. Securitization Positions – Simplified Supervisory Formula Approach*

The August 2012 final rule removed the option for banking organizations to use an internal model to measure the specific risk of most securitization positions and instead provided that a banking organization subject to the market risk rule generally must assign a 100 percent specific risk-weighting factor to its securitization positions or apply the so-called Simplified Supervisory Formula Approach (SSFA), which takes into account the nature and quality of the underlying collateral of the securitization and was designed to apply relatively higher capital requirements to the more risky junior tranches of a securitization that are the first to absorb losses and relatively lower requirements to the most senior positions. This NPR would clarify the treatment of certain securitization positions under the SSFA with regard to determining the delinquency of the underlying exposures as discussed below.

Among the inputs to the SSFA is a parameter designed to increase the capital requirements for a securitization exposure when delinquencies in the underlying assets of the securitization grow. In the SSFA, this is labeled as the “W” parameter. This parameter W equals the ratio of (1) the sum of the dollar amounts of any underlying exposures of the securitization that meet certain criteria to (2) the balance, measured in dollars, of underlying exposures. The criteria are that the underlying exposure is 90 days or more past due, subject to a

bankruptcy or insolvency proceeding, in the process of foreclosure, held as real estate owned, in default, or has contractually deferred interest payments for 90 days or more.

Since the issuance of the August 2012 final rule, banking organizations subject to the rule have commented that the criteria could be read to include deferrals of interest that are unrelated to the performance of the loan or the borrower and may inappropriately include certain federally guaranteed student loans. The Board did not intend for parameter W to be interpreted in this manner. Instead, the August 2012 final rule was intended to capture contractual provisions present in certain instruments that permit borrowers to defer payments due to financial difficulties and, therefore, may conceal credit quality deterioration in the assets underlying a securitization exposure. Accordingly, the Board proposes to clarify parameter W in its market risk rule to ensure that parameter W excludes loans with contractual provisions that allow deferral of principal and interest on federally-guaranteed student loans, in accordance with the terms of those guarantee programs, or on consumer loans including non-federally-guaranteed student loans, provided that such payments are deferred pursuant to provisions included in the contract at the time funds are disbursed that provide for periods of deferral that are not initiated based on changes in the creditworthiness of the borrower. This clarification would help to avoid regulatory disincentives for banking organizations to invest in securitizations, particularly securitizations of federally-guaranteed student loans, where the underlying exposures include provisions that allow for the deferral of certain payments for non-credit related reasons. This clarification is consistent with the approach that the agencies are finalizing in their new comprehensive capital framework.

### *C. Definition of Covered Position*

The Board proposes to make a technical amendment to the market risk rule with respect to the definition of “covered position.” Currently, this definition excludes equity positions that are not publicly traded. The Board proposes to refine this exception such that a covered position may include a position in an investment company, as defined in and registered with the SEC under the Investment Company Act of 1940 (15 U.S.C. 80 a-1 et seq.) (or its non-U.S. equivalent), that is not publicly traded, provided that all the underlying equities held by the investment company are publicly traded. The Board believes that a “look-through” approach is appropriate in these circumstances because of the liquidity of the underlying positions, so long as the other conditions of a covered position are satisfied. This modification to the definition of “covered position” is consistent with the approach that the agencies are finalizing in their new comprehensive capital framework.

### *D. Timing of Market Risk Disclosures*

The Board proposes to clarify when a banking organization subject to the market risk rule must make its required market risk disclosures. These changes would conform the current market risk rule to the final comprehensive capital framework and are consistent with the expectation that public disclosures should be made in a timely manner. Under the proposal, a banking organization would be required to provide timely quantitative disclosures after each calendar quarter. In addition, the proposal would clarify that a banking organization would be required to provide timely qualitative disclosures at least annually, after the end of the fourth calendar quarter, provided any significant changes must be disclosed in the interim.

