

(1) *Government securities* means obligations of, or obligations fully guaranteed as to principal and interest by, the United States government or any department, agency, bureau, board, commission, or establishment of the United States, or any corporation wholly owned, directly or indirectly, by the United States.

(2) *Readily marketable collateral* means financial instruments or bullion that may be sold in ordinary circumstances with reasonable promptness at a fair market value determined by quotations based on actual transactions on an auction or a similarly available daily bid-ask-price market.

(3)(i) *Quality asset* means an asset:

(A) That is not in a nonaccrual status;

(B) On which principal or interest is not more than thirty days past due; and

(C) Whose terms have not been renegotiated or compromised due to the deteriorating financial conditions of the additional obligor.

(ii) An asset is not considered a "quality asset" if any other loans to the primary obligor on the asset have been classified as "substandard," "doubtful," or "loss," or treated as "other loans specially mentioned" in the most recent report of examination or inspection of the bank or an affiliate prepared by either a federal or a state supervisory agency.

§ 206.5 Capital levels of correspondents.

(a) *Adequately capitalized correspondents*.¹ For the purpose of this part, a correspondent is considered adequately capitalized if the correspondent has:

(1) A total risk-based capital ratio, as defined in paragraph (e)(1) of this section, of 8.0 percent or greater;

(2) A Tier 1 risk-based capital ratio, as defined in paragraph (e)(2) of this section, of 4.0 percent or greater; and

(3) A leverage ratio, as defined in paragraph (e)(3) of this section, of 4.0 percent or greater.

¹As used in this part, the term "adequately capitalized" is similar but not identical to the definition of that term as used for the purposes of the prompt corrective action standards. See, e.g. 12 CFR part 208, subpart B.

(b) *Frequency of monitoring capital levels*. A bank shall obtain information to demonstrate that a correspondent is at least adequately capitalized on a quarterly basis, either from the most recently available Report of Condition and Income, Thrift Financial Report, financial statement, or bank rating report for the correspondent. For a foreign bank correspondent for which quarterly financial statements or reports are not available, a bank shall obtain such information on as frequent a basis as such information is available. Information obtained directly from a correspondent for the purpose of this section should be based on the most recently available Report of Condition and Income, Thrift Financial Report, or financial statement of the correspondent.

(c) *Foreign banks*. A correspondent that is a foreign bank may be considered adequately capitalized under this section without regard to the minimum leverage ratio required under paragraph (a)(3) of this section.

(d) *Reliance on information*. A bank may rely on information as to the capital levels of a correspondent obtained from the correspondent, a bank rating agency, or other party that it reasonably believes to be accurate.

(e) *Definitions*. For the purposes of this section:

(1) *Total risk-based capital ratio* means the ratio of qualifying total capital to weighted risk assets.

(2) *Tier 1 risk-based capital ratio* means the ratio of Tier 1 capital to weighted risk assets.

(3) *Leverage ratio* means the ratio of Tier 1 capital to average total consolidated assets, as calculated in accordance with the capital adequacy guidelines of the correspondent's primary federal supervisor.

(f) *Calculation of capital ratios*. (i) For a correspondent that is a U.S. depository institution, the ratios shall be calculated in accordance with the capital adequacy guidelines of the correspondent's primary federal supervisor.

(ii) For a correspondent that is a foreign bank organized in a country that has adopted the risk-based framework of the Basle Capital Accord, the ratios shall be calculated in accordance with the capital adequacy guidelines of the

§ 206.6

appropriate supervisory authority of the country in which the correspondent is chartered.

(iii) For a correspondent that is a foreign bank organized in a country that has not adopted the risk-based framework of the Basle Capital Accord, the ratios shall be calculated in accordance with the provisions of the Basle Capital Accord.

§ 206.6 Waiver.

The Board may waive the application of § 206.4(a) of this part to a bank if the primary Federal supervisor of the bank advises the Board that the bank is not reasonably able to obtain necessary services, including payment-related services and placement of funds, without incurring exposure to a correspondent in excess of the otherwise applicable limit.

§ 206.7 Transition provisions.

(a) Beginning on June 19, 1993, a bank shall comply with the prudential standards prescribed under § 206.3 of this part.

(b) Beginning on June 19, 1994, a bank shall comply with the limit on credit exposure to an individual correspondent required under § 206.4(a) of this part, but for a period of one year after this date the limit shall be 50 percent of the bank's total capital.

PART 207—SECURITIES CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS (REGULATION G)

Sec.

- 207.1 Authority, purpose, and scope.
- 207.2 Definitions.
- 207.3 General requirements.
- 207.4 Credit to broker-dealers.
- 207.5 Employee stock option, purchase and ownership plans.
- 207.6 Requirements for the List of OTC Margin Stocks.
- 207.7 Supplement: Maximum loan value of margin stock and other collateral.

INTERPRETATIONS

- 207.101 Application to credit committed before February 1, 1968, where funds are disbursed thereafter.
- 207.102 When bank in "good faith" has not relied on stock as collateral.

12 CFR Ch. II (1–1–98 Edition)

- 207.103 Corporate guaranty of bank loan as extension of credit in the ordinary course of business.
- 207.104 Contribution to joint venture as extension of credit when the contribution is disproportionate to the contributor's share in the venture's profits or losses.
- 207.105 Applicability of plan-lender provisions to financing of stock options and stock purchase rights qualified or restricted under Internal Revenue Code.
- 207.106 "Deep in the money put and call options" as extensions of credit.
- 207.107 Status after July 8, 1969, of credit extended prior to that date to purchase or carry mutual fund shares.
- 207.108 Applicability of margin requirements to credit in connection with insurance premium funding programs.
- 207.109 Extension of credit in certain stock option and stock purchase plans.
- 207.110 Accepting a purpose statement through the mail without benefit of face-to-face interview.
- 207.111 Combined credit for exercising employee stock options and paying income taxes incurred as a result of such exercise.
- 207.112 Purchase of debt securities to finance corporate takeovers.
- 207.113 Application of the single-credit rule to loan participations.
- 207.114 Credit to brokers and dealers.

AUTHORITY: 15 U.S.C. 78c, 78g, 78q, and 78w.

SOURCE: Sections 207.1 through 207.7 appear at Reg. G, 48 FR 35071, Aug. 3, 1983, unless otherwise noted.

EDITORIAL NOTE: For FR citations to changes to the List of OTC Margin Stocks, see the List of CFR Sections Affected in the Finding Aids section of this volume.

§ 207.1 Authority, purpose, and scope.

(a) *Authority.* Regulation G (this part) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the Act) (15 U.S.C. 78a *et seq.*).

(b) *Purpose and scope.* (1) This part applies to persons other than banks, brokers or dealers, who extend or maintain credit secured directly or indirectly by margin stock and who are required to register with the Board under § 207.3(a) of this part. Credit extended by such persons is regulated by limiting the loan value of the collateral securing the credit, if the purpose of the credit is to buy or carry margin stock.