FDIC

Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter

FIL-50-2015
November 6, 2015

Supervisory Guidance on the Capital Treatment of Certain Investments in Covered Funds

Summary: The FDIC is issuing this Financial Institution Letter ("FIL") to FDIC-supervised institutions to clarify the interaction between the regulatory capital rule and the final rule implementing section 13 of the Bank Holding Company Act ("Volcker rule") with respect to the appropriate capital treatment for investments in certain private equity funds and hedge funds ("covered funds").

Statement of Applicability to Institutions with Total Assets Under $1 Billion: This FIL is applicable to FDIC-supervised institutions that hold covered funds, and the expectation is that such institutions do not frequently hold covered funds.

Distribution:
FDIC-Supervised Banks and Savings Associations

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:
Capital Adequacy of FDIC-Supervised Institutions, 12 CFR Part 324 (Regulatory Capital Rules)

Proprietary Trading and Certain Interests in and Relationships with Covered Funds,
12 CFR Part 351 (Volcker Rule)

Attachment:
Deduction Methodology for Investments in Volcker Rule Covered Funds

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Note:
FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's Web site at https://www.fdic.gov/news/news/financial/2015/.

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Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights

- The Volcker rule prohibits banking organizations from holding ownership interests in covered funds after the relevant conformance period, except for ownership interests arising from sponsoring covered funds totaling less than three percent of tier 1 capital and subject to certain seeding period provisions.
- Under the rule, investments in covered funds purchased or acquired after December 31, 2013, must be deducted from tier 1 capital after an initial conformance period that ended on July 21, 2015.
- The Federal Reserve Board has indicated that the conformance period for legacy covered funds will end in July 2017. Additional information and reporting instructions regarding these funds will be available at a later time.
- The attached statement describes the mechanics for making capital deductions pursuant to the Volcker rule and how these relate to deductions required under the regulatory capital rule for investments in the capital instruments of unconsolidated financial institutions. These mechanics are intended to ensure that there are no "double deductions" from tier 1 capital.
- Resources for community banks on the revised regulatory capital rules and Volcker rule can be found at https://www.fdic.gov/regulations/capital/.
- Institutions with specific questions about the regulatory capital rules may send an email to regulatorycapital@fdic.gov.
- Institutions with specific questions about the Volcker rule may send an email to capitalmarkets@fdic.gov.