The Board acknowledges that the timing of disclosures that are required by the federal banking agencies may not always coincide with the timing of disclosures required under other

federal laws, including disclosures required under the federal securities laws and their implementing regulations by the SEC. For calendar quarters that do not correspond to fiscal year-end, the Board would consider those disclosures that are made within 45 days of the end of the calendar quarter (or within 60 days for the limited purpose of the banking organization's first reporting period in which it is subject to the rule) as timely. In general, where a banking organization's fiscal year-end coincides with the end of a calendar quarter, the Board would consider disclosures to be timely if they are made no later than the applicable SEC disclosure deadline for the corresponding Form 10-K annual report. In cases where an institution's fiscal year-end does not coincide with the end of a calendar quarter, the primary federal supervisor would consider the timeliness of disclosures on a case-by-case basis. In some cases, a banking organization's management may determine that a significant change has occurred, such that the most recent reported amounts do not reflect the banking organization's capital adequacy and risk profile. In those cases, a banking organization would be required to disclose the general nature of these changes and briefly describe how they are likely to affect public disclosures going forward.

### **III. Solicitation of Comments**

The Board solicits comments on the proposed changes to the determination of specific risk-weighting factors for sovereign debt and related positions, the proposed revisions to parameter W in the SSFA, the proposed amendments to the definition of "covered position," and the proposed clarifications regarding the timing of disclosures under the market risk rule. In particular, the Board solicits comments on whether the proposed revisions to parameter W and the definition of "covered position" appropriately cover the types of loans and entities (for example, investment companies that are not publicly traded), respectively, that the Board intends

to cover by these revisions, as discussed in this preamble. In addition, the Board solicits comments on whether, for purposes of any final rule, the Board should adopt any necessary conforming changes to subpart F of the Board's new capital framework.<sup>11</sup>

#### **IV. Regulatory Analysis**

##### *A. Regulatory Flexibility Act Analysis*

The Regulatory Flexibility Act, 5 U.S.C. 601 et seq. (RFA) requires an agency to provide an initial regulatory flexibility analysis with a proposed rule or to certify that the rule will not have a significant economic impact on a substantial number of small entities (defined for purposes of the RFA beginning on July 22, 2013, to include banks with assets less than or equal to \$500 million)<sup>12</sup> and publish its certification and a short, explanatory statement in the *Federal Register* along with the proposed rule.

The Board is providing an initial regulatory flexibility analysis with respect to this NPR. As discussed above, this NPR is designed to enhance the safety and soundness of entities with substantial trading activities that the Board supervises. Under regulations issued by the Small Business Administration, a small entity includes a depository institution or bank holding company with total assets of \$500 million or less (a small banking organization). As of March 31, 2013, there were 636 small state member banks. As of December 31, 2012, there were approximately 3,802 small bank holding companies.

The proposal would apply only to banking organizations supervised by the Board with aggregate trading assets and trading liabilities (as reported in the banking organizations' most

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<sup>11</sup> To be codified at 12 CFR part 217, subpart F.

<sup>12</sup> See 13 CFR 121.201. Effective July 22, 2013, the Small Business Administration revised the size standards for banking organizations to \$500 million in assets from \$175 million in assets. 78 FR 37409 (June 20, 2013).

recent quarterly regulatory reporting form) equal to 10 percent or more of quarter-end assets or \$1 billion or more. Currently, no small state member bank or small banking holding company would meet these threshold criteria, so there would be no additional projected compliance requirements imposed on small banking organizations supervised by the Board. The Board is aware of no other Federal rules that duplicate, overlap, or conflict with the proposed rule. The Board believes that the proposed rule will not have a significant economic impact on small banking organizations supervised by the Board and therefore believes that there are no significant alternatives to the proposed rule that would reduce the economic impact on small banking organizations supervised by the Board.

The Board welcomes comment on all aspects of its analysis. A final regulatory flexibility analysis will be conducted after consideration of comments received during the public comment period.

#### *B. Solicitation of Comments on Use of Plain Language*

Section 722 of the GLBA required the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The federal banking agencies invite comment on how to make this proposed rule easier to understand. For example:

- Have we organized the material to suit your needs? If not, how could the rule be more clearly stated?
- Are the requirements in the rule clearly stated? If not, how could the rule be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?

- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes would make the regulation easier to understand?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What else could we do to make the regulation easier to understand?

### *C. Paperwork Reduction Act*

In accordance with the Paperwork Reduction Act of 1995, the agencies reviewed this notice of proposed rulemaking regarding revisions to the market risk rule for exposures to sovereign entities, the criteria used for purposes of the calculation of the SSFA parameter W factor for certain securitization exposures, the definition of “covered position,” and the timing of market risk disclosures.<sup>13</sup> No additional collections of information pursuant to the Paperwork Reduction Act are contained in this notice of proposed rulemaking.

