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Contact: Mike Stokke or Emily Yaghmour,
703-883-4056
Email: info-line@fca.gov
Website: www.fca.gov

Fact Sheet on Proposed Amendments and Clarifications to the Tier 1/Tier 2 Regulatory Capital Framework

Today the Farm Credit Administration board adopted a proposed rule that would amend parts 614, 615, 620, and 628 of FCA's regulations. FCA's objectives in proposing this rule are as follows:

- To provide technical corrections, amendments, and clarification to certain provisions in FCA's tier 1/tier 2 capital framework for the Farm Credit System (System)
- To incorporate, with appropriate adjustments, the guidance provided in FCA booklet [Tier 1/Tier 2 Capital Framework Guidance \(BL-068\) \(Word\)](#)
- To ensure that FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted
- To base the lending and leasing limit on tier 1/ tier 2 capital instead of permanent capital, and to align the treatment of investments related to loan participations with their treatment in the tier 1/ tier 2 capital framework
- To reduce regulatory burden where appropriate

Summary of proposed revisions

Many of the proposed revisions codify guidance and direction previously communicated through BL-068. Others address technical or implementation issues that FCA has identified while examining and monitoring System institutions for their compliance with the regulation. The proposal also seeks comment on ways to reduce burden in complying with FCA's permanent capital requirements.

- **Safe harbor framework revisions:** The proposed rule includes two revisions to clarify and simplify the regulatory framework under which System institutions are deemed to have prior approval from FCA to make cash distributions:
 - *Revision 1 (§ 628.20(f)(5)(ii)):* The proposed rule would measure the year-over-year change in common equity tier 1 (CET1) capital as of the quarter-end in the quarter of distribution as opposed to using the exact declaration date. Examples are provided in the preamble.

- *Revision 2 (§ 628.2)*: The proposed rule adds the term “common cooperative equity issuance date” to the list of definitions in this section to clarify the date on which the holding period (e.g., 7 years for CET1 capital) starts for including certain equities in CET1 or tier 2 capital. An example is provided in the preamble.
- **Bylaw or board resolution requirements**: The proposed rule would amend the requirement under § 615.5200(d) that an institution’s board adopt a redemption and revolvement resolution that it must re-affirm each year. Under the proposed rule, this redemption and revolvement resolution would be adopted only one time and would be expressly acknowledged in the institution’s capital plan annually.
- **Farm Credit Leasing Services Corporation**: The proposed rule would no longer require the Farm Credit Leasing Services Corporation to meet minimum capital and related regulatory requirements as a stand-alone entity. The corporation is a wholly owned subsidiary of CoBank, ACB.
- **Lending and leasing limit base (§ 614.4351)**: The proposed rule would amend the lending and leasing limit base computation to use total capital instead of permanent capital. The proposed rule would also eliminate the exceptional treatment of stock purchased in connection with a loan participation (§ 614.4351(a)(1)).
- **Qualified financial contract definitions (§ 628.2)**: The proposed rule would amend the definitions of several terms to be comparable to the definitions used in the capital rules of other federal banking regulatory agencies.
- **Common equity tier 1 capital eligibility requirements (§ 628.20(b))**: The proposed rule would amend the criteria that capital instruments must meet to be included in CET1 capital by requiring CET1 capital instruments to be paid-in (as defined in the Basel III framework). We also propose other technical clarifying changes to the eligibility criteria for capital instruments.
- **Capitalization bylaw adjustment (§ 615.5220(a)(6))**: The proposed rule would replace the requirement that an institution’s capitalization bylaws include a reference to parts 615 and 628 with a requirement to provide only a general reference to “FCA regulations.”
- **Annual report requirement corrections (§ 620.5(f)(3) and (4))**: The proposed rule would include two technical corrections for annual reporting requirements.
- **Risk weight for cash (§ 628.32)**: The proposed rule would amend the provisions governing the risk-weighting of cash to avoid redundancy and confusion.
- **Securitization formula corrections**: The proposed rule would correct three formulas used in the simplified supervisory formula approach equation under § 628.43(d). It would also correct one formula used in the simple risk-weight approach under § 628.52.
- **Unallocated retained earnings (URE) and URE equivalents (UREE) portion of the tier 1 leverage ratio (§ 628.10)**: The proposed rule would clarify the calculation of the URE and UREE measure that is part of the tier 1 leverage ratio. Under the proposed rule, deductions from URE and UREE would include those required under §§ 628.22(a) and (c).
- **Service corporation deductions (§ 628.22(a)(6))**: The proposed rule would require a System institution to deduct any allocated equity investment in a System

service corporation. This is consistent with the treatment of allocated equities between System banks and associations.

- **Adjustments for accruing patronage and dividends (§ 628.22(b)):** The proposed rule would require the reversal of any accruals of patronage or dividend payables or receivables occurring prior to a board declaration resolution. This would codify existing call report instructions for CRS schedule RC-R.4, item 3. (See the [Uniform Call Report Instruction Manual \(PDF\)](#)).
- **Bank disclosure clarifications (§ 620.3 and 628.63):** The proposed rule would clarify certain bank disclosure requirements.
- **Retirement of statutory borrower stock (§ 628.20(b)(1)(xiv)(B)):** The proposed rule would clarify that System institutions cannot redeem statutory borrower stock if a redemption would cause the institution to fall below minimum regulatory capital requirements.

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