

FFIEC 031 AND FFIEC 041

CALL REPORT

INSTRUCTION BOOK UPDATE

MARCH 2020

FILING INSTRUCTIONS

NOTE: This update for the instruction book for the FFIEC 031 and FFIEC 041 Call Reports is designed for two-sided (duplex) printing. The pages listed in the column below headed "Remove Pages" are no longer needed in the *Instructions for Preparation of Consolidated Reports of Condition and Income* (FFIEC 031 and FFIEC 041) and should be removed and discarded. The pages listed in the column headed "Insert Pages" are included in this instruction book update and should be filed promptly in your instruction book for the FFIEC 031 and FFIEC 041 Call Reports.

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**Instructions for Preparation of
Consolidated Reports of Condition and Income**

FFIEC 031 and FFIEC 041

Updated March 2020

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Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)

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GENERAL INSTRUCTIONS

Schedules RC and RC-A through RC-V constitute the [FFIEC 031](#) and [FFIEC 041](#) versions of the Consolidated Report of Condition and its supporting schedules. Schedules RI and RI-A through RI-E constitute the [FFIEC 031](#) and [FFIEC 041](#) versions of the Consolidated Report of Income and its supporting schedules. The Consolidated Reports of Condition and Income are commonly referred to as the Call Report. For purposes of these General Instructions, the [Financial Accounting Standards Board \(FASB\) Accounting Standards Codification](#) is referred to as "ASC."

Unless the context indicates otherwise, the term "bank" in the Call Report instructions refers to both banks and savings associations.

WHO MUST REPORT ON WHAT FORMS

Every national bank, state member bank, insured state nonmember bank, and savings association is required to file a consolidated Call Report normally as of the close of business on the last calendar day of each calendar quarter, i.e., the report date. The specific reporting requirements for a bank depend upon the size of the bank, whether it has any "foreign" offices, and the capital standards applicable to the bank. Banks must file the appropriate report form as described below:

(1) **BANKS WITH FOREIGN OFFICES:** Banks of any size that have any "foreign" offices (as defined below) must file quarterly the [Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices \(FFIEC 031\)](#). For purposes of these reports, all of the following constitute "foreign" offices:

- (a) An International Banking Facility (IBF);
- (b) A branch or consolidated subsidiary in a foreign country; and
- (c) A majority-owned Edge or Agreement subsidiary.

In addition, for banks chartered and headquartered in the 50 states of the United States and the District of Columbia, a branch or consolidated subsidiary in Puerto Rico or a U.S. territory or possession is a "foreign" office. However, for purposes of these reports, a branch at a U.S. military facility located in a foreign country is a "domestic" office.

(2) **BANKS WITHOUT FOREIGN OFFICES:** Banks that have domestic offices only must file quarterly:

- (a) The [Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices \(FFIEC 031\)](#) if the bank:
 - (i) Is an advanced approaches institutions for regulatory capital purposes,¹ regardless of asset size; or

¹ An advanced approaches institution as defined in the federal supervisor's regulatory capital rules is (i) a subsidiary of a global systemically important bank holding company, as identified pursuant to [12 CFR 217.402](#); (ii) a Category II institution; (iii) a subsidiary of a depository institution that uses the advanced approaches pursuant to subpart E of [12 CFR part 3](#) (OCC), [12 CFR part 217](#) (Board), or [12 CFR part 324](#) (FDIC) to calculate its risk-based capital requirements; (iv) a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches pursuant to [subpart E of 12 CFR part 217](#) to calculate its risk-based capital requirements; or (v) an institution that elects to use the advanced approaches to calculate its risk-based capital requirements.

Category II institutions include institutions that have (1) at least \$700 billion in total consolidated assets or (2) at least \$75 billion in cross-jurisdictional activity and at least \$100 billion in total consolidated assets. In addition, depository institution subsidiaries of Category II institutions are considered Category II institutions.

- (ii) Has total consolidated assets of \$100 billion or more, including a bank of this size that is subject to Category III capital standards¹;
- (b) The [Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only \(FFIEC 041\)](#) if the bank has total consolidated assets less than \$100 billion, including a bank of this size that is subject to Category III capital standards, but excluding a bank of this size that is an advanced approaches institution; or
- (c) The [Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than \\$5 Billion \(FFIEC 051\)](#) subject to the eligibility criteria discussed below,

as appropriate to the reporting institution. An institution eligible to file the [FFIEC 051](#) report may choose instead to file the [FFIEC 041](#) report.

For banks chartered and headquartered in Puerto Rico or a U.S. territory or possession, a branch or consolidated subsidiary in one of the 50 states of the United States, the District of Columbia, Puerto Rico, or a U.S. territory or possession is a "domestic" office.

For those institutions filing the [FFIEC 051](#), a separate instruction book covers this report form. Please refer to this separate instruction book for the General Instructions for the [FFIEC 051](#) report form.

Eligibility to File the FFIEC 051

Institutions with domestic offices only and total assets less than \$5 billion, excluding (1) those that are advanced approaches institutions or are subject to Category III capital standards for regulatory capital purposes and (2) those that are large or highly complex institutions for deposit insurance assessment purposes,² are eligible to file the [FFIEC 051](#) Call Report. An institution's total assets are measured as of June 30 each year to determine the institution's eligibility to file the [FFIEC 051](#) beginning in March of the following year.

For an institution otherwise eligible to file the [FFIEC 051](#), the institution's primary federal regulatory agency, jointly with the state chartering authority, if applicable, may require the institution to file the [FFIEC 041](#) instead based on supervisory needs. In making this determination, the appropriate agency may consider criteria including, but not limited to, whether the eligible institution is significantly engaged in one or more complex, specialized, or other higher risk activities, such as those for which limited information is reported in the [FFIEC 051](#) compared to the [FFIEC 041](#) (trading; derivatives; mortgage banking; fair value option usage; servicing, securitization, and asset sales; and variable interest entities). The agencies anticipate making such determinations only in a limited number of cases.

Close of Business

The term "close of business" refers to the time established by the reporting bank as the cut-off time for receipt of work for posting transactions to its general ledger accounts for that day. The time designated as the close of business should be reasonable and applied consistently. The posting of a transaction to the general ledger means that both debit and credit entries are recorded as of the same date. In addition, entries made to general ledger accounts in the period subsequent to the close of business on the report date that are applicable to the period covered by the Call Report (e.g., adjustments of accruals, posting of

¹ Category III institutions include institutions, which are not advanced approaches institutions, that have (1) at least \$250 billion in average total consolidated assets or (2) at least \$100 billion in average total consolidated assets and at least \$75 billion in average total nonbank assets, average weighted short-term wholesale funding, or average off-balance sheet exposure. In addition, depository institution subsidiaries of Category III institutions are considered Category III institutions.

² See [12 CFR § 327.8](#) and [12 CFR § 327.16\(f\)](#).

items held in suspense on the report date to their proper accounts, and other quarter-end adjusting entries) should be reported in the Call Report as if they had actually been posted to the general ledger at or before the cut-off time on the report date.

With respect to deposits received by the reporting bank after the cut-off time for posting them to individual customer accounts for a report date (i.e., so-called "next day deposits" or "late deposits"), but which are nevertheless posted in any manner to the reporting bank's general ledger accounts for that report date (including, but not limited to, through the use of one or more general ledger contra accounts), such deposits must be reported in Schedule RC-O, Other Data for Deposit Insurance Assessments, item 1, and may also be reported in Schedule RC, Balance Sheet, item 13, "Deposits," and Schedule RC-E, Deposit Liabilities. However, the use of memorandum accounts outside the reporting bank's general ledger system for control over "next day" or "late deposits" received on the report date does not in and of itself make such deposits reportable in Schedule RC-O and Schedules RC and RC-E.

Frequency of Reporting¹

Each institution is required to submit a Call Report quarterly as of the report date. However, for banks with fiduciary powers, the reporting frequency for Schedule RC-T, Fiduciary and Related Services, depends on their total fiduciary assets and their gross fiduciary and related services income. Banks with total fiduciary assets greater than \$250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must complete the applicable items of Schedule RC-T quarterly. All other banks with fiduciary powers must complete the applicable items of Schedule RC-T annually as of the December 31 report date.

Schedule RC, Memorandum item 1, on the level of external auditing work performed for the bank, and Memorandum item 2, on the bank's fiscal year-end date, are to be reported annually as of the March 31 report date.

In addition, the following items are to be completed annually as of the December 31 report date by all institutions filing the FFIEC 031 and FFIEC 041:

- (1) Schedule RC-E, Memorandum item 1.e, "Preferred deposits";
- (2) Schedule RC-C, Memorandum items 15.a.(1) through 15.c.(2), and Schedule RC-L, item 1.a.(1), on reverse mortgages;
- (3) Schedule RC-M, item 9, "Do any of the bank's Internet websites have transactional capability, i.e., allow the bank's customers to execute transactions on their accounts through the website?"; and
- (4) Schedule RC-M, items 14.a and 14.b, on assets of captive insurance and reinsurance subsidiaries.

The following items are to be reported semiannually as of the June 30 and December 31 report dates by all institutions filing the FFIEC 031 and FFIEC 041:

- (1) Schedule RC-B, Memorandum item 3, "Amortized cost of held-to-maturity securities sold or transferred to available-for-sale or trading securities during the calendar year-to-date";
- (2) Schedule RC-C, Part I, Memorandum items 7.a and 7.b, on purchased credit-impaired loans held for investment;

¹ The reporting frequency for particular schedules and data items differs on the three versions of the Call Report. Please see the General Instructions for the [FFIEC 051](#) for a listing of data items reported less frequently than quarterly on that report form.

- (3) Schedule RC-C, Part I, Memorandum items 8.a, 8.b, and 8.c, and Schedule RI, Memorandum item 12, on closed-end 1-4 family residential mortgage loans with negative amortization features;
- (4) Schedule RC-C, Part I, Memorandum items 12.a through 12.d, columns A through C, on loans (not subject to the requirements of FASB ASC 310-30 (former AICPA Statement of Position 03-3)) and leases held for investment that were acquired in business combinations with acquisition dates in the current calendar year;
- (5) Schedule RC-L, items 1.b.(1) and 1.b.(2), on unused credit card lines;
- (6) Schedule RC-L, items 11.a and 11.b, on year-to-date merchant credit card sales volume;
- (7) Schedule RC-N, Memorandum items 7 and 8, on additions to and sales of nonaccrual assets during the previous six months; and
- (8) Schedule RC-N, Memorandum items 9.a and 9.b, columns A through C, on purchased credit-impaired loans.

In addition, in Schedule RC-M, information on “International remittance transfers offered to consumers,” is to be provided in item 16.a and, if appropriate, in items 16.c and 16.d semiannually as of the June 30 and December 31 report dates. Item 16.b is to be completed annually as of the June 30 report date only.

Differences in Detail of Reports

The amount of detail required to be reported varies between the three versions of the Call Report forms, with the report form for banks with foreign offices or with total consolidated assets of \$100 billion or more ([FFIEC 031](#)) having more detail than the report form for banks with domestic offices only and total consolidated assets of less than \$100 billion ([FFIEC 041](#)). The report form for banks with domestic offices only and total assets less than \$5 billion ([FFIEC 051](#)) has the least amount of detail of the three reports.

Furthermore, as discussed below under Shifts in Reporting Status, the amount of detail also varies within each report form, primarily based on the size of the bank. See the General Instructions section of the instruction book for the [FFIEC 051](#) for information on the differences in the level of detail within the [FFIEC 051](#) report form.

