FDIC

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

Financial Institution Letter
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Simplifications to the Capital Rule Pursuant to the *Economic Growth and Regulatory Paperwork Reduction Act of 1996*

Summary:
The federal banking agencies are adopting a final rule that simplifies for non-advanced approaches banking organizations the generally applicable capital rules and makes a number of technical corrections. Specifically, it simplifies the capital treatment for mortgage servicing assets, certain deferred tax assets, investments in the capital of unconsolidated financial institutions, and minority interest. The agencies indicated their intent to address these matters in their joint report to Congress in 2017 pursuant to the *Economic Growth and Regulatory Paperwork Reduction Act* of 1996.

Statement of Applicability to Institutions with Total Assets Under $1 Billion: This Financial Institution Letter is applicable to all FDIC-supervised institutions.

Distribution:
FDIC-Supervised Institutions

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
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Related Topics:
Capital Adequacy of FDIC-Supervised Institutions, 12 CFR Part 324 (Regulatory Capital Rules)

Attachment:
[Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996]

Contact:
Benedetto Bosco, Chief, Capital Policy, at bbosco@fdic.gov or (202) 898-6853; Richard Smith, Capital Markets Policy Analyst, at rismith@fdic.gov or (202) 898-6631; or regulatorycapital@fdic.gov or (202) 898-6888

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Highlights

The final rule:

- Increases common equity tier 1 (CET1) capital threshold deductions from 10 percent to 25 percent for mortgage servicing assets (MSAs), deferred tax assets arising from temporary differences (temporary difference DTAs), and nonsignificant and significant investments in the capital of unconsolidated financial institutions.
- Removes the need to distinguish between nonsignificant and significant investments in the capital of unconsolidated financial institutions.
- Removes the aggregate 15 percent CET1 threshold deduction for MSAs, DTAs, and significant investments in the capital of unconsolidated financial institutions.
- Replaces the complicated methodology to determine the amount of minority interest includable in capital with a simple limit of 10 percent for minority interest includable in each tier of regulatory capital (not including the minority interest itself), less any deductions and adjustments.
- Retains the 250 percent risk weight applicable to non-deducted amounts of MSAs and temporary difference DTAs.
- Requires a bank to apply the risk weight applicable to the exposure category of the investment for any non-deducted amount of investments in the capital of unconsolidated financial institutions.
- Removes the 250 percent risk weight to be applied to non-deducted amounts of significant investments in the capital of unconsolidated financial institutions.
- Provides an effective date of April 1, 2020, for the changes to the threshold deductions and minority interest. The technical amendments are effective as of October 1, 2019, with an option for early adoption.