

a securitization of revolving retail credit facilities that employs the concept of excess spread to determine when an early amortization is triggered but where the securitization's transaction documents do not require excess spread to be diverted to a spread or reserve account at a certain level, the ESD is deemed to be 4.5 percentage points.

iii. If a securitization of revolving retail credit facilities does not employ the concept of excess spread as the transaction's determining factor of when an early amortization is triggered, then a 10 percent credit conversion factor is applied to the outstanding principal balance of the investors' interest at the securitization's inception.

iv. The ESD must then be divided to create four equal ESD segments. For example, when the ESD is 4.5 percent, this amount is divided into 4 equal ESD segments of 112.5 basis points. A credit conversion factor of zero percent would be applied to the outstanding principal balance of the investors' interest if the securitization's three-month average excess spread equaled or exceeded the securitization's spread trapping point (4.5 percent in the example). Credit conversion factors of 5 percent, 10 percent, 50 percent, and 100 percent are then assigned to each of the four equal ESD segments in descending order beginning with the spread trapping point as the securitization approaches early amortization. For instance, when the ESD is 4.5 percent, the credit conversion factors would be applied to the outstanding balance of the investors' interest as follows:

#### EXAMPLE OF CREDIT CONVERSION FACTOR ASSIGNMENT BY SEGMENT OF EXCESS SPREAD DIFFERENTIAL

Segment of excess spread differential	Credit conversion factor (percent)
450 bp or more .....	0
Less than 450 bp to 337.5 bp ..	5
Less than 337.5 bp to 225 bp ..	10
Less than 225 bp to 112.5 bp ..	50
Less than 112.5 bp .....	100

#### h. Limitations on risk-based capital requirements. \* \* \*

iv. For a bank holding company subject to the early amortization treatment in section III.B.3.g. of this appendix, the total risk-based capital requirement for all of the bank's exposures to a securitization of revolving retail credit facilities is limited to the greater of the risk-based capital requirement for residual interests, as defined in section III.B.3.a. of this appendix, or the risk-based capital requirement for the underlying securitized assets calculated as if the bank holding company continued to hold the assets on its balance sheet.

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6. *Asset-backed commercial paper programs.* a. An asset-backed commercial paper (ABCP) program typically is a program through which a bank holding company

provides funding to its corporate customers by sponsoring and administering a bankruptcy-remote special purpose entity that purchases asset pools from, or extends loans to, the banking organization's customers. The ABCP program raises the cash to provide the funding through the issuance of commercial paper in the market.

b. A bank holding company that qualifies as a primary beneficiary and must consolidate an ABCP program that is defined as a variable interest entity under GAAP may exclude the consolidated ABCP program assets from risk-weighted assets provided that the bank is the sponsor of the consolidated ABCP program. If a bank holding company excludes such consolidated ABCP program assets, the bank holding company must assess the appropriate risk-based capital charge against any risk exposures of the organization arising in connection with such ABCP programs, including direct credit substitutes, recourse obligations, residual interests, liquidity facilities, and loans, in accordance with sections III.B.3, III.C. and III.D. of this appendix.

\* \* \* \* \*

III. \* \* \*

D. \* \* \*

2. *Items with a 50 percent conversion factor.* \* \* \*

c. Commitments are defined as any legally binding arrangements that obligate a banking organization to extend credit in the form of loans or leases; to purchase loans, securities, or other assets; or to participate in loans and leases. They also include overdraft facilities, revolving credit, home equity and mortgage lines of credit, eligible liquidity facilities to asset-backed commercial paper programs (in form or in substance), and similar transactions. Normally, commitments involve a written contract or agreement and a commitment fee, or some other form of consideration. Commitments are included in weighted-risk assets regardless of whether they contain "material adverse change" clauses or other provisions that are intended to relieve the issuer of its funding obligation under certain conditions. In the case of commitments structured as syndications, where the banking organization is obligated solely for its pro rata share, only the organization's proportional share of the syndicated commitment is taken into account in calculating the risk-based capital ratio. Banking organizations that are subject to the market risk rules are required to convert the notional amount of long-term covered positions carried in the trading account that act as eligible liquidity facilities to ABCP programs, in form or in substance, at 50 percent to determine the appropriate credit equivalent amount for those facilities even though they are structured or characterized as derivatives or other trading book assets.

\* \* \* \* \*

3. *Items with a 20 percent conversion factor.* \* \* \*

a. \* \* \*

b. Undrawn portions of eligible liquidity facilities with an original maturity of one year or less, that banking organizations provide to asset-backed commercial paper (ABCP) programs also are converted at 20

percent. The resulting credit equivalent amount is then assigned to the risk category appropriate to the underlying assets or the obligor, after consideration of any collateral or guarantees, or external credit ratings, if applicable. Banking organizations that are subject to the market risk rules are required to convert the notional amount of short-term covered positions carried in the trading account that act as eligible liquidity facilities to ABCP programs, in form or in substance, at 20 percent to determine the appropriate credit equivalent amount for those facilities even though they are structured or characterized as derivatives or other trading book assets. Liquidity facilities extended to ABCP programs that do not meet the following criteria are to be considered recourse obligations or direct credit substitutes and assessed the appropriate risk-based capital requirement in accordance with section III.B.3. of this appendix. Eligible liquidity facilities must be subject to a reasonable asset quality test at the time of draw that precludes funding against assets in the ABCP program that are 60 days or more past due or in default. In addition, if the assets that eligible liquidity facilities are required to fund against are externally rated exposures, the facility can be used to fund only those exposures that are externally rated investment grade at the time of funding. Furthermore, liquidity facilities must contain provisions that, prior to any draws, reduces the banking organization's funding obligation to cover only those assets that would meet the funding criteria under the facilities' asset quality tests.

4. \* \* \* These include unused portions of commitments, with the exception of eligible liquidity facilities provided to ABCP programs, with an original maturity of one year or less, or which are unconditionally cancelable at any time, provided a separate credit decision is made before each drawing under the facility. \* \* \*

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3. Amend appendix E to part 225 by adding two new sentences at the end of section 2.(a). to read as follows:

#### Appendix E to Part 225—Capital Adequacy Guidelines for Bank Holding Companies; Market Risk Measure

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#### Section 2. Definitions \* \* \*

(a) \* \* \* Covered positions exclude all positions in a banking organization's trading account that, in form or in substance, act as eligible liquidity facilities (as defined in section III.B.3.a. of appendix A of this part) to asset-backed commercial paper programs (as defined in section III.B.6. of appendix A of this part). Such excluded positions are subject to the risk-based capital requirements set forth in appendix A of this part.

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