

Federal Reserve System

§ 217.51

securitization, when an eligible guarantee or eligible credit derivative covers multiple hedged exposures that have different residual maturities, the Board-regulated institution must use the longest residual maturity of any of the hedged exposures as the residual maturity of all hedged exposures.

§§ 217.46–217.50 [Reserved]

RISK-WEIGHTED ASSETS FOR EQUITY EXPOSURES

§ 217.51 Introduction and exposure measurement.

(a) *General.* (1) To calculate its risk-weighted asset amounts for equity exposures that are not equity exposures to an investment fund, a Board-regulated institution must use the Simple Risk-Weight Approach (SRWA) provided in 217.52. A Board-regulated institution must use the look-through approaches provided in § 217.53 to calculate its risk-weighted asset amounts for equity exposures to investment funds.

(2) A Board-regulated institution must treat an investment in a separate account (as defined in § 217.2) as if it were an equity exposure to an investment fund as provided in § 217.53.

(3) *Stable value protection.* (i) Stable value protection means a contract where the provider of the contract is obligated to pay:

(A) The policy owner of a separate account an amount equal to the shortfall between the fair value and cost basis of the separate account when the policy owner of the separate account surrenders the policy; or

(B) The beneficiary of the contract an amount equal to the shortfall between the fair value and book value of a specified portfolio of assets.

(ii) A Board-regulated institution that purchases stable value protection on its investment in a separate account must treat the portion of the carrying value of its investment in the separate account attributable to the stable value protection as an exposure to the provider of the protection and the remaining portion of the carrying value of its separate account as an equity exposure to an investment fund.

(iii) A Board-regulated institution that provides stable value protection

must treat the exposure as an equity derivative with an adjusted carrying value determined as the sum of paragraphs (b)(1) and (3) of this section.

(b) *Adjusted carrying value.* For purposes of §§ 217.51 through 217.53, the adjusted carrying value of an equity exposure is:

(1) For the on-balance sheet component of an equity exposure (other than an equity exposure that is classified as available-for-sale where the Board-regulated institution has made an AOCI opt-out election under § 217.22(b)(2)), the Board-regulated institution's carrying value of the exposure;

(2) For the on-balance sheet component of an equity exposure that is classified as available-for-sale where the Board-regulated institution has made an AOCI opt-out election under § 217.22(b)(2), the Board-regulated institution's carrying value of the exposure less any net unrealized gains on the exposure that are reflected in such carrying value but excluded from the Board-regulated institution's regulatory capital components;

(3) For the off-balance sheet component of an equity exposure that is not an equity commitment, the effective notional principal amount of the exposure, the size of which is equivalent to a hypothetical on-balance sheet position in the underlying equity instrument that would evidence the same change in fair value (measured in dollars) given a small change in the price of the underlying equity instrument, minus the adjusted carrying value of the on-balance sheet component of the exposure as calculated in paragraph (b)(1) of this section; and

(4) For a commitment to acquire an equity exposure (an equity commitment), the effective notional principal amount of the exposure is multiplied by the following conversion factors (CFs):

(i) Conditional equity commitments with an original maturity of one year or less receive a CF of 20 percent.

(ii) Conditional equity commitments with an original maturity of over one year receive a CF of 50 percent.

(iii) Unconditional equity commitments receive a CF of 100 percent.