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Regulatory Capital - Revisions to the Risk-Based Capital Definition of Eligible Guarantee for Advanced Approaches Banks: Final Rule

Summary

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have published a final rule that revises the advanced approaches¹ risk-based capital rules by removing the requirement that only guarantees provided by certain counterparties are eligible for recognition as credit risk mitigants. Specifically, the final rule modifies the definition of "eligible guarantee" for purposes of the advanced approaches risk-based capital rules by removing the requirement that an eligible guarantee be provided by an "eligible guarantor" for all exposures other than securitization exposures. The rule was published in the *Federal Register* on July 30, 2014.

To

Chief Executive Officers of National Banks and Federal Savings Associations, All Department and Division Heads, All Examining Personnel, and Other Interested Parties

Highlights

- The modified definition of eligible guarantee applies to all banking organizations subject to the advanced approaches rules.
- The final rule expands the set of recognized guarantors to that which existed under the 2007 advanced-approaches final rule (Basel II).² For example, the commercial real estate exposures of advanced-approaches banking organizations are often "guaranteed" by counterparties that do not meet the definition of "eligible guarantor" as it was revised under the Basel III final rule (e.g., they do not have rated debt, are not depository institutions, etc.). Under this final rule, those guarantors, which provide credit enhancement, will again qualify as credit risk mitigants.
- The final rule does not revise the definition of eligible guarantee for the standardized approach risk-based capital rules.

Note for Community Banks

This final rule does not apply to community banks.

Further Information

You may direct questions to Roger Tufts, Senior Economic Advisor, Capital Policy Division, at (202) 649-6370.

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Related Link

- "Regulatory Capital Rules: Advanced Approaches Risk-Based Capital Rule, Revisions to the Definition of Eligible Guarantee"
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¹ Advanced-approaches banking organizations generally include those with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance-sheet foreign exposure; other banking organizations that opt in to the advanced approaches; and depository institution subsidiaries of banking organizations that trigger one of the aforementioned thresholds.

² <https://www.occ.gov/news-issuances/federal-register/72fr69288.pdf>.

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