Differences in the level of detail within both the [FFIEC 031](#) and [FFIEC 041](#) report forms are as follows:

- (1) Banks that reported closed-end loans with negative amortization features secured by 1-4 family residential properties in Schedule RC-C, part I, Memorandum item 8.a, as of the preceding December 31 that exceeded the lesser of \$100 million or 5 percent of total loans and leases held for investment and held for sale (in domestic offices) must report certain information about these loans in Schedule RC-C, part I, Memorandum items 8.b and 8.c, and Schedule RI, Memorandum item 12.
- (2) Banks that reported construction, land development, and other land loans (in domestic offices) in Schedule RC-C, part I, item 1.a, column B, that exceeded 100 percent of total capital as of the preceding December 31 must report certain information on loans in this loan category with interest reserves in Schedule RC-C, part I, Memorandum items 13.a and 13.b.
- (3) Banks that reported total trading assets of \$10 million or more in any of the four preceding quarters or meet the FDIC’s definition or a large or highly complex institution for deposit insurance assessment purposes must complete Schedule RC-D, Trading Assets and Liabilities, items 1 through 15 and Memorandum item 1, as well as Schedule RC-K, item 7, for the quarterly average of “Trading assets.” In addition, on the FFIEC 031 report only, banks that reported total trading assets of \$10 billion or more as of June 30 of the preceding year must complete Memorandum items 2 through 10 of Schedule RC-D.

- (4) On the FFIEC 031 report only, banks that reported total trading assets of \$10 million or more for any quarter of the preceding calendar year must provide a breakdown of their trading revenue by risk exposure in Schedule RI, Memorandum items 8.a through 8.e. In addition, on the FFIEC 031 report only, banks with \$100 billion or more in total assets that are required to complete Memorandum items 8.a through 8.e must report the impact on trading revenue of certain changes in creditworthiness in Schedule RI, Memorandum items 8.f through 8.h.
- (5) Banks that reported in Schedule RC-M, item 16.b, that they provided more than 100 international remittance transfers in the previous calendar year or that they estimate that they will provide more than 100 international remittance transfers in the current calendar year must report certain additional information on their international remittance transfer activities during specified periods in Schedule RC-M, items 16.c and 16.d.
- (6) Banks at which (a) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan originations and purchases for resale from all sources during a calendar quarter, or (b) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan sales during a calendar quarter, or (c) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loans held for sale at calendar quarter-end exceed \$10 million for two consecutive quarters must complete Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities, beginning the second quarter and continue to complete the schedule through the end of the calendar year.
- (7) Banks that have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings or are required to complete Schedule RC-D, Trading Assets and Liabilities, must complete Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis.
- (8) Banks that are advanced approaches institutions or are subject to Category III capital standards, as defined in the agencies' regulatory capital rules, must complete certain additional items in Schedule RC-R, Regulatory Capital.
- (9) Banks servicing more than \$10 million in financial assets other than closed-end 1-4 family residential mortgages must report the volume of such servicing in Schedule RC-S, Memorandum item 2.c.
- (10) Banks with total fiduciary assets greater than \$250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must report information on their fiduciary and related services income in Schedule RC-T. In addition, banks with total fiduciary assets greater than \$100 million (as of the preceding December 31) or that meet the fiduciary income test for the preceding calendar year must report information on fiduciary settlements and losses in Schedule RC-T.
- (11) Banks with collective investment funds and common trust funds with a total market value of \$1 billion or more as of the preceding December 31 must report a breakdown of these funds by type of fund in Schedule RC-T, Memorandum items 3.a through 3.g, quarterly or annually, as appropriate.
- (12) Banks that are "large institutions" or "highly complex institutions," [as defined for deposit insurance assessment purposes in the FDIC's regulations](#), which generally are banks that report total assets of \$10 billion or more for four consecutive quarters, must report additional data in Schedule RC-O, Memorandum items 6 through 18.

In addition, within the [FFIEC 031](#) report form, banks with total foreign office assets of \$10 billion or more whose foreign office assets, revenues, or net income account for more than 10 percent of the bank's consolidated total assets, total revenues, or net income must complete Schedule RI-D, Income from Foreign Offices.

Shifts in Reporting Status

All shifts in reporting status within the [FFIEC 031](#) and the [FFIEC 041](#) report forms (except as noted below) are to begin with the March Call Report. Such a shift will take place only if the reporting bank's total assets (or, in one case, loans) as reflected in the Consolidated Report of Condition for June of the previous calendar year equal or exceed the following criteria:

- (1) On the FFIEC 041 report form, *when total assets equal or exceed \$100 million*, a bank must begin to complete Schedule RC-K, item 13, for the quarterly average of "Other borrowed money."
- (2) On the FFIEC 041 report form, *when loans to finance agricultural production and other loans to farmers exceed 5 percent of total loans and leases held for investment and held for sale at a bank with less than \$300 million in total assets*, the bank must begin to report the following information for these agricultural loans: interest and fee income, quarterly average, past due and nonaccrual loans, charge-offs and recoveries, and, if certain additional criteria are met, troubled debt restructurings.
- (3) On the FFIEC 041 report form, *when total assets equal or exceed \$300 million*, a bank must begin to complete:
 - Certain Memorandum items providing the following information on loans to finance agricultural production and other loans to farmers: interest and fee income, quarterly average, past due and nonaccrual loans, charge-offs and recoveries, and, if certain additional criteria are met, troubled debt restructurings;
 - Schedule RC-A, Cash and Balances Due From Depository Institutions;
 - Schedule RC-L, items 1.b.(1) and (2), on credit card lines by type of customer;¹
 - Schedule RC-N, Memorandum item 6, on past due derivative contracts; and
 - Schedule RI, Memorandum item 10, "Credit losses on derivatives."
- (4) On both the FFIEC 031 and FFIEC 041 report forms, *when total assets equal or exceed \$1 billion*, a bank must begin to complete:
 - Schedule RI, Memorandum item 2, "Income from the sale and servicing of mutual funds and annuities (in domestic offices)";
 - Schedule RI, Memorandum item 15, "Components of service charges on deposit accounts (in domestic offices)" (if the bank answered "Yes" to Schedule RC-E, Memorandum item 5, which asks whether the bank offers one or more consumer deposit account products);
 - Schedule RI-C, Disaggregated Data on the Allowance for Loan and Lease Losses;
 - Schedule RC-E, Memorandum items 6 and 7, on the amount of deposits in transaction and nontransaction savings consumer deposit account products (if the bank answered "Yes" to Schedule RC-E, Memorandum item 5, which asks whether the bank offers one or more consumer deposit account products);
 - Schedule RC-L, items 2.a and 3.a, on financial and performance standby letters of credit conveyed to others; and
 - Schedule RC-O, Memorandum item 2, "Estimated amount of uninsured deposits (in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions), including related interest accrued and unpaid."

¹ In addition, a bank with less than \$300 million in total assets must begin to complete these items when credit card lines equal or exceed \$300 million. These total asset and credit card line thresholds also apply to the FFIEC 031 report form.

- (5) On both the FFIEC 031 and FFIEC 041 report forms, *when total assets equal or exceed \$10 billion*, a bank must begin to complete:¹
- Schedule RI, Memorandum items 9.a and 9.b, on amounts of net gains (losses) on credit derivatives;
 - Schedule RC-B, Memorandum item 5, which provides a breakdown of the bank's holdings of asset-backed securities, and Memorandum item 6, which provides a breakdown of the bank's holdings of structured financial products;
 - Schedule RC-L, item 16, which provides certain information about over-the-counter derivatives; and
 - Schedule RC-S, item 6, Total amount of ownership (or seller's) interest carried as securities or loans," item 10, "Reporting bank's unused commitments to provide liquidity to other institutions' securitization structures," and Memorandum item 3, on credit enhancements and unused commitments provided to "Asset-backed commercial paper conduits."
- (6) On the FFIEC 031 report form, *when total assets equal or exceed \$10 billion*, a bank must begin to complete Schedule RC-E, Part II, items 1 through 6, on the amount of deposits in foreign offices by type of depositor.

Once a bank reaches the \$100 million, \$300 million, \$1 billion, or \$10 billion total asset threshold or exceeds the agricultural loan percentage or credit card lines threshold and begins to report the additional required information described above, it *must* continue to report the applicable additional information in subsequent years unless its total assets, loan percentage, or credit card lines subsequently fall to less than the applicable threshold for four consecutive quarters. In this case, the institution may cease

¹ A bank with \$10 billion or more in total assets would not begin to complete Schedule RC-O, Memorandum items 6 through 18, as applicable, until it becomes a "large institution" or a "highly complex institution," as defined for deposit insurance assessment purposes in the FDIC's regulations. See [12 CFR § 327.8](#) and [12 CFR § 327.16\(f\)](#).

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reporting the data items to which the threshold applies in the quarter after the four consecutive quarters in which its total assets, agricultural loans, or credit card lines have fallen below the applicable threshold. However, if the institution exceeds the threshold as of a subsequent June 30 report date, the data items would again be required to be reported in March of the following year.

For example, if June 30, 2019, is the first June 30 as of which an institution reports \$10 billion or more in total assets, the institution must begin reporting the data items to which the \$10 billion total assets threshold applies as of the March 31, 2020, report date. If the institution reports less than \$10 billion in total assets each quarter-end from September 30, 2019, through June 30, 2020, it may cease reporting the data items applicable to institutions with \$10 billion or more in total assets beginning September 30, 2020. In contrast, if instead the institution reports \$10 billion or more in total assets as of September 30 and December 31, 2019, but then reports less than \$10 billion in total assets each quarter-end from March 31, 2020, through December 31, 2020, it may cease reporting the data items applicable to institutions with \$10 billion or more in total assets beginning March 31, 2021.

Other shifts in reporting status occur when:

- (1) A bank with domestic offices only establishes or acquires any "foreign" office. The bank must begin filing the [FFIEC 031](#) report form (Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices) for the first quarterly report date following the commencement of operations by the "foreign" office. However, a bank with "foreign" offices that divests itself of *all* its "foreign" offices must continue filing the [FFIEC 031](#) report form through the end of the calendar year in which the cessation of all operations of its "foreign" offices was completed.
- (2) An institution is involved in a business combination, a transaction between entities under common control, or a branch acquisition that is not a business combination. Beginning with the first quarterly report date following the effective date of a such a transaction involving an institution and one or more other depository institutions, the resulting institution, regardless of its size prior to the transaction, must (a) file the [FFIEC 031](#) report form if it acquires any "foreign" office, or (b) report the additional required information described above on the [FFIEC 041](#) report form if its consolidated total assets or agricultural loans after the consummation of the transaction surpass the \$100 million, \$300 million, \$1 billion, or \$10 billion total asset threshold or the agricultural loan percentage.
- (3) An institution that files the [FFIEC 051](#) report form becomes an advanced approaches institution for regulatory capital purposes or a large or highly complex institution for deposit insurance assessment purposes. The institution must begin filing the [FFIEC 031](#) report form for the first quarterly report date after the date it becomes such an institution.
- (4) An institution that files the [FFIEC 051](#) report form becomes a Category III institution for regulatory capital purposes. The institution must begin filing the [FFIEC 041](#) report form for the first quarterly report date after the date it becomes such an institution (unless it establishes or acquires a "foreign office" in the same quarter that it becomes such an institution, in which case the institution must begin filing the [FFIEC 031](#) report form for that first quarterly report date).

In addition, beginning with the first quarterly report date after an operating depository institution that was not previously a member of the Federal Deposit Insurance Corporation (FDIC) becomes an FDIC-insured institution, it must file (a) the [FFIEC 031](#) report form if it has any "foreign" office or has total consolidated assets of \$100 billion or more at the time it becomes FDIC-insured, (b) the [FFIEC 041](#) report form if it has total consolidated assets of less than \$100 billion at the time it becomes FDIC-insured, including the additional required information described above on the [FFIEC 041](#) report form based on its total assets and agricultural loans at the time it becomes FDIC-insured, or (c) the [FFIEC 051](#) report form if it is eligible to, and chooses to, file this report form, including certain additional required information based on its total assets and agricultural loans at the time it becomes FDIC-insured.