#### **List of Subjects**

##### **12 CFR Part 208**

Confidential business information, Crime, Currency, Federal Reserve System, Mortgages, reporting and recordkeeping requirements, Securities.

##### **12 CFR Part 217**

Administrative practice and procedure, Banks, Banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk.

##### **12 CFR Part 225**

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities.

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<sup>13</sup> 44 U.S.C. § 3501 et seq.



**Board of Governors of the Federal Reserve System**  
**12 CFR CHAPTER II**

**Authority and Issuance**

For the reasons set forth in the common preamble, parts 208 and 225 of chapter II of title 12 of the Code of Federal Regulations are proposed to be amended as follows:

**PART 208 – MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM (REGULATION H)**

1. The authority citation for part 208 continues to read as follows:

**Authority:** 12 U.S.C. 24, 36, 92a, 93a, 248(a), 248(c), 321-338a, 371d, 461, 481-486, 601, 611, 1814, 1816, 1818, 1820(d)(9), 1833(j), 1828(o), 1831, 1831o, 1831p-1, 1831r-1, 1831w, 1831x, 1835a, 1882, 2901-2907, 3105, 3310, 3331-3351, 3905-3909, and 5371; 15 U.S.C. 78b, 78I(b), 78I(i), 780-4(c)(5), 78q, 78q-1, and 78w, 1681s, 1681w, 6801, and 6805; 31 U.S.C. 5318; 42 U.S.C. 4012a, 4104a, 4104b, 4106 and 4128.

**APPENDIX E**

2. At 12 CFR Part 208, appendix E, section 2, amend by revising paragraph (3)(v)-(vii) and adding a new subparagraph (viii) in the definition of “Covered position” to read as follows:

(v) Any equity position that is not publicly traded, other than a derivative that references a publicly traded equity and other than a position in an investment company as defined in and registered with the SEC under the Investment Company Act of 1940 (15 U.S.C. 80 a-1 et seq.), provided that all the underlying equities held by the investment company are publicly traded;

(vi) Any equity position that is not publicly traded, other than a derivative that references a publicly traded equity and other than a position in an entity not domiciled in the United States (or a political subdivision thereof) that is supervised and regulated in a manner similar to entities described in paragraph (3)(v) of this definition;

- (vii) Any position a bank holds with the intent to securitize; or
- (viii) Any direct real estate holding.

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3. At 12 CFR Part 208, appendix E, section 10, amend by revising paragraph (b)(2)(i)(A), Table 2, and paragraph (b)(2)(i)(D), and adding paragraph (E), to read as follows:

(b) Debt and securitization positions.\* \* \*

(i) Sovereign Debt Positions. (A) In accordance with Table 2, a bank must assign a specific risk-weighting factor to a sovereign debt position based on the CRC applicable to the sovereign entity and, as applicable, the remaining contractual maturity of the position, or, if there is no CRC applicable to the sovereign entity, based on whether the sovereign entity is a member of the OECD. Notwithstanding any other provision in this appendix E, sovereign debt positions that are backed by the full faith and credit of the United States are treated as having a CRC of 0.

TABLE 2 – SPECIFIC RISK-WEIGHTING FACTORS FOR SOVEREIGN DEBT POSITIONS

		<b>Specific Risk-weighting Factor (in percent)</b>	
CRC	0-1	0.0	
	2-3	Remaining contractual maturity of 6 months or less	0.25
		Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
		Remaining contractual	1.6

		maturity exceeds 24 months	
	4-6	8.0	
	7	12.0	
OECD Member with No CRC		0.0	
Non-OECD Member with No CRC		8.0	
Default by the Sovereign Entity		12.0	

(B) Notwithstanding paragraph (b)(2)(i)(A) of this section, a bank may assign to a sovereign debt position a specific risk-weighting factor that is lower than the applicable specific risk-weighting factor in table 2 if:

- (1) The position is denominated in the sovereign entity's currency;
- (2) The bank has at least an equivalent amount of liabilities in that currency; and
- (3) The sovereign entity allows banks under its jurisdiction to assign the lower specific risk-weighting factor to the same exposures to the sovereign entity.

(C) A bank must assign a 12.0 percent specific risk-weighting factor to a sovereign debt position immediately upon determination a default has occurred; or if a default has occurred within the previous five years.

