

NON-CONTROLLED EARLY AMORTIZA- TION OF UNCOMMITTED RETAIL CREDIT LINES—Continued

3-month average excess spread	Credit Conversion Factor (CCF) (percent)
Less than 337.5 bp to 225 bp ..	10
Less than 225 bp to 112.5 bp ..	50
Less than 112.5 bp	100

All other securitizations of revolving credit facilities (that is, those containing underlying exposures that are committed or non-retail) having non-controlled early amortization mechanisms would be subject to a CCF of 100 percent. In other words, no risk transference would be recognized for these structures; an originator's A-IRB capital charge would be the same as if the underlying exposures had not been securitized.

The Agencies seek comment on the proposed treatment of securitization of revolving credit facilities containing early amortization mechanisms. Does the proposal satisfactorily address the potential risks such transactions pose to originators?

Comments are invited on the interplay between the A-IRB capital charge for securitization structures containing early amortization features and that for undrawn lines that have not been securitized. Are there common elements that the Agencies should consider? Specific examples would be helpful.

Are proposed differences in CCFs for controlled and non-controlled amortization mechanisms appropriate? Are there other factors that the Agencies should consider?

Market-Disruption Eligible Liquidity Facilities

A banking organization would be able to apply a 20 percent CCF to an eligible liquidity facility that can be drawn only in the event of a general market disruption (that is, where a capital market instrument cannot be issued at any price), provided that any advance under the facility represents a senior secured claim on the assets in the pool. A banking organization using this treatment would recognize 20 percent of the A-IRB capital charge required for the facility through use of the SFA. If the market disruption eligible liquidity facility is externally rated, a banking organization would be able to rely on the external rating under the RBA for determining the A-IRB capital requirement provided the organization assigns a 100 percent CCF rather than a 20 percent CCF to the facility.

Overlapping Credit Enhancements or Liquidity Facilities

In some ABCP or similar programs, a banking organization may provide multiple facilities that may be drawn under varying circumstances. The Agencies do not intend that a banking organization incur duplicative capital requirements against these multiple exposures as long as, in the aggregate, multiple advances are not permitted against the same collateral. Rather, a banking organization would be required to hold capital only once for the exposure covered by the overlapping facilities (whether they are general liquidity facilities, eligible liquidity facilities, or the facilities serve as credit enhancements). Where the overlapping facilities are subject to different conversion factors, the banking organization would attribute the overlapping part to the facility with the highest conversion factor. However, if different banking organizations provide overlapping facilities, each institution would hold capital against the entire maximum amount of its facility. That is, there may be some duplication of capital charges for overlapping facilities provided by multiple banking organizations.

Servicer Cash Advances

Subject to supervisory approval, servicer cash advances that are recoverable would receive a zero percent CCF. This treatment would apply when servicers, as part of their contracts, may advance cash to the pool to ensure an uninterrupted flow of payments to investors, provided the servicer is entitled to full reimbursement and this right is senior to other claims on cash flows from the pool of underlying exposures.

When providing servicer cash advances, are banking organizations obligated to advance funds up to a specified recoverable amount? If so, does the practice differ by asset type? Please provide a rationale for the response given.

Credit Risk Mitigation

For securitization exposures covered by collateral or guarantees, the credit risk mitigation rules discussed earlier would apply. For example, a banking organization may reduce the A-IRB capital charge when a credit risk mitigant covers first losses or losses on a proportional basis. For all other cases, a banking organization would assume that the credit risk mitigant covers the most senior portion of the securitization exposure (that is, that the most junior portion of the securitization exposure is uncovered).

V. AMA Framework for Operational Risk

This section describes features of the proposed AMA framework for measuring the regulatory capital requirement for operational risk. Under this framework, a banking organization meeting the AMA supervisory standards would use its internal operational risk measurement system to calculate its regulatory capital requirement for operational risk. The discussion below provides background information on operational risk and the conceptual underpinnings of the AMA, followed by a discussion of the AMA supervisory standards.⁴⁹

The Agencies' general risk-based capital rules do not currently include an explicit capital charge for operational risk, which is defined as the risk of loss resulting from inadequate or failed processes, people, and systems or from external events. When developing the general risk-based capital rules, the Agencies recognized that institutions were exposed to non-credit related risks, including operational risk.

Consequently, the Agencies built a "buffer" into the general risk-based capital rules to implicitly cover other risks such as operational risk. With the introduction of the A-IRB framework for credit risk in this ANPR, which results in a more risk-sensitive treatment of credit risk, there is no longer an implicit capital buffer for other risks.

The Agencies recognize that operational risk is a key risk in financial institutions, and evidence indicates that a number of factors are driving increases in operational risk. These include the recent experience of a number of high-profile, high-severity losses across the banking industry highlighting operational risk as a major source of unexpected losses. Because the regulatory capital buffer for operational risk would be removed under the proposal, the Agencies are now seeking comment on a risk-sensitive capital framework for the largest, most complex institutions that would include an explicit risk-based capital requirement for operational risk. The Agencies propose to require banking organizations using the A-IRB approach for credit risk also to use the AMA to compute capital charges for operational risk.

⁴⁹ For a more detailed discussion of the concepts set forth in this ANPR and definitions of relevant terms, see the accompanying interagency "Supervisory Guidance on Operational Risk Advanced Measurement Approaches for Regulatory Capital" (supervisory guidance) published elsewhere in today's **Federal Register**.