ORGANIZATION OF THE INSTRUCTION BOOK

This instruction book covers both the [FFIEC 031](#) and [FFIEC 041](#) report forms.¹ It is divided into the following sections:

- (1) The General Instructions describe overall reporting requirements.
- (2) The Line Item Instructions for each schedule of the Consolidated Report of Income.
- (3) The Line Item Instructions for each schedule of the Consolidated Report of Condition.
The instructions and definitions in sections (2) and (3) are not necessarily self-contained; reference to more detailed treatments in the Glossary may be needed.
- (4) The Glossary presents, in alphabetical order, definitions and discussions of accounting and reporting issues and other topics that require more extensive treatment than is practical to include in the line item instructions or that are relevant to several line items or to the overall preparation of these reports. The Glossary is not, and is not intended to be, a comprehensive discussion of the principles of bank accounting or reporting.

In determining the required treatment of particular transactions or portfolio items or in determining the definitions and scope of the various items, the General Instructions, the line item instructions, and the Glossary (all of which are extensively cross-referenced) must be used jointly. A single section does not necessarily give the complete instructions for completing all the items of the reports.

The instruction book for the [FFIEC 031](#) and [FFIEC 041](#) report forms is available on the Internet on the FFIEC's website (http://www.ffiec.gov/ffiec_report_forms.htm) and on the FDIC's website (<https://www.fdic.gov/regulations/resources/call/call.html>).

PREPARATION OF THE REPORTS

Banks are required to prepare and file the Call Report in accordance with these instructions. All reports shall be prepared in a consistent manner.

The bank's financial records shall be maintained in such a manner and scope so as to ensure that the Call Report can be prepared and filed in accordance with these instructions and reflect a fair presentation of the bank's financial condition and results of operations.

Questions and requests for interpretations of matters appearing in any part of these instructions should be addressed to the bank's primary federal bank supervisory agency (i.e., the Federal Reserve Banks, the OCC, or the FDIC). Such inquiries will be referred for resolution to the Task Force on Reports of the Federal Financial Institutions Examination Council (FFIEC). Regardless of whether a bank requests an interpretation of a matter appearing in these instructions, when a bank's primary federal bank supervisory agency's interpretation of the instructions differs from the bank's interpretation, the supervisory agency may require the bank to prepare its Call Report in accordance with the agency's interpretation and to amend previously submitted reports.

¹ A separate instruction book covers the [FFIEC 051](#) report form.

Negative Entries

Except for the items listed below, negative entries are not appropriate on the Consolidated Report of Condition and shall not be reported. Hence, assets with credit balances must be reported in liability items and liabilities with debit balances must be reported in asset items, as appropriate, and in accordance with these instructions. The Consolidated Report of Condition items for which negative entries may be made, if appropriate, are:

(1) Schedule RC:

- item 8, "Investments in unconsolidated subsidiaries and associated companies,"
- item 9, "Direct and indirect investments in real estate ventures,"
- item 26.a, "Retained earnings,"
- item 26.b, "Accumulated other comprehensive income,"
- item 26.c, "Other equity capital components,"
- item 27.a, "Total bank equity capital," and
- item 28, "Total equity capital."

(2) Schedule RC-C, items 10, 10.a, and 10.b, on "Lease financing receivables (net of unearned income)," and Memorandum item 13.b, on "Amount of interest capitalized from interest reserves on construction, land development, and other land loans that is included in interest and fee income on loans during the quarter."

(3) Schedule RC-P, item 5, "Noninterest income for the quarter from the sale, securitization, and servicing of 1-4 family residential mortgage loans."

(4) Schedule RC-R:

- Part I, item 2, "Retained earnings,"
- Part I, item 3, "Accumulated other comprehensive income (AOCI),"
- Part I, items 9.a through 9.f, AOCI-related adjustments,
- Part I, items 10.a and 10.b, Other deductions from (additions to) common equity tier 1 capital before threshold-based deductions,
- Part I, item 12, "Subtotal,"
- Part I, item 19, "Common equity tier 1 capital,"
- Part I, item 26, "Tier 1 capital,"
- Part I, item 29, "Other deductions from (additions to) assets for leverage ratio purposes,"
- Part I, item 31, "Leverage ratio,"
- Part I, items 47.a and 47.b, "Total capital,"
- Part I, items 49 through 51, Risk-based capital ratios,
- Part I, item 53, "Eligible retained income," and
- Part II, column B, "Adjustments to Totals Reported in Column A," for the asset categories in items 1 through 11.

When negative entries do occur in one or more of these items, they must be reported with a minus (-) sign rather than in parentheses.

On the Consolidated Report of Income, negative entries may appear as appropriate. Income items with a debit balance and expense items with a credit balance must be reported with a minus (-) sign.

Verification

All addition and subtraction should be double-checked before reports are submitted. Totals and subtotals in supporting materials should be cross-checked to corresponding items elsewhere in the reports.

Before a report is submitted, all amounts should be compared with the corresponding amounts in the previous report. If there are any unusual changes from the previous report, a brief explanation of the changes should be attached to the submitted reports.

Banks should retain workpapers and other records used in the preparation of these reports.

Transactions Occurring Near the End of a Reporting Period

Transactions between banks occurring near the end of a reporting period may not be reported by the parties to the transaction in such a manner as to cause the asset (or liability) either to disappear entirely from the Consolidated Reports of Condition submitted for that report date or to appear on both of the submitted reports, regardless of the time zones in which the banks are located, the time zone in which the transaction took place, or the actual zone clock times at the effective moment of the transaction.

In the case of a transaction occurring in different reporting periods for the parties because of time zone differences, the parties may decide between themselves on the reporting period in which they will all, consistently, report the transaction as having occurred, so that in any given reporting period, the asset (or liability) transferred will appear somewhere and without duplication in the reports submitted by the parties to the transaction.

If, in such cases, the parties do not agree on the reporting period in which the transaction is to be treated as having occurred on the reports of all parties, i.e., if they do not agree on which party will reflect the asset (or liability) on its reports for these purposes, the transaction will be deemed to have occurred prior to midnight in the time zone of the buyer (or transferee) and must be reported accordingly by all parties to the transaction.

If, in fact, the parties, in their submitted reports, treat the transaction as having occurred in different reporting periods, the parties will be required to amend their submitted reports on the basis of the standard set forth in the preceding paragraph.

SEPARATE BRANCH REPORTS

Each U.S. bank with one or more branch offices located in a foreign country, Puerto Rico, or a U.S. territory or possession is required to submit a Foreign Branch Report of Condition ([FFIEC 030](#)) or an Abbreviated Foreign Branch Report of Condition ([FFIEC 030S](#)) for each foreign branch (except a foreign branch with total assets of less than \$50 million, which is exempt) once a year as of December 31. However, a branch must report quarterly on the FFIEC 030 report if it has either \$2 billion in total assets or \$5 billion in commitments to purchase foreign currencies and U.S. dollar exchange as of the end of a calendar quarter. A foreign branch that does not meet either of the criteria to file quarterly, but has total assets in excess of \$250 million, must file the FFIEC 030 report on an annual basis. A foreign branch that does not meet the criteria to file the FFIEC 030 report, but has total assets of \$50 million or more (but less than or equal to \$250 million), must file the abbreviated FFIEC 030S report on an annual basis.

LEGAL ENTITY IDENTIFIER

The Legal Entity Identifier (LEI) is a 20-digit alpha-numeric code that uniquely identifies entities that engage in financial transactions. An institution must provide its LEI on the cover page of the Call Report only if the institution already has an LEI. The LEI must be a currently issued, maintained, and valid LEI, not an LEI that has lapsed. An institution that does not have an LEI is not required to obtain one for purposes of reporting it on the Call Report.

Item No. Caption and Instructions

6.b
(cont.) Exclude from this item:

- (1) (a) For institutions that have not adopted ASU 2016-01, the change in net unrealized holding gains (losses) on available-for-sale debt and equity securities during the calendar year to date (report in Schedule RI-A, item 10, "Other comprehensive income").
(b) For institutions that have adopted ASU 2016-01, the change in net unrealized holding gains (losses) on available-for-sale debt securities during the calendar year to date (report in Schedule RI-A, item 10, "Other comprehensive income").
- (2) Realized gains (losses) on held-to-maturity securities (report in Schedule RI, item 6.a, above) and on trading securities (report in Schedule RI, item 5.c, "Trading revenue").
- (3) For institutions that have adopted ASU 2016-13, provisions for credit losses (and reversals of provisions) that increase (and decrease) the allowance for credit losses on available-for-sale debt securities (report in Schedule RI, item 4, "Provision for loan and lease losses").

7 Noninterest expense:

7.a Salaries and employee benefits. Report salaries and benefits of all officers and employees of the bank and its consolidated subsidiaries including guards and contracted guards, temporary office help, dining room and cafeteria employees, and building department officers and employees (including maintenance personnel). Include as employees individuals who, in form, are employed by an affiliate but who, in substance, do substantially all of their work for the reporting bank. However, banking organizations should not segregate the compensation component of other intercompany cost allocations arising from arrangements other than that described in the preceding sentence for purposes of this item.

Include as salaries and employee benefits:

- (1) Gross salaries, wages, overtime, bonuses, incentive compensation, and extra compensation.
- (2) Social security taxes and state and federal unemployment taxes paid by the bank.

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Item No. Caption and Instructions

- 7.a**
(cont.)
- (3) Costs of the bank's retirement plan, pension fund, profit-sharing plan, employee stock ownership plan, employee stock purchase plan, and employee savings plan. For defined benefit pension plans and other postretirement plans, institutions that have adopted [Accounting Standards Update No. 2017-07](#), "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-17),¹ should report only the service cost component of net benefit cost for such plans in this item 7.a; the other cost components of net benefit cost should be reported in Schedule RI, item 7.d, "Other noninterest expense."
 - (4) Premiums (net of dividends received) on health and accident, hospitalization, dental, disability, and life insurance policies for which the bank is not the beneficiary.
 - (5) Cost of office temporaries whether hired directly by the bank or through an outside agency.
 - (6) Workmen's compensation insurance premiums.
 - (7) The net cost to the bank for employee dining rooms, restaurants, and cafeterias.
 - (8) Accrued vacation pay earned by employees during the calendar year-to-date.
 - (9) The cost of medical or health services, relocation programs and reimbursements of moving expenses, tuition reimbursement programs, and other so-called fringe benefits for officers and employees.
 - (10) Compensation expense (service component and interest component) related to deferred compensation agreements.

Exclude from salaries and employee benefits (report in Schedule RI, item 7.d, "Other noninterest expense"):

- (1) Amounts paid to attorneys, accountants, management consultants, investment counselors, and other professionals who are not salaried officers or employees of the bank (except if these professionals, in form, are employed by an affiliate of the reporting bank but, in substance, do substantially all of their work for the reporting bank).
- (2) Expenses related to the testing and training of officers and employees.
- (3) The cost of bank newspapers and magazines prepared for distribution to bank officers and employees.
- (4) Expenses of life insurance policies for which the bank is the beneficiary. (However, when these expenses relate to bank-owned life insurance policies with cash surrender values, banks may report the net earnings on or the net increases in the value of these cash surrender values in Schedule RI, item 5.l, above.)
- (5) The cost of athletic activities in which officers and employees participate when the purpose may be construed to be for marketing or public relations, and employee benefits are only incidental to the activities.
- (6) Dues, fees and other expenses associated with memberships in country clubs, social or private clubs, civic organizations, and similar clubs and organizations.

¹ For institutions that are public business entities, ASU 2017-07 was effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods. For institutions that are not public business entities, ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Item No. Caption and Instructions

7.b Expenses of premises and fixed assets. Report all noninterest expenses related to the use of premises, equipment, furniture, and fixtures reportable in Schedule RC, item 6, "Premises and fixed assets," net of rental income. If this net amount is a credit balance, report it with a minus (-) sign.

Deduct rental income from gross premises and fixed asset expense. Rental income includes all rentals charged for the use of buildings not incident to their use by the reporting bank and its consolidated subsidiaries, including rentals by regular tenants of the bank's buildings, income received from short-term rentals of other bank facilities, and income from subleases. Also deduct income from stocks and bonds issued by nonmajority-owned corporations that indirectly represent premises, equipment, furniture, or fixtures and are reportable in Schedule RC, item 6, "Premises and fixed assets."