(D) A bank must assign a 0.0 percent specific risk-weighting factor to a sovereign debt position if the sovereign entity is a member of the OECD and does not have a CRC assigned to it, except as provided in paragraph (b)(2)(i)(C) of this section.

(E) A bank must assign an 8.0 percent specific risk-weighting factor to a sovereign debt position if the sovereign entity is not a member of the OECD and does not have a CRC assigned to it, except as provided in paragraph (b)(2)(i)(C) of this section.

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4. At 12 CFR Part 208, appendix E, section 10, amend by revising paragraph (b)(2)(iv)(A) and Table 3, to read as follows:

(iv) Depository institution, foreign bank, and credit union debt positions. (A) Except as provided in paragraph (b)(2)(iv)(B) of this section, a bank must assign a specific risk-weighting factor to a debt position that is an exposure to a depository institution, a foreign bank, or a credit union in accordance with table 3, based on the CRC that corresponds to that entity’s sovereign of incorporation or the OECD membership status of that entity’s sovereign of incorporation if there is no CRC applicable to the entity’s sovereign of incorporation, and, as applicable, the remaining contractual maturity of the position.

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TABLE 3 – SPECIFIC RISK-WEIGHTING FACTORS FOR DEPOSITORY INSTITUTION, FOREIGN BANK, AND CREDIT UNION DEBT POSITIONS

	<b>Specific Risk-weighting Factor (in percent)</b>	
CRC 0-2 or OECD Member with No CRC	Remaining contractual maturity of 6 months or less	0.25
	Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
	Remaining contractual maturity exceeds 24 months	1.6

CRC 3	8.0
CRC 4-7	12.0
Non-OECD Member with No CRC	8.0
Default by the Sovereign Entity	12.0

\* \* \* \* \*

5. At 12 CFR Part 208, appendix E, section 10, amend by revising paragraph (b)(2)(v), Table 4 and Table 5 to read as follows:

(v) PSE debt positions. (A) Except as provided in paragraph (b)(2)(v)(B) of this section, a bank must assign a specific risk-weighting factor to a debt position that is an exposure to a PSE in accordance with table 4 and table 5 depending on the position's categorization as a general obligation or revenue obligation, based on the CRC that corresponds to the PSE's sovereign of incorporation or the OECD membership status of the PSE's sovereign of incorporation if there is no CRC applicable to the PSE's sovereign of incorporation, and, as applicable, the remaining contractual maturity of the position.

(B) A bank may assign a lower specific risk-weighting factor than would otherwise apply under tables 4 and 5 to a debt position that is an exposure to a foreign PSE if:

(1) The PSE's sovereign of incorporation allows banks under its jurisdiction to assign a lower specific risk-weighting factor to such position; and

(2) The specific risk-weighting factor is not lower than the risk weight that corresponds to the PSE's sovereign of incorporation in accordance with tables 4 and 5.

(C) A bank must assign a 12.0 percent specific risk-weighting factor to a PSE debt position immediately upon determination that a default by the PSE's sovereign of incorporation

has occurred or if a default by the PSE’s sovereign of incorporation has occurred within the previous five years.

TABLE 4 – SPECIFIC RISK-WEIGHTING FACTORS FOR PSE GENERAL OBLIGATION DEBT POSITIONS

	<b>General Obligation Specific Risk-weighting Factor (in percent)</b>	
CRC 0-2 or OECD Member with No CRC	Remaining contractual maturity of 6 months or less	0.25
	Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
	Remaining contractual maturity exceeds 24 months	1.6
CRC 3	8.0	
CRC 4-7	12.0	
Non-OECD Member with No CRC	8.0	
Default by the Sovereign Entity	12.0	

TABLE 5 – SPECIFIC RISK-WEIGHTING FACTORS FOR PSE REVENUE OBLIGATION DEBT  
POSITIONS

	<b>Revenue Obligation Specific Risk-weighting Factor (in percent)</b>	
CRC 0-1 or OECD Member with No CRC	Remaining contractual maturity of 6 months or less	0.25
	Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
	Remaining contractual maturity exceeds 24 months	1.6
CRC 2-3	8.0	
CRC 4-7	12.0	
Non-OECD Member with No CRC	8.0	
Default by the Sovereign Entity	12.0	

