

DATE: February 15, 2002

SUBJECT: Final Rule Concerning the Regulatory Capital Treatment of Nonfinancial Equity Investments

HIGHLIGHTS: The Federal Reserve Board, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency have announced the adoption of final rules governing the regulatory capital treatment of equity investments in nonfinancial companies held by banks, bank holding companies, and financial holding companies. The agencies' final rules are substantially similar to the revised proposed rules jointly issued for public comment last year. The final rules will become effective on April 1, 2002.

The new capital requirements apply symmetrically to equity investments made by banks and their holding companies in nonfinancial companies under the legal authorities specified in the final rules. Among others, these include the merchant banking authority granted by the Gramm-Leach-Bliley Act and the authority to invest in small business investment companies (SBICs) granted by the Small Business Investment Act.

Covered equity investments will be subject to a series of marginal Tier 1 capital charges, with the size of the charge increasing as the organization's level of concentration in equity investments increases. The highest marginal charge specified in the final rules requires a 25% deduction from Tier 1 capital for covered investments that aggregate more than 25% of an organization's Tier 1 capital. Equity investments through SBICs will be exempt from the new charges to the extent such investments, in the aggregate, do not exceed 15% of the banking organization's Tier 1 capital.

The new charges would not apply to individual investments made by banking organizations prior to March 13, 2000. Grandfathered investments made by state banks under section 24(f) of the Federal Deposit Insurance Act also are exempted from coverage.

The agencies also reiterated their intent to apply heightened supervision to banking organizations as their level of concentration in equity investments increases.

DOCUMENT LOCATION: <http://www.federalreserve.gov/boarddocs/press/boardacts/2002/>

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