Include as expenses of premises and fixed assets:

- (1) Normal and recurring depreciation and amortization charges against assets reportable in Schedule RC, item 6, "Premises and fixed assets," including capital lease assets, which are applicable to the calendar year-to-date, whether they represent direct reductions in the carrying value of the assets or additions to accumulated depreciation or amortization accounts. Any method of depreciation or amortization conforming to accounting principles that are generally acceptable for financial reporting purposes may be used. However, depreciation for premises and fixed assets may be based on a method used for federal income tax purposes if the results would not be materially different from depreciation based on the asset's estimated useful life.
- (2) All operating lease payments made by the bank on premises (including parking lots), equipment (including data processing equipment), furniture, and fixtures.
- (3) Cost of ordinary repairs to premises (including leasehold improvements), equipment, furniture, and fixtures.
- (4) Cost of service or maintenance contracts for equipment, furniture, and fixtures.
- (5) Cost of leasehold improvements, equipment, furniture, and fixtures charged directly to expense and not placed on the bank's books as assets.
- (6) Insurance expense related to the use of premises, equipment, furniture, and fixtures including such coverages as fire, multi-peril, boiler, plate glass, flood, and public liability.
- (7) All property tax and other tax expense related to premises (including leasehold improvements), equipment, furniture, and fixtures, including deficiency payments, net of all rebates, refunds, or credit.
- (8) Any portion of capital lease payments representing executory costs such as insurance, maintenance, and taxes.
- (9) Cost of heat, electricity, water, and other utilities connected with the use of premises and fixed assets.
- (10) Cost of janitorial supplies and outside janitorial services.
- (11) Fuel, maintenance, and other expenses related to the use of the bank-owned automobiles, airplanes, and other vehicles for bank business.

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- 7.d**
(cont.) in the current or future periods when the “fee reduction” or “fee waiver” takes place.
(See the example after the instructions to Schedule RC-T, Memorandum item 4.e.)
For institutions required to complete Schedule RC-T, item 24, the amount of net losses from fiduciary and related services also is reported in that item.
- (26) Losses from robberies, defalcations, and other criminal acts not covered by the bank's blanket bond.
- (27) Travel and entertainment expenses, including costs incurred by bank officers and employees for attending meetings and conventions.
- (28) Dues, fees, and other expenses associated with memberships in country clubs, social or private clubs, civic organizations, and similar clubs and organizations.
- (29) Civil money penalties and fines.
- (30) All service charges, commissions, and fees levied by others for the repossession of assets and the collection of the bank's loans or other assets, including charged-off loans or other charged-off assets.
- (31) Expenses (except salaries) related to handling credit card or charge sales received from merchants when the bank does not carry the related loan accounts on its books. Banks are also permitted to net these expenses against their charges to merchants for the bank's handling of these sales in Schedule RI, item 5.I.
- (32) Expenses related to the testing and training of officers and employees.
- (33) The cost of bank newspapers and magazines prepared for distribution to bank officers and employees or to others.
- (34) Depreciation expense of furniture and equipment rented to others under operating leases.
- (35) Cost of checks provided to depositors.
- (36) Amortization expense of purchased computer software and of the costs of computer software to be sold, leased, or otherwise marketed capitalized in accordance with the provisions of ASC Subtopic 985-20, Software – Costs of Software to Be Sold, Leased or Marketed (formerly FASB Statement No. 86, “Accounting for the Cost of Computer Software to Be Sold, Leased, or Otherwise Marketed”).
- (37) Provision for credit losses on off-balance sheet credit exposures.
- (38) Net losses (gains) from the extinguishment of liabilities (debt), including losses resulting from the payment of prepayment penalties on borrowings such as Federal Home Loan Bank advances. However, if a bank's debt extinguishments normally result in net gains over time, then the bank should consistently report its net gains (losses) in Schedule RI, item 5.I, "Other noninterest income."
- (39) Automated teller machine (ATM) and interchange expenses from bank card and credit card transactions. (Report the amount of such expenses in Schedule RI-E, item 2.j, if this amount is greater than \$100,000 and exceeds 7 percent of the amount reported in Schedule RI, item 7.d.)
- (40) For institutions that have adopted [Accounting Standards Update No. 2017-07](#), “Improving the Presentation of Net Periodic Pension Cost and Net Periodic

Item No. Caption and Instructions

7.d Postretirement Benefit Cost" (ASU 2017-17),¹ the cost components of net benefit cost
(cont.) of defined benefit pension plans and other postretirement plans other than the service
cost component of such plans. (Report the service cost component of such plans in
Schedule RI, item 7.a, "Salaries and employee benefits.")

Exclude from other noninterest expense:

- (1) Material expenses incurred in the issuance of subordinated notes and debentures (capitalize such expenses and amortize them over the life of the related notes and debentures using the effective interest method and report the expense in Schedule RI, item 2.d, "Interest on subordinated notes and debentures"). For further information, see the Glossary entry for "Debt issuance costs."
- (2) Expenses incurred in the sale of preferred and common stock (deduct such expenses from the sale proceeds and credit the net amount to the appropriate stock account. For perpetual preferred and common stock only, report the net sales proceeds in Schedule RI-A, item 5, "Sale, conversion, acquisition, or retirement of capital stock, net").
- (3) Depreciation and other expenses related to the use of bank-owned automobiles, airplanes, and other vehicles for bank business (report in Schedule RI, item 7.b, "Expenses of premises and fixed assets").
- (4) For institutions that have not adopted FASB [Accounting Standards Update No. 2016-13](#) (ASU 2016-13), which governs the accounting for credit losses, write-downs of the cost basis of individual held-to-maturity and available-for-sale securities for other-than-temporary impairments that must be recognized in earnings (report in Schedule RI, item 6.a, "Realized gains (losses) on held-to-maturity securities," and item 6.b, "Realized gains (losses) on available-for-sale securities," respectively).
- (5) For institutions that have adopted ASU 2016-13:
 - (a) Charge-offs of the cost basis of individual held-to-maturity and available-for-sale debt securities resulting from credit losses (report as deductions from the applicable allowance for credit losses in columns B and C, respectively, of Schedule RI-B, Part II, item 3, "Charge-offs"); and
 - (b) Any write-off recorded when the fair value of an available-for-sale debt security is less than its amortized cost basis and (i) the institution intends to sell the security or (ii) it is more likely than not that the institution will be required to sell the security before recovery of its amortized cost basis (report in Schedule RI, item 6.b, "Realized gains (losses) on available-for-sale securities").
- (6) Revaluation adjustments to the carrying value of all assets and liabilities reported in Schedule RC at fair value under a fair value option. Except as noted below, institutions should report net decreases (increases) in fair value on such servicing assets and liabilities in Schedule RI, item 5.f. and on such financial assets and liabilities in Schedule RI, item 5.l. Institutions that have adopted FASB [Accounting Standards Update No. 2016-01](#) should report the portion of the total change in the fair value of a fair value option liability resulting from a change in the instrument-specific credit risk ("own credit risk") in Schedule RI-A, item 10, "Other comprehensive income." Interest income earned and interest expense incurred on fair value option financial assets and liabilities should be excluded from the net decreases (increases) in fair value and reported in the appropriate interest income or interest expense items on Schedule RI.

¹ For institutions that are public business entities, ASU 2017-07 was effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods. For institutions that are not public business entities, ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

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- 7.e Total noninterest expense.** Report the sum of items 7.a through 7.d.
- 8.a Income (loss) before unrealized holding gains (losses) on equity securities not held for trading, applicable income taxes, and discontinued operations.** Report the institution's pretax income from continuing operations before unrealized holding gains (losses) on equity securities not held for trading. This amount is determined by taking item 3, "Net interest income," minus item 4, "Provision for loan and lease losses,"¹ plus item 5.m, "Total noninterest income," plus item 6.a, "Realized gains (losses) on held-to-maturity securities," plus item 6.b, "Realized gains (losses) on available-for-sale securities," minus item 7.e, "Total noninterest expense." If the result is negative, report it with a minus (-) sign.

NOTE: Item 8.b is to be completed only by institutions that have adopted FASB [Accounting Standards Update No. 2016-01](#) (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities and eliminates the concept of available-for-sale equity securities. ASU 2016-01 requires holdings of equity securities (except those accounted for under the equity method or that result in consolidation), including other ownership interests (such as partnerships, unincorporated joint ventures, and limited liability companies), to be measured at fair value with changes in the fair value recognized through net income. However, an institution may choose to measure equity securities and other equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Institutions that have not adopted ASU 2016-01 should leave item 8.b blank and report their unrealized gains (losses) on available-for-sale equity securities during the year-to-date reporting period in Schedule RI-A, item 10, "Other comprehensive income."

For institutions that are public business entities, as defined in U.S. GAAP, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For example, an institution with a calendar year fiscal year that is a public business entity must begin to apply ASU 2016-01 in its Call Report for March 31, 2018. For all other institutions, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. For example, an institution with a calendar year fiscal year that is not a public business entity must begin to apply ASU 2016-01 in its Call Report for December 31, 2019. Early application of ASU 2016-01 is permitted for all institutions that are not public business entities as of fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

- 8.b Unrealized holding gains (losses) on equity securities not held for trading.** Report unrealized holding gains (losses) during the year-to-date reporting period on equity securities with readily determinable fair values not held for trading. Include unrealized holding gains (losses) during the year-to-date reporting period on equity securities and other equity investments without readily determinable fair values not held for trading that are measured at fair value through earnings. Also include impairment, if any, plus or minus changes resulting from observable price changes during the year-to-date reporting period on equity securities and other equity investments without readily determinable fair values not held for trading for which this measurement election is made.

Include realized gains (losses) on equity securities and other equity investments during the year-to-date reporting period. A realized gain (loss) arises if an institution sells an equity security or other equity investment, but had not yet recorded in earnings the change in value to the point of sale since the last value change was recorded.

¹ Note: Institutions that have adopted ASU 2016-13 should report provisions for credit losses on all assets within the scope of the ASU in Schedule RI, item 4.

Item No. Caption and Instructions

- 8.c Income (loss) before applicable income taxes and discontinued operations.** Report the institution's pretax income from continuing operations as the sum of Schedule RI, item 8.a, "Income (loss) before unrealized holding gains (losses) on equity securities not held for trading, applicable income taxes, and discontinued operations," and Schedule RI, item 8.b, "Unrealized holding gains (losses) on equity securities not held for trading." If the amount is negative, report it with a minus (-) sign.
- 9 Applicable income taxes (on item 8.c).** Report the total estimated federal, state and local, and foreign income tax expense applicable to item 8.c, "Income (loss) before applicable income taxes and discontinued operations." Include both the current and deferred portions of these income taxes. If the amount is a tax benefit rather than tax expense, report it with a minus (-) sign.

Include as applicable income taxes all taxes based on a net amount of taxable revenues less deductible expenses. Exclude from applicable income taxes all taxes based on gross revenues or gross receipts (report such taxes in Schedule RI, item 7.d, "Other noninterest expense").

Part I. (cont.)**Item No. Caption and Instructions**

- 1.a.(1) 1-4 family residential construction loans.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount outstanding of 1-4 family residential construction loans, i.e., loans for the purpose of constructing 1-4 family residential properties, which will secure the loan. The term “1-4 family residential properties” is defined in Schedule RC-C, Part I, item 1.c, below. “1-4 family residential construction loans” include:
- Construction loans to developers secured by tracts of land on which 1-4 family residential properties, including townhouses, are being constructed.
 - Construction loans secured by individual parcels of land on which single 1-4 family residential properties are being constructed.
 - Construction loans secured by single-family dwelling units in detached or semidetached structures, including manufactured housing.
 - Construction loans secured by duplex units and townhouses, excluding garden apartment projects where the total number of units that will secure the permanent mortgage is greater than four.
 - Combination land and construction loans on 1-4 family residential properties, regardless of the current stage of construction or development.
 - Combination construction-permanent loans on 1-4 family residential properties until construction is completed or principal amortization payments begin, whichever comes first.
 - Loans secured by apartment buildings undergoing conversion to condominiums, regardless of the extent of planned construction or renovation, where repayment will come from sales of individual condominium dwelling units, which are 1-4 family residential properties.
 - Bridge loans to developers on 1-4 family residential properties where the buyer will not assume the same loan, even if construction is completed or principal amortization payments have begun.
- 1.a.(2) Other construction loans and all land development and other land loans.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount outstanding of all construction loans for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans. Include loans for the development of building lots and loans secured by vacant land, unless the same loan finances the construction of 1-4 family residential properties on the property.
- 1.b Secured by farmland.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Farmland includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pasture land, whether tillable or not and whether wooded or not.
- Include loans secured by farmland that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced, and collected by any party other than FmHA or SBA.