\* \* \* \* \*

6. At 12 CFR Part 208, appendix E, section 11, amend by revising paragraph (b)(2) to read as follows:

(b) SSFA parameters. \* \* \*

(2) Parameter W is expressed as a decimal value between zero and one. Parameter W is the ratio of the sum of the dollar amounts of any underlying exposures of the securitization that meet any of the criteria as set forth in paragraphs (i) through (vi) of this paragraph (b)(2) to the balance, measured in dollars, of underlying exposures:

(i) Ninety days or more past due;

(ii) Subject to a bankruptcy or insolvency proceeding;

(iii) In the process of foreclosure;

(iv) Held as real estate owned;

(v) Has contractually deferred payments for 90 days or more, other than principal or interest payments deferred on:

(A) Federally-guaranteed student loans, in accordance with the terms of those guarantee programs; or

(B) Consumer loans, including non-federally-guaranteed student loans, provided that such payments are deferred pursuant to provisions included in the contract at the time funds are disbursed that provide for period(s) of deferral that are not initiated based on changes in the creditworthiness of the borrower; or

(vi) Is in default.

\* \* \* \* \*

7. At 12 CFR Part 208, appendix E, section 12, amend by revising paragraph (a) to read as follows:

(a) Scope. A bank must comply with this section unless it is a consolidated subsidiary of a bank holding company or a depository institution that is subject to these requirements or of a non-U.S. banking organization that is subject to comparable public disclosure requirements in its



home jurisdiction. A bank must make timely disclosures publicly each calendar quarter. If a significant change occurs, such that the most recent reporting amounts are no longer reflective of the bank's capital adequacy and risk profile, then a brief discussion of this change and its likely impact must be provided as soon as practicable thereafter. Qualitative disclosures that typically do not change each quarter may be disclosed annually, provided any significant changes are disclosed in the interim. If a bank believes that disclosure of specific commercial or financial information would prejudice seriously its position by making public certain information that is either proprietary or confidential in nature, the bank is not required to disclose these specific items, but must disclose more general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed. The bank's management may provide all of the disclosures required by this section in one place on the bank's public website or may provide the disclosures in more than one public financial report or other regulatory reports, provided that the bank publicly provides a summary table specifically indicating the location(s) of all such disclosures.

\* \* \* \* \*

8. At 12 CFR Part 208, appendix E, section 12, amend by revising paragraph (c)(1) to read as follows:

(c) Quantitative disclosures. (1) For each material portfolio of covered positions, the bank must provide timely public disclosures of the following information at least quarterly:

\* \* \* \* \*

9. At 12 CFR Part 208, appendix E, section 12, amend by revising paragraph (d) to read as follows:

(d) Qualitative disclosures. For each material portfolio of covered positions, the bank must provide timely public disclosures of the following information at least annually after the end of the fourth calendar quarter, or more frequently in the event of material changes for each portfolio:

\* \* \* \* \*

**PART 225 – BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL**  
**(REGULATION Y)**

10. The authority citation for part 225 continues to read as follows:

**Authority:** 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p-1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

**Appendix E**

11. At 12 CFR Part 225, appendix E, section 2, amend by revising paragraph (3)(v)-(vii) and adding a new subparagraph (viii) in the definition of “Covered position” to read as follows:

(v) Any equity position that is not publicly traded, other than a derivative that references a publicly traded equity and other than a position in an investment company as defined in and registered with the SEC under the Investment Company Act of 1940 (15 U.S.C. 80 a-1 et seq.), provided that all the underlying equities held by the investment company are publicly traded;

(vi) Any equity position that is not publicly traded, other than a derivative that references a publicly traded equity and other than a position in an entity not domiciled in the United States (or a political subdivision thereof) that is supervised and regulated in a manner similar to entities described in paragraph (3)(v) of this definition;

- (vii) Any position a bank holds with the intent to securitize; or
- (viii) Any direct real estate holding.

\* \* \* \* \*

12. At 12 CFR Part 225, appendix E, section 10, amend by revising paragraph (b)(2)(i)(A), Table 2, and paragraph (b)(2)(i)(D), and adding paragraph (E), to read as follows:

(b) Debt and securitization positions.\* \* \*

(i) Sovereign Debt Positions. (A) In accordance with Table 2, a bank must assign a specific risk-weighting factor to a sovereign debt position based on the CRC applicable to the sovereign entity and, as applicable, the remaining contractual maturity of the position, or, if there is no CRC applicable to the sovereign entity, based on whether the sovereign entity is a member of the OECD. Notwithstanding any other provision in this appendix E, sovereign debt positions that are backed by the full faith and credit of the United States are treated as having a CRC of 0.

TABLE 2 – SPECIFIC RISK-WEIGHTING FACTORS FOR SOVEREIGN DEBT POSITIONS

		<b>Specific Risk-weighting Factor (in percent)</b>	
CRC	0-1	0.0	
	2-3	Remaining contractual maturity of 6 months or less	0.25
		Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
		Remaining contractual	1.6

		maturity exceeds 24 months	
	4-6	8.0	
	7	12.0	
OECD Member with No CRC		0.0	
Non-OECD Member with No CRC		8.0	
Default by the Sovereign Entity		12.0	

(B) Notwithstanding paragraph (b)(2)(i)(A) of this section, a bank may assign to a sovereign debt position a specific risk-weighting factor that is lower than the applicable specific risk-weighting factor in table 2 if:

- (1) The position is denominated in the sovereign entity's currency;
- (2) The bank has at least an equivalent amount of liabilities in that currency; and
- (3) The sovereign entity allows banks under its jurisdiction to assign the lower specific risk-weighting factor to the same exposures to the sovereign entity.

(C) A bank must assign a 12.0 percent specific risk-weighting factor to a sovereign debt position immediately upon determination a default has occurred; or if a default has occurred within the previous five years.

(D) A bank must assign a 0.0 percent specific risk-weighting factor to a sovereign debt position if the sovereign entity is a member of the OECD and does not have a CRC assigned to it, except as provided in paragraph (b)(2)(i)(C) of this section.

(E) A bank must assign an 8.0 percent specific risk-weighting factor to a sovereign debt position if the sovereign entity is not a member of the OECD and does not have a CRC assigned to it, except as provided in paragraph (b)(2)(i)(C) of this section.

\* \* \* \* \*

13. At 12 CFR Part 225, appendix E, section 10, amend by revising paragraph (b)(2)(iv)(A) and Table 3, to read as follows:

(iv) Depository institution, foreign bank, and credit union debt positions. (A) Except as provided in paragraph (b)(2)(iv)(B) of this section, a bank must assign a specific risk-weighting factor to a debt position that is an exposure to a depository institution, a foreign bank, or a credit union in accordance with table 3, based on the CRC that corresponds to that entity’s sovereign of incorporation or the OECD membership status of that entity’s sovereign of incorporation if there is no CRC applicable to the entity’s sovereign of incorporation, and, as applicable, the remaining contractual maturity of the position.

\*\*\*

TABLE 3 – SPECIFIC RISK-WEIGHTING FACTORS FOR DEPOSITORY INSTITUTION, FOREIGN BANK, AND CREDIT UNION DEBT POSITIONS

	<b>Specific Risk-weighting Factor (in percent)</b>	
CRC 0-2 or OECD Member with No CRC	Remaining contractual maturity of 6 months or less	0.25
	Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
	Remaining contractual maturity exceeds 24 months	1.6

CRC 3	8.0
CRC 4-7	12.0
Non-OECD Member with No CRC	8.0
Default by the Sovereign Entity	12.0

\* \* \* \* \*

14. At 12 CFR Part 225, appendix E, section 10, amend by revising paragraph (b)(2)(v), Table 4 and Table 5 to read as follows:

(v) PSE debt positions. (A) Except as provided in paragraph (b)(2)(v)(B) of this section, a bank must assign a specific risk-weighting factor to a debt position that is an exposure to a PSE in accordance with table 4 and table 5 depending on the position's categorization as a general obligation or revenue obligation, based on the CRC that corresponds to the PSE's sovereign of incorporation or the OECD membership status of the PSE's sovereign of incorporation if there is no CRC applicable to the PSE's sovereign of incorporation, and, as applicable, the remaining contractual maturity of the position.

(B) A bank may assign a lower specific risk-weighting factor than would otherwise apply under tables 4 and 5 to a debt position that is an exposure to a foreign PSE if:

(1) The PSE's sovereign of incorporation allows banks under its jurisdiction to assign a lower specific risk-weighting factor to such position; and

(2) The specific risk-weighting factor is not lower than the risk weight that corresponds to the PSE's sovereign of incorporation in accordance with tables 4 and 5.

(C) A bank must assign a 12.0 percent specific risk-weighting factor to a PSE debt position immediately upon determination that a default by the PSE's sovereign of incorporation

has occurred or if a default by the PSE’s sovereign of incorporation has occurred within the previous five years.