Part I. (cont.)**Item No. Caption and Instructions**

1.b Exclude loans for farm property construction and land development purposes (report in
(cont.) Schedule RC-C, Part I, item 1.a).

1.c **Secured by 1-4 family residential properties.** Report in the appropriate subitem (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) open-end and closed-end loans secured by real estate as evidenced by mortgages (FHA, FmHA, VA, or conventional) or other liens on:

- (1) Nonfarm property containing 1-to-4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).
- (2) Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.
- (3) Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.
- (4) Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1-to-4 family dwelling units are involved.

A home equity line of credit (HELOC) is a revolving open-end line of credit secured by a lien on a 1-to-4 family residential property that generally provides a draw period followed by a repayment period. During the draw period, a borrower has revolving access to unused amounts under a specified line of credit. During the repayment period, the borrower can no longer draw on the line of credit and the outstanding principal is either due immediately in a balloon payment or repaid over the remaining term through monthly payments. HELOCs in the draw period or in the repayment period should be reported in Schedule RC-C, Part I, item 1.c.(1).¹ Beginning March 31, 2021, revolving open-end lines of credit that are no longer in the draw period and have converted to non-revolving closed-end status also should be reported in Schedule RC-C, Part I, Memorandum item 16.

Reverse 1-4 family residential mortgages should be reported in the appropriate subitem based on whether they are closed-end or open-end mortgages. A reverse mortgage is an arrangement in which a homeowner borrows against the equity in his/her home and receives cash either in a lump sum or through periodic payments. However, unlike a traditional mortgage loan, no payment is required until the borrower no longer uses the home as his or her principal residence. Cash payments to the borrower after closing, if any, and accrued

¹ All HELOCs that convert to non-revolving, closed-end status on or after January 1, 2021, must be reported as open-end loans in Schedule RC-R, Part I, item 1.c.(1). An institution that, as of March 31, 2020, reports HELOCs that convert to non-revolving, closed-end status as closed-end loans in Schedule RC-C, Part I, item 1.c.(2)(a) or 1.c.(2)(b), as appropriate, may continue to report HELOCs that convert on or before December 31, 2020, as closed-end loans in Call Reports for report dates after that date. Alternatively, the institution may choose to begin reporting some or all of these closed-end HELOCs as open-end loans in item 1.c.(1) as of the March 31, 2020, or any subsequent report date, provided this reporting treatment is consistently applied.

Part I. (cont.)**Item No. Caption and Instructions**

1.c
(cont.) interest are added to the principal balance. These loans may have caps on their maximum principal balance or they may have clauses that permit the cap on the maximum principal balance to be increased under certain circumstances. Homeowners generally have one of the following options for receiving tax free loan proceeds from a reverse mortgage: (1) one lump sum payment; (2) a line of credit; (3) fixed monthly payments to homeowner either for a specified term or for as long as the homeowner lives in the home; or (4) a combination of the above.

Reverse mortgages that provide for a lump sum payment to the borrower at closing, with no ability for the borrower to receive additional funds under the mortgage at a later date, should be reported as closed-end loans in Schedule RC-C, Part I, item 1.c.(2). Normally, closed-end reverse mortgages are first liens and would be reported in Schedule RC-C, Part I, item 1.c.(2)(a). Reverse mortgages that are structured like home equity lines of credit in that they provide the borrower with additional funds after closing (either as fixed monthly payments, under a line of credit, or both) should be reported as open-end loans in Schedule RC-C, Part I, item 1.c.(1). Open-end reverse mortgages also are normally first liens. Where there is a combination of both a lump sum payment to the borrower at closing and payments after the closing of the loan, the reverse mortgage should be reported as an open-end loan in Schedule RC-C, Part I, item 1.c.(1).

Exclude loans for 1-to-4 family residential property construction and land development purposes (report in Schedule RC-C, Part I, item 1.a.(1)). Also exclude loans secured by vacant lots in established single-family residential sections or in areas set aside primarily for 1-to-4 family homes (report in Schedule RC-C, Part I, item 1.a.(2)).

1.c.(1) **Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount outstanding under revolving, open-end lines of credit secured by 1-to-4 family residential properties, i.e., HELOCs.

Include revolving, open-end lines of credit secured by 1-to-4 family residential properties for which the draw periods have ended and the loans have converted to non-revolving closed-end status.¹ After their conversion, such loans should also be reported in Schedule RC-C, Part I, Memorandum item 16, beginning March 31, 2021.

Also include amounts drawn on a HELOC during its draw period that the borrower has converted to a closed-end loan before the end of this period (sometimes referred to as a HELOC flex product).

1.c.(2) **Closed-end loans secured by 1-4 family residential properties.** Report in the appropriate subitem (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of all closed-end loans secured by 1-to-4 family residential properties (i.e., closed-end first mortgages and junior liens).

¹ See footnote 1 in the instructions for Schedule RC-C, Part I, item 1.c.

Part I. (cont.)**Item No. Caption and Instructions**

- 1.c.(2)** (cont.) Exclude loans that were extended under revolving, open-end lines of credit secured by 1-to-4 family residential properties for which the draw periods have ended and the loans have converted to non-revolving closed-end status (report in Schedule RC-C, Part I, item 1.c.(1) above).¹
- 1.c.(2)(a)** **Secured by first liens.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of all closed-end loans secured by first liens on 1-to-4 family residential properties.
- 1.c.(2)(b)** **Secured by junior liens.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of all closed-end loans secured by junior (i.e., other than first) liens on 1-to-4 family residential properties. Include loans secured by junior liens in this item even if the bank also holds a loan secured by a first lien on the same 1-to-4 family residential property and there are no intervening junior liens.
- 1.d** **Secured by multifamily (5 or more) residential properties.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) all other nonfarm residential loans secured by real estate as evidenced by mortgages (FHA and conventional) or other liens that are not reportable in Schedule RC-C, Part I, item 1.c. Specifically, include loans on:
- (1) Nonfarm properties with 5 or more dwelling units in structures (including apartment buildings and apartment hotels) used primarily to accommodate households on a more or less permanent basis.
 - (2) 5 or more unit housekeeping dwellings with commercial units combined where use is primarily residential.
 - (3) Cooperative-type apartment buildings containing 5 or more dwelling units.
- Exclude loans for multifamily residential property construction and land development purposes and loans secured by vacant lots in established multifamily residential sections or in areas set aside primarily for multifamily residential properties (report in Schedule RC-C, Part I, item 1.a.(2)). Also exclude loans secured by nonfarm nonresidential properties (report in Schedule RC-C, Part I, item 1.e).
- 1.e** **Secured by nonfarm nonresidential properties.** Report in the appropriate subitem (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, including business and industrial properties, hotels, motels, churches, hospitals, educational and

¹ See footnote 1 in the instructions for Schedule RC-C, Part I, item 1.c.

Part I. (cont.)**Item No. Caption and Instructions**

1.e
(cont.) charitable institutions, dormitories, clubs, lodges, association buildings, "homes" for aged persons and orphans, golf courses, recreational facilities, and similar properties.

Exclude loans for nonfarm nonresidential property construction and land development purposes and loans secured by vacant lots in established nonfarm nonresidential sections or in areas set aside primarily for nonfarm nonresidential properties (report in Schedule RC-C, Part I, item 1.a.(2)).

For purposes of reporting loans in Schedule RC-C, Part I, items 1.e.(1) and 1.e.(2), below, the determination as to whether a nonfarm nonresidential property is considered "owner-occupied" should be made upon acquisition (origination or purchase) of the loan. Once a bank determines whether a loan should be reported as "owner-occupied" or not, this determination need not be reviewed thereafter.

1.e.(1) **Loans secured by owner-occupied nonfarm nonresidential properties.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of loans secured by owner-occupied nonfarm nonresidential properties.

"Loans secured by owner-occupied nonfarm nonresidential properties" are those nonfarm nonresidential property loans for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property. Thus, for loans secured by owner-occupied nonfarm nonresidential properties, the primary source of repayment is not derived from third party, nonaffiliated, rental income associated with the property (i.e., any such rental income is less than 50 percent of the source of repayment) or the proceeds of the sale, refinancing, or permanent financing of the property. Include loans secured by hospitals, golf courses, recreational facilities, and car washes unless the property is owned by an investor who leases the property to the operator who, in turn, is not related to or affiliated with the investor (in which case, the loan should be reported in Schedule RC-C, Part I, item 1.e.(2), below). Also include loans secured by churches unless the property is owned by an investor who leases the property to the congregation (in which case, the loan should be reported in Schedule RC-C, Part I, item 1.e.(2), below).

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SCHEDULE RC-G – OTHER LIABILITIES

General Instructions

Complete this schedule for the fully consolidated bank. Eliminate all intrabank transactions between offices of the consolidated bank.

Item Instructions

Item No. Caption and Instructions

- 1.a** **Interest accrued and unpaid on deposits (in domestic offices).** Report the amount of interest on deposits (in domestic offices) accrued through charges to expense during the current or prior periods, but not yet paid or credited to a deposit account. For savings banks, include in this item "dividends" accrued and unpaid on deposits. On the FFIEC 031, exclude from this item interest accrued and unpaid on deposits in foreign offices (report such accrued interest in Schedule RC-G, item 1.b below).
- 1.b** **Other expenses accrued and unpaid.** Report the amount of income taxes, interest on nondeposit liabilities (and, on the FFIEC 031, deposits in foreign offices), and other expenses accrued through charges to expense during the current or prior periods, but not yet paid. Exclude interest accrued and unpaid on deposits in domestic offices (report such accrued interest in Schedule RC-G, item 1.a above).

- 2** **Net deferred tax liabilities.** Report the net amount after offsetting deferred tax assets (net of valuation allowance) and deferred tax liabilities measured at the report date for a particular tax jurisdiction if the net result is a credit balance. If the result for a particular tax jurisdiction is a net debit balance, report the amount in Schedule RC-F, item 2, "Net deferred tax assets." If the result for each tax jurisdiction is a net debit balance, enter a zero in this item. (A bank may report a net deferred tax debit, or asset, for one tax jurisdiction, such as for federal income tax purposes, and also report at the same time a net deferred tax credit, or liability, for another tax jurisdiction, such as for state or local income tax purposes.)

For further information on calculating deferred taxes for different tax jurisdictions, see the Glossary entry for "income taxes."

- 3** **Allowance for credit losses on off-balance sheet credit exposures.** Report the amount of any allowance for credit losses on off-balance sheet credit exposures established in accordance with generally accepted accounting principles.

Institutions that have adopted FASB [Accounting Standards Update No. 2016-13](#), which governs the accounting for credit losses, should exclude off-balance sheet credit exposures that are unconditionally cancellable by the institution when estimating expected credit losses.

- 4** **All other liabilities.** Report the amount of all other liabilities (other than those reported in Schedule RC-G, items 1, 2, and 3, above) that cannot properly be reported in Schedule RC, items 13 through 19.

Disclose in items 4.a through 4.h each component of all other liabilities, and the dollar amount of such component, that is greater than \$100,000 and exceeds 25 percent of the amount reported for this item.

For each component of all other liabilities that exceeds this disclosure threshold for which a preprinted caption has not been provided in Schedule RC-G, items 4.a through 4.e, describe the component with a clear but concise caption in Schedule RC-G, items 4.f through 4.h. These descriptions should not exceed 50 characters in length (including spacing between words).

Item No. Caption and Instructions4
(cont.)Include as all other liabilities:

- (1) Accounts payable (other than expenses accrued and unpaid). (Report the amount of accounts payable in Schedule RC-G, item 4.a, if this amount is greater than \$100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.)
- (2) Deferred compensation liabilities. (Report the amount of such liabilities in Schedule RC-G, item 4.b, if this amount is greater than \$100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.)
- (3) Dividends declared but not yet payable, i.e., the amount of cash dividends declared on limited-life preferred, perpetual preferred, and common stock on or before the report date but not payable until after the report date. (Report the amount of such dividends in Schedule RC-G, item 4.c, if this amount is greater than \$100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.) (Report dividend checks outstanding as deposit liabilities in Schedule RC-E, item 1, column A, and item 7, column B.)
- (4) Derivative instruments that have a negative fair value that the reporting bank holds for purposes other than trading. For further information, see the Glossary entry for "derivative contracts." (Report this negative fair value in Schedule RC-G, item 4.d, if this amount is greater than \$100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.)
- (5) For institutions that have adopted FASB [Accounting Standards Update No. 2016-02](#) on accounting for leases, lease liabilities for operating leases. (Report the amount of such liabilities in Schedule RC-G, item 4.e, if this amount is greater than \$100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.)
- (6) Deferred gains from sale-leaseback transactions.
- (7) Unamortized loan fees, other than those that represent an adjustment of the interest yield, if material (refer to the Glossary entry for "loan fees" for further information).
- (8) Bank's liability for deferred payment letters of credit.
- (9) Recourse liability accounts arising from asset transfers with recourse that are reported as sales.
- (10) Unearned insurance premiums, claim reserves and claims adjustment expense reserves, policyholder benefits, contractholder funds, and "separate account liabilities" of the reporting bank's insurance subsidiaries.
- (11) The *full* amount (except as noted below) of the liability represented by drafts and bills of exchange that have been accepted by the reporting bank, or by others for its account, and that are outstanding. The bank's liability on acceptances executed and outstanding should be reduced prior to the maturity of such acceptances only when the reporting bank acquires and holds its own acceptances, i.e., only when the acceptances are not outstanding. See the Glossary entry for "bankers acceptances" for further information.
- (12) Servicing liabilities.
- (13) The negative fair value of unused loan commitments (not accounted for as derivatives) that the bank has elected to report at fair value under a fair value option.

Item No. Caption and Instructions

- 4** (14) Cash payments and other consideration received in connection with transfers of the reporting institution's other real estate owned that have been financed by the institution and do not qualify for sale accounting, which applicable accounting standards describe as a "liability," a "deposit," or a "deposit liability." See the Glossary entry for "foreclosed assets" for further information
- (cont.)

Exclude from all other liabilities (report in appropriate items of Schedule RC-E, Deposit Liabilities):

- (1) Proceeds from sales of U.S. savings bonds.
- (2) Withheld taxes, social security taxes, sales taxes, and similar items.
- (3) Mortgage and other escrow funds (e.g., funds received for payment of taxes or insurance), sometimes described as mortgagors' deposits or mortgage credit balances.
- (4) Undisbursed loan funds for which borrowers are liable and on which they pay interest. The amounts of such undisbursed funds should be included in both loans and deposits.
- (5) Funds held as dealer reserves (see the Glossary entry for "dealer reserve accounts" for the definition of this term).
- (6) Payments collected by the bank on loans secured by real estate and other loans serviced for others that have not yet been remitted to the owners of the loans.
- (7) Credit balances on credit cards and other revolving credit plans as a result of customers' overpayments.

Also exclude from all other liabilities (1) due bills or similar instruments representing the bank's receipt of payment and (2) for institutions that have not adopted FASB [Accounting Standards Update No. 2016-02](#) (ASU 2016-02) on accounting for leases, the bank's obligations under capital leases, and for institutions that have adopted ASU 2016-02, the bank's lease liabilities for finance leases (report in Schedule RC-M, item 5.b, "Other borrowings").

- 5** **Total.** Report the sum of items 1 through 4. This amount must equal Schedule RC, item 20, "Other liabilities."

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Item No. Caption and Instructions

- 1.e.(3) All other unused commitments.** Report the unused portions of commitments not reportable in Schedule RC-L, items 1.a through 1.e.(2), above.

Include commitments to extend credit secured by 1-4 family residential properties, except (a) revolving, open-end lines of credit secured by 1-4 family residential properties (e.g., home equity lines), which should be reported in Schedule RC-L, item 1.a, above, (b) commitments for 1-4 family residential construction and land development loans (that are secured by such properties), which should be reported in Schedule RC-L, item 1.c.(1), above, and (c) commitments that meet the definition of a derivative and must be accounted for in accordance with ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), which should be reported in Schedule RC-L, item 12.

- 2 and 3 General Instructions for Standby Letters of Credit** – Originating banks must report in items 2 and 3 the full amount outstanding and unused of financial and performance standby letters of credit, respectively. Include those standby letters of credit that are collateralized by cash on deposit, that have been acquired from others, and in which participations have been conveyed to others where (a) the originating and issuing bank is obligated to pay the full amount of any draft drawn under the terms of the standby letter of credit and (b) the participating banks have an obligation to partially or wholly reimburse the originating bank, either directly in cash or through a participation in a loan to the account party.

For syndicated standby letters of credit where each bank has a direct obligation to the beneficiary, each bank must report only its share in the syndication. Similarly, if several banks participate in the issuance of a standby letter of credit under a bona fide binding agreement which provides that (a) regardless of any event, each participant shall be liable only up to a certain percentage or to a certain amount and (b) the beneficiary is advised and has agreed that each participating bank is only liable for a certain portion of the entire amount, each bank shall report only its proportional share of the total standby letter of credit.

For a financial or performance standby letter of credit that is in turn backed by a financial standby letter of credit issued by another bank, each bank must report the entire amount of the standby letter of credit it has issued in either item 2 or item 3 below, as appropriate. The amount of the reporting bank's financial or performance standby letter of credit that is backed by the other bank's financial standby letter of credit must also be reported in either item 2.a or 3.a, as appropriate, since the backing of standby letters of credit has substantially the same effect as the conveying of participations in standby letters of credit.

On the FFIEC 031, also include all financial and performance guarantees issued by foreign offices of the reporting bank pursuant to Federal Reserve Regulation K or Section 347.103(a)(1) of the FDIC Rules and Regulations.

- 2 Financial standby letters of credit (and foreign office guarantees – for the FFIEC 031).** Report the amount outstanding and unused as of the report date of all financial standby letters of credit (and all legally binding commitments to issue financial standby letters of credit) issued by any office of the bank. A financial standby letter of credit irrevocably obligates the bank to pay a third-party beneficiary when a customer (account party) fails to repay an outstanding loan or debt instrument. (See the Glossary entry for "letter of credit" for further information.)

Exclude from financial standby letters of credit:

- (1) Financial standby letters of credit where the beneficiary is a consolidated subsidiary of the reporting bank.

Item No. Caption and Instructions

2 (2) Performance standby letters of credit.
(cont.)

(3) Signature or endorsement guarantees of the type associated with the clearing of negotiable instruments or securities in the normal course of business.

2.a **Amount of financial standby letters of credit conveyed to others.** Item 2.a is to be completed by banks with \$1 billion or more in total assets.

Report that portion of the bank's total contingent liability for financial standby letters of credit reported in Schedule RC-L, item 2, above, that the bank has conveyed to others. Also include that portion of the reporting bank's financial standby letters of credit that are backed by other banks' financial standby letters of credit, as well as the portion that participating banks have reparticipated to others. Participations and backings may be for any part or all of a given obligation.

3 **Performance standby letters of credit (and foreign office guarantees – for the FFIEC 031).** Report the amount outstanding and unused as of the report date of all performance standby letters of credit (and all legally binding commitments to issue performance standby letters of credit) issued by any office of the bank. A performance standby letter of credit irrevocably obligates the bank to pay a third-party beneficiary when a customer (account party) fails to perform some contractual non-financial obligation. (See the Glossary entry for "letter of credit" for further information.)

Exclude from performance standby letters of credit:

(1) Performance standby letters of credit where the beneficiary is a consolidated subsidiary of the reporting bank.

(2) Financial standby letters of credit.

(3) Signature or endorsement guarantees of the type associated with the clearing of negotiable instruments or securities in the normal course of business.

3.a **Amount of performance standby letters of credit conveyed to others.** Item 3.a is to be completed by banks with \$1 billion or more in total assets.

Report that portion of the bank's total contingent liability for performance standby letters of credit reported in Schedule RC-L, item 3, above, that the bank has conveyed to others. Also include that portion of the reporting bank's performance standby letters of credit that are backed by other banks' financial standby letters of credit, as well as the portion that participating banks have reparticipated to others. Participations and backings may be for any part or all of a given obligation.

4 **Commercial and similar letters of credit.** Report the amount outstanding and unused as of the report date of issued or confirmed commercial letters of credit, travelers' letters of credit not issued for money or its equivalent, and all similar letters of credit, but excluding standby letters of credit (which are to be reported in Schedule RC-L, items 2 and 3, above). (See the Glossary entry for "letter of credit.") Legally binding commitments to issue commercial letters of credit are to be reported in this item.

Travelers' letters of credit and other letters of credit issued for money or its equivalent by the reporting bank or its agents should be reported as demand deposit liabilities in Schedule RC-E.

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5 Not applicable.

6 **Securities lent and borrowed:**

6.a **Securities lent.** Report the appropriate amount of all securities lent against collateral or on an uncollateralized basis. Report the fair value as of the report date of bank-owned trading and available-for-sale securities and the amortized cost as of the report date of bank-owned held-to-maturity securities that have been lent. In addition, for customers who have been indemnified against any losses by the reporting bank or its consolidated subsidiaries, report the fair value as of the report date of such customers' securities, including customers' securities held in the reporting bank's trust department, that have been lent. If the reporting bank or its consolidated subsidiaries have indemnified their customers against any losses on their securities that have been lent by the bank or its subsidiaries, the commitment to indemnify – either through a standby letter of credit or other means – should not be reported in any other item on Schedule RC-L.

6.b **Securities borrowed.** Report the appropriate amount of all securities borrowed by the bank against collateral or on an uncollateralized basis. For borrowed securities that are fully collateralized by similar securities of equivalent value, report the fair value of the borrowed securities at the time they were borrowed. For other borrowed securities, report their fair value as of the report date.

7 **Credit derivatives.** In general, credit derivatives are arrangements that allow one party (the "protection purchaser" or "beneficiary") to transfer the credit risk of a "reference asset" or "reference entity" to another party (the "protection seller" or "guarantor"). Banks should report the notional amounts of credit derivatives by type of instrument in Schedule RC-L, items 7.a.(1) through 7.a.(4). Banks should report the gross positive and negative fair values of all credit derivatives in Schedule RC-L, items 7.b.(1) and 7.b.(2). For both the notional amounts and gross fair values, report credit derivatives for which the bank is the protection seller in column A, "Sold Protection," and those on which the bank is the protection purchaser in column B, "Purchased Protection." Banks should report the notional amounts of credit derivatives by regulatory capital treatment in Schedule RC-L, items 7.c.(1)(a) through 7.c.(2)(c). Banks should report the notional amounts of credit derivatives by remaining maturity in Schedule RC-L, items 7.d.(1)(a) through 7.d.(2)(b). All notional amounts to be reported in items 7.a.(1) through 7.a.(4), 7.c.(1)(a) through 7.c.(2)(c), and 7.d.(1)(a) through 7.d.(2)(b) should be based on the notional amount definition in U.S. generally accepted accounting principles.

Exclude notional amounts for credit derivatives that have matured, but have associated unsettled receivables or payables that are reported as assets or liabilities, respectively, on the balance sheet as of the quarter-end report date.

All credit derivative transactions within the consolidated bank should be reported on a net basis, i.e., intrabank transactions should not be reported in this item. No other netting of contracts is permitted for purposes of this item. Therefore, do not net the notional amounts or fair values of: (1) credit derivatives with third parties on which the reporting bank is the protection purchaser against credit derivatives with third parties on which the reporting bank is the protection seller, or (2) contracts subject to bilateral netting agreements. The notional amounts of credit derivatives should not be included in Schedule RC-L, items 12 through 14, and the fair values of credit derivatives should not be included in Schedule RC-L, item 15.

Item No. Caption and Instructions

- 7.a** **Notional amounts.** Report in the appropriate subitem and column the notional amount (stated in U.S. dollars) of all credit derivatives. For tranching credit derivative transactions that relate to an index, e.g., the Dow Jones CDX NA index, report as the notional amount the dollar amount of the tranche upon which the reporting bank's credit derivative cash flows are based.
- 7.a.(1)** **Credit default swaps.** Report in the appropriate column the notional amount of all credit default swaps. A credit default swap is a contract in which a protection seller or guarantor (risk taker), for a fee, agrees to reimburse a protection purchaser or beneficiary (risk hedger) for any losses that occur due to a credit event on a particular entity, called the "reference entity." If there is no credit default event (as defined by the derivative contract), then the protection seller makes no payments to the protection purchaser and receives only the contractually specified fee. Under standard industry definitions, a credit event is normally defined to include bankruptcy, failure to pay, and restructuring. Other potential credit events include obligation acceleration, obligation default, and repudiation/moratorium.
- 7.a.(2)** **Total return swaps.** Report in the appropriate column the notional amount of all total return swaps. A total return swap transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection purchaser (beneficiary) receives a floating rate of interest and any depreciation on the reference asset from the protection seller. The protection seller (guarantor) has the opposite profile. The protection seller receives cash flows on the reference asset, plus any appreciation, and it pays any depreciation to the protection purchaser, plus a floating interest rate. A total return swap may terminate upon a default of the reference asset.
- 7.a.(3)** **Credit options.** Report in the appropriate column the notional amount of all credit options. A credit option is a structure that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer (protection seller or guarantor) assumes the obligation to purchase or sell the reference asset at a specified "strike" spread level. The option purchaser (protection purchaser or beneficiary) buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level.
- 7.a.(4)** **Other credit derivatives.** Report in the appropriate column the notional amount of all other credit derivatives. Other credit derivatives consist of any credit derivatives not reportable as a credit default swap, a total return swap, or a credit option. Credit linked notes are cash securities and should not be reported as other credit derivatives.
- 7.b** **Gross fair values.** Report in the appropriate subitem and column the gross fair values of all credit derivatives.

As defined in ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, "Fair Value Measurements"), fair value for an asset or liability is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants (not a forced liquidation or distressed sale) in the asset's or liability's principal (or most advantageous) market at the measurement date. For further information, see the Glossary entry for "fair value." For purposes of this item, the reporting bank should determine the fair value of its credit derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes.

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11 An agent bank with risk is a bank that, by agreement, participates in another bank's merchant credit card acceptance program. An agent bank with risk assumes liability for chargebacks for all or a portion of the loss for the merchants' sales activity.

(cont.)

For purposes of Schedule RC-L, items 11.a and 11.b, banks should include credit card sales transactions involving bank credit cards, e.g., MasterCard and Visa.

For banks with total assets of \$10 billion or more, the year-to-date sales volume may be reported to the nearest million dollars, with zeros reported for the thousands, rather than to the nearest thousand dollars.

11.a **Sales for which the reporting bank is the acquiring bank.** Report the year-to-date volume of sales (in U.S. dollars) generated through the bank's merchant processing activities where the reporting bank is the acquiring bank. This will include amounts processed for merchants contracted directly by the acquiring bank, amounts processed for agent banks with risk, and amounts processed for third parties (e.g., independent sales organizations and member service providers). Banks that are required to report sales data to the credit card associations of which they are members (e.g., MasterCard and Visa) should measure sales volume in the same manner for purposes of this item.

11.b **Sales for which the reporting bank is the agent bank with risk.** Report the year-to-date volume of sales (in U.S. dollars) generated through the bank's merchant processing activities where the reporting bank is acting as an agent bank with risk. Include all sales transactions for which the acquiring bank with whom the reporting bank contracted may hold the bank responsible.

12 **Gross amounts (e.g., notional amounts) of derivatives.** Report in the appropriate column and subitem the gross par value (stated in U.S. dollars) (e.g., for futures, forwards, and option contracts) or the notional amount (stated in U.S. dollars) (e.g., for forward rate agreements and swaps), as appropriate, of all contracts that meet the definition of a derivative and must be accounted for in accordance with ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended). Include both freestanding derivative contracts and embedded derivatives that must be accounted for separately from their host contract under ASC Topic 815. Report each contract according to its underlying risk exposure: (a) interest rate, (b) foreign exchange, (c) equity, or (d) commodity and other. Contracts with multiple risk characteristics should be classified based upon the predominant risk characteristics at the origination of the derivative. However, exclude from Schedule RC-L, items 12 through 15, all credit derivatives, which should be reported in Schedule RC-L, item 7, above. Also exclude notional amounts or par values for derivatives that have matured, but have associated unsettled receivables or payables that are reported as assets or liabilities, respectively, on the balance sheet as of the quarter-end report date.

All notional amounts or par values to be reported in Schedule RC-L, items 12 through 15, should be based on the notional amount definition in U.S. generally accepted accounting principles.

The notional amount or par value to be reported for a derivative contract with a multiplier component is the contract's effective notional amount or par value. For example, a swap contract with a stated notional amount of \$1,000,000 whose terms called for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of \$10,000,000.

All transactions within the consolidated bank should be reported on a net basis. No netting of contracts is permitted for purposes of this item. Therefore, do not net:

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12
(cont.) (1) obligations of the reporting bank to purchase from third parties against the bank's obligations to sell to third parties, (2) written options against purchased options, or (3) contracts subject to bilateral netting agreements.

For each column, the sum of Schedule RC-L, items 12.a through 12.e, must equal the sum of Schedule RC-L, items 13 and 14.

Column Instructions

Column A, Interest Rate Contracts: Interest rate contracts are contracts related to an interest-bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). These contracts are generally used to adjust the bank's interest rate exposure or, if the bank is an intermediary, the interest rate exposure of others. Interest rate contracts include interest rate futures, single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate options, including caps, floors, collars, and corridors.

Exclude contracts involving the exchange of one or more foreign currencies (e.g., cross-currency swaps and currency options), which are to be reported in column B as foreign exchange contracts. In addition, exclude contracts not involving the exchange of foreign currency whose predominant risk characteristic is foreign exchange risk, which are also to be reported in column B as foreign exchange contracts.

Unsettled securities transactions that exceed the regular way settlement time limit that is customary in each relevant market must be reported as forward contracts in Schedule RC-L, item 12.b.

Column B, Foreign Exchange Contracts: Foreign exchange contracts are contracts to purchase foreign (non-U.S.) currencies and U.S. dollar exchange in the forward market, i.e., on an organized exchange or in an over-the-counter market. A purchase of U.S. dollar exchange is equivalent to a sale of foreign currency. Foreign exchange contracts include cross-currency interest rate swaps where there is an exchange of principal, forward foreign exchange contracts (usually settling three or more business days from trade date), and currency futures and currency options. Exclude spot foreign exchange contracts, which are to be reported in Schedule RC-L, item 8 on the FFIEC 031 and item 9 on the FFIEC 041.

Only one side of a foreign currency transaction is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the reporting bank enters into a futures contract which obligates the bank to purchase U.S. dollar exchange against which it sells Japanese yen, then the bank would report (in U.S. dollar equivalent values) the amount of Japanese yen sold in Schedule RC-L, item 12.a. In cross-currency transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported.

All amounts in column B are to be reported in U.S. dollar equivalent values.

Column C, Equity Derivative Contracts: Equity derivative contracts are contracts that have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices, such as the Standard and Poor's 500.

The contract amount to be reported for equity derivative contracts is the quantity, e.g., number of units, of the equity instrument or equity index contracted for purchase or sale multiplied by the contract price of a unit.

SCHEDULE RC-M – MEMORANDA

Item No. Caption and Instructions

- 1 **Extensions of credit by the reporting bank to its executive officers, directors, principal shareholders, and their related interests as of the report date.** For purposes of this item, the terms "extension of credit," "executive officer," "director," "principal shareholder," and "related interest" are as defined in [Federal Reserve Board Regulation O](#) and [12 U.S.C. 375b\(9\)\(D\)](#).

An "extension of credit" is a making or renewal of any loan, a granting of a line of credit, or an extending of credit in any manner whatsoever. Extensions of credit include, among others, loans, overdrafts, cash items, standby letters of credit, and securities purchased under agreements to resell. For lines of credit, the amount to be reported as an extension of credit is normally the total amount of the line of credit extended to the insider, not just the current balance of the funds that have been advanced to the insider under the line of credit. An extension of credit also includes having a credit exposure arising from a derivative transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction, or securities borrowing transaction. See [Section 215.3 of Regulation O](#) and [12 U.S.C. 375b\(9\)\(D\)\(i\)](#) for further details.

An "executive officer" of the reporting bank generally means a person who participates or has authority to participate (other than in the capacity of a director) in major policymaking functions of the reporting bank, an executive officer of a bank holding company of which the bank is a subsidiary, and (unless properly excluded by the bank's board of directors or bylaws) an executive officer of any other subsidiary of that bank holding company. See [Section 215.2\(e\) of Regulation O](#) for further details.

A "director" of the reporting bank generally means a person who is a director of a bank, whether or not receiving compensation, a director of a bank holding company of which the bank is a subsidiary, and (unless properly excluded by the bank's board of directors or bylaws) a director of any other subsidiary of that bank holding company. See [Section 215.2\(d\) of Regulation O](#) for further details.

A "principal shareholder" of the reporting bank generally means an individual or a company (other than an insured bank or foreign bank) that directly or indirectly owns, controls, or has the power to vote more than ten percent of any class of voting securities of the reporting bank. See [Section 215.2\(m\) of Regulation O](#) for further details.

A "related interest" means (1) a company (other than an insured bank or a foreign bank) that is controlled by an executive officer, director, or principal shareholder or (2) a political or campaign committee that is controlled by or the funds or services of which will benefit an executive officer, director, or principal shareholder. See [Section 215.2\(n\)](#) of Regulation O.

- 1.a **Aggregate amount of all extensions of credit to all executive officers, directors, principal shareholders, and their related interests.** Report the aggregate amount outstanding as of the report date of all extensions of credit by the reporting bank to all of its executive officers, directors, and principal shareholders, and to all of the related interests of its executive officers, directors, and principal shareholders.

Include each extension of credit by the reporting bank in the aggregate amount only *one* time, regardless of the number of executive officers, directors, principal shareholders, and related interests thereof to whom the extension of credit has been made.

Item No. **Caption and Instructions**

- 1.b** **Number of executive officers, directors, and principal shareholders to whom the amount of all extensions of credit by the reporting bank (including extensions of credit to related interests) equals or exceeds the lesser of \$500,000 or 5 percent of total capital as defined for this purpose in agency regulations.** Report the number of executive officers, directors, and principal shareholders of the reporting bank to whom the amount of all extensions of credit by the reporting bank outstanding as of the report date equals or exceeds the lesser of \$500,000 or five percent of total capital as defined for this purpose in regulations issued by the bank's primary federal bank supervisory authority.

For purposes of this item, the amount of all extensions of credit by the reporting bank to an executive officer, director, or principal shareholder includes all extensions of credit by the reporting bank to the related interests of the executive officer, director, or principal shareholder. Furthermore, an extension of credit made by the reporting bank to *more than one* of its executive officers, directors, principal shareholders, or related interests thereof must be included in full in the amount of all extensions of credit for *each* such executive officer, director, or principal shareholder.

- 2** **Intangible assets.** Report in the appropriate subitem the carrying amount of intangible assets. Intangible assets primarily result from business combinations accounted for under the acquisition method in accordance with ASC Topic 805, Business Combinations (formerly FASB Statement No. 141(R), "Business Combinations"), from acquisitions of portions or segments of another institution's business such as mortgage servicing portfolios and credit card portfolios, and from the sale or securitization of financial assets with servicing retained.

An identifiable intangible asset with a finite life (other than a servicing asset) should be amortized over its estimated useful life and should be reviewed at least quarterly to determine whether events or changes in circumstances indicate that its carrying amount may not be recoverable. If this review indicates that the carrying amount may not be recoverable, the identifiable intangible asset should be tested for recoverability (impairment) in accordance with ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"). An impairment loss shall be recognized if the carrying amount of the identifiable intangible asset is not recoverable and this amount exceeds the asset's fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted expected future cash flows from the identifiable intangible asset. An impairment loss is recognized by writing the identifiable intangible asset down to its fair value (which becomes the new accounting basis of the intangible asset), with a corresponding charge to expense (which should be reported in Schedule RI, item 7.c.(2)). Subsequent reversal of a previously recognized impairment loss is prohibited.

An identifiable intangible asset with an indefinite useful life should not be amortized, but should be tested for impairment at least annually in accordance with ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets").

- 2.a** **Mortgage servicing assets.** Report the carrying amount of mortgage servicing assets, i.e., contracts to service loans secured by real estate (as defined for Schedule RC-C, part I, item 1, in the Glossary entry for "Loans secured by real estate") under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A mortgage servicing contract is either (a) undertaken in conjunction with selling or securitizing the mortgages being serviced or (b) purchased or assumed separately. For mortgage servicing assets accounted for under the amortization method, the carrying amount is the unamortized cost of acquiring the mortgage servicing contracts, net of any

Item No. **Caption and Instructions**

- 5.b**
(cont.)
- (3) on financial assets (other than securities) sold under repurchase agreements that have an original maturity of more than one business day and sales of participations in pools of loans that have an original maturity of more than one business day;
 - (4) by transferring financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) in transactions that do not satisfy the criteria for sale treatment under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended) (see the Glossary entry for "transfers of financial assets" for further information);
 - (5) by the creation of due bills representing the bank's receipt of payment and similar instruments, whether collateralized or uncollateralized (see the Glossary entry for "due bills");
 - (6) from Federal Reserve Banks;
 - (7) by overdrawing "due from" balances with depository institutions, except overdrafts arising in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule RC-E until the funds are remitted);
 - (8) on purchases of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions");
 - (9) on notes and debentures issued by consolidated subsidiaries of the reporting bank;
 - (10) through mortgages, liens, or other encumbrances on bank premises and other real estate owned;
 - (11) for institutions that have not adopted FASB [Accounting Standards Update No. 2016-02](#) (ASU 2016-02) on accounting for leases, through obligations under capital leases, and for institutions that have adopted ASU 2016-02, through lease liabilities for finance leases;
 - (12) by borrowing immediately available funds in foreign offices that have an original maturity of one business day or roll over under a continuing contract that are not securities repurchase agreements; and
 - (13) on any other obligation for the purpose of borrowing money not reported elsewhere on Schedule RC, Balance Sheet, or in Schedule RC-M, item 5.a, "Federal Home Loan Bank advances."

Also include any borrowings by an Employee Stock Ownership Plan (ESOP) that the reporting bank must report as a borrowing on its own balance sheet in accordance with generally accepted accounting principles. For further information, see ASC Subtopic 718-40, Compensation-Stock Compensation – Employee Stock Ownership Plans (formerly AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans”).

Item No. Caption and Instructions**5.b**
(cont.)

Exclude from other borrowings:

- (1) federal funds purchased (in domestic offices) and securities sold under agreements to repurchase (report in Schedule RC, items 14.a and 14.b, respectively);
- (2) liability for short positions (report in Schedule RC, item 15);
- (3) subordinated notes and debentures (report in Schedule RC, item 19); and
- (4) for institutions that have adopted FASB [Accounting Standards Update No. 2016-02](#) on accounting for leases, lease liabilities for operating leases (report in Schedule RC-G, item 4, "All other liabilities").

5.b.(1) Other borrowings with a remaining maturity or next repricing date of. Report the amount of the bank's fixed rate other borrowings in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Report the amount of the bank's floating rate other borrowings in the appropriate subitems according to their next repricing dates.

5.b.(1)(a) One year or less. Report the amount of:

- fixed rate "Other borrowings" with a remaining maturity of one year or less, and
- floating rate "Other borrowings" with a next repricing date occurring in one year or less.

Include in this item those overdrawn "due from" balances with depository institutions that are reportable as "Other borrowed money," as described in the instructions to Schedule RC-M, item 5.b, above.

5.b.(1)(b) Over one year through three years. Report the amount of:

- fixed rate "Other borrowings" with a remaining maturity of over one year through three years, and
- floating rate "Other borrowings" with a next repricing date occurring in over one year through three years.

5.b.(1)(c) Over three years through five years. Report the amount of:

- fixed rate "Other borrowings" with a remaining maturity of over three years through five years, and
- floating rate "Other borrowings" with a next repricing date occurring in over three years through five years.

5.b.(1)(d) Over five years. Report the amount of:

- fixed rate "Other borrowings" with a remaining maturity of over five years, and
- floating rate "Other borrowings" with a next repricing date occurring in over five years.

5.b.(2) Other borrowings with a remaining maturity of one year or less. Report all "Other borrowings" with a remaining maturity of one year or less. Include both fixed rate and floating rate borrowings with a remaining maturity of one year or less.

The fixed rate borrowings that should be included in this item will also have been reported by remaining maturity in Schedule RC-M, item 5.b.(1)(a), above. The floating rate borrowings that should be included in this item will also have been reported by next repricing date in Schedule RC-M, item 5.b.(1)(a), above. However, exclude those floating rate borrowings included in Schedule RC-M, item 5.b.(1)(a), with a next repricing date of one year or less that have a remaining maturity of over one year.

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10
(cont.) To meet the business conduct test, which is set forth in [Section 327.5\(b\)\(3\)](#) of the FDIC's regulations, a bank must conduct 50 percent or more of its business with entities other than its parent holding company or entities other than those controlled either directly or indirectly by its parent holding company. Control has the same meaning as in [Section 3\(w\)\(5\) of the Federal Deposit Insurance Act](#) (12 U.S.C. 1813(w)(5)).

10.a **Banker's bank deduction.** A qualifying banker's bank is eligible to have the FDIC deduct certain assets from its assessment base, subject to a limit. Report in this item on an unconsolidated single FDIC certificate number basis the banker's bank deduction, which equals the sum of a qualifying banker's bank's average balances due from Federal Reserve Banks plus its average federal funds sold. These averages should be calculated on a daily or weekly basis consistent with the qualifying banker's bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a).

Balances due from Federal Reserve Banks include the total balances due from Federal Reserve Banks, including the qualifying banker's bank's own reserves and other balances as well as reserve balances actually passed through to a Federal Reserve Bank by the banker's bank on behalf of its respondent depository institutions (as described in the instructions for Schedule RC-A, item 4, "Balances due from Federal Reserve Banks"). For a qualifying banker's bank that is a respondent in a pass-through reserve relationship with a correspondent bank, balances due from Federal Reserve Banks include the reserve balances the correspondent bank has passed through to a Federal Reserve Bank for the respondent banker's bank. Balances due from Federal Reserve Banks also include the qualifying banker's bank's excess balance accounts, which are limited-purpose accounts at Federal Reserve Banks for maintaining an institution's excess balances that are eligible to earn interest on their Federal Reserve balances. See the Glossary entry for "pass-through reserve balances."

Federal funds sold are defined in the instructions for Schedule RC, item 3.a, "Federal funds sold." See also the Glossary entry for "federal funds transactions."

10.b **Banker's bank deduction limit.** A qualifying banker's bank is eligible to have the FDIC deduct certain assets from its assessment base, subject to a limit. Report in this item on an unconsolidated single FDIC certificate number basis the banker's bank deduction limit, which equals the sum of a qualifying banker's bank's average deposits of commercial banks and other depository institutions in the U.S. plus its average federal funds purchased. These averages should be calculated on a daily or weekly basis consistent with the qualifying banker's bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a).

Deposits of commercial banks and other depository institutions in the U.S. are defined in the instructions for Schedule RC-E, item 4.

Federal funds purchased are defined in the instructions for Schedule RC, item 14.a, "Federal funds purchased." See also the Glossary entry for "federal funds transactions."

11 **Custodial bank certification: Does the reporting institution meet the definition of a custodial bank set forth in FDIC regulations?** If the reporting institution meets the custodial bank definition on an unconsolidated single FDIC certificate number basis, it should answer "Yes" to item 11 and complete Schedule RC-O, items 11.a and 11.b. However, if a custodial bank's deduction limit as reported in item 11.b is zero, the custodial bank may leave item 11.a blank.

Item No. Caption and Instructions

11 If the reporting institution does not meet the custodial bank definition, it should answer “No” to
(cont.) item 11 and it should not complete Schedule RC-O, items 11.a and 11.b.

A custodial bank, as defined in Section 327.5(c)(1) of the FDIC’s regulations, is an insured depository institution that had:

- (1) “Fiduciary and custody and safekeeping assets” (the sum of item 10, columns A and B, plus item 11, column B, in Schedule RC-T – Fiduciary and Related Services) of \$50 billion or more as of the end of the previous calendar year, or
- (2) Income from fiduciary activities (Schedule RI, item 5.a) that was more than 50 percent of its total revenue (interest income plus noninterest income, which is the sum of items 1.h and 5.m of Schedule RI) during the previous calendar year.

11.a **Custodial bank deduction.** An institution that meets the definition of a custodial bank is eligible to have the FDIC deduct certain assets from its assessment base, subject to the limit reported in Schedule RC-O, item 11.b. If a custodial bank’s deduction limit as reported in Schedule RC O, item 11.b, is zero, the custodial bank may leave this item 11.a blank.

Report in this item on an unconsolidated single FDIC certificate number basis the custodial bank deduction, which equals average qualifying low-risk liquid assets.¹ Qualifying low-risk liquid assets are determined without regard to the maturity of the assets. Average qualifying low-risk liquid assets equals the sum of the following amounts, all on an unconsolidated single FDIC certificate number basis:

- (1) The average amount of cash and balances due from depository institutions with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 1, column C) plus 50 percent of the average amount of cash and balances due from depository institutions with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 1, column G);
- (2) The average amount of held-to-maturity securities with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 2.a, column C) plus 50 percent of the average amount of held-to-maturity securities with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 2.a, column G);
- (3) The average amount of available-for-sale securities with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 2.b, column C) plus 50 percent of the average amount of available-for-sale securities with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 2.b, column G);
- (4) The average amount of federal funds sold with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 3.a, column C) plus 50 percent of the average amount of federal funds sold with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 3.a, column G);
- (5) The average amount of securities purchased under agreements to resell (as defined for Schedule RC, item 3.b) that would qualify for a standardized approach risk weight for risk-based capital purposes of zero percent plus 50 percent of the average amount of securities purchased under agreements to resell (as defined for Schedule RC, item 3.b) that would qualify for a standardized approach risk weight of 2 percent, 4 percent, or 20 percent; and

¹ An institution that has a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date, as reported in Schedule RC-R, Part I, item 31.a (and further described in the General Instructions for Schedule RC-R, Part I) that meets the definition of a custodial bank is not required to separately report its risk-weighted assets in Schedule RC-R, Part II, in order to use the deduction.

General Instructions for Schedule RC-O, Memorandum items 6 through 18

Memorandum items 6 through 18 are applicable only to large institutions and/or highly complex institutions as defined below. Amounts reported in Memorandum items 6 through 9, 14, 15, and 18 will not be made available to the public on an individual institution basis. Large institutions and highly complex institutions should complete Memorandum items 6 through 18, as appropriate, on a fully consolidated basis. Thus, when a large institution or highly complex institution owns another FDIC-insured institution as a subsidiary, it