TABLE 4 – SPECIFIC RISK-WEIGHTING FACTORS FOR PSE GENERAL OBLIGATION DEBT POSITIONS

	<b>General Obligation Specific Risk-weighting Factor (in percent)</b>	
CRC 0-2 or OECD Member with No CRC	Remaining contractual maturity of 6 months or less	0.25
	Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
	Remaining contractual maturity exceeds 24 months	1.6
CRC 3	8.0	
CRC 4-7	12.0	
Non-OECD Member with No CRC	8.0	
Default by the Sovereign Entity	12.0	

TABLE 5 – SPECIFIC RISK-WEIGHTING FACTORS FOR PSE REVENUE OBLIGATION DEBT POSITIONS

	<b>Revenue Obligation Specific Risk-weighting Factor (in percent)</b>	
CRC 0-1 or OECD Member with No CRC	Remaining contractual maturity of 6 months or less	0.25
	Remaining contractual maturity of greater than 6 and up to and including 24 months	1.0
	Remaining contractual maturity exceeds 24 months	1.6
CRC 2-3	8.0	
CRC 4-7	12.0	
Non-OECD Member with No CRC	8.0	
Default by the Sovereign Entity	12.0	

\* \* \* \* \*

15. At 12 CFR Part 225, appendix E, section 11, amend by revising paragraph (b)(2) to read as follows:

(b) SSFA parameters. \* \* \*

(2) Parameter W is expressed as a decimal value between zero and one. Parameter W is the ratio of the sum of the dollar amounts of any underlying exposures of the securitization that



meet any of the criteria as set forth in paragraphs (i) through (vi) of this paragraph (b)(2) to the balance, measured in dollars, of underlying exposures:

- (i) Ninety days or more past due;
- (ii) Subject to a bankruptcy or insolvency proceeding;
- (iii) In the process of foreclosure;
- (iv) Held as real estate owned;
- (v) Has contractually deferred payments for 90 days or more, other than principal or

interest payments deferred on:

(A) Federally-guaranteed student loans, in accordance with the terms of those guarantee programs; or

(B) Consumer loans, including non-federally-guaranteed student loans, provided that such payments are deferred pursuant to provisions included in the contract at the time funds are disbursed that provide for period(s) of deferral that are not initiated based on changes in the creditworthiness of the borrower; or

- (vi) Is in default.

\* \* \* \* \*

16. At 12 CFR Part 225, appendix E, section 12, amend by revising paragraph (a) to read as follows:

(a) Scope. A bank must comply with this section unless it is a consolidated subsidiary of a bank holding company or a depository institution that is subject to these requirements or of a non-U.S. banking organization that is subject to comparable public disclosure requirements in its home jurisdiction. A bank must make timely public disclosures each calendar quarter. If a significant change occurs, such that the most recent reporting amounts are no longer reflective of

the bank's capital adequacy and risk profile, then a brief discussion of this change and its likely impact must be provided as soon as practicable thereafter. Qualitative disclosures that typically do not change each quarter may be disclosed annually, provided any significant changes are disclosed in the interim. If a bank believes that disclosure of specific commercial or financial information would prejudice seriously its position by making public certain information that is either proprietary or confidential in nature, the bank is not required to disclose these specific items, but must disclose more general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed. The bank's management may provide all of the disclosures required by this section in one place on the bank's public website or may provide the disclosures in more than one public financial report or other regulatory reports, provided that the bank publicly provides a summary table specifically indicating the location(s) of all such disclosures.

\* \* \* \* \*

17. At 12 CFR Part 225, appendix E, section 12, amend by revising paragraph (c)(1) to read as follows:

(c) Quantitative disclosures. (1) For each material portfolio of covered positions, the bank must provide timely public disclosures of the following information at least quarterly:

\* \* \* \* \*

18. At 12 CFR Part 225, appendix E, section 12, amend by revising paragraph (d) to read as follows:

(d) Qualitative disclosures. For each material portfolio of covered positions, the bank must provide timely public disclosures of the following information at least annually after the

end of the fourth calendar quarter, or more frequently in the event of material changes for each portfolio:

\* \* \* \* \*

By order of the Board of Governors of the Federal Reserve System, July 3, 2013.

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Robert deV. Frierson  
Secretary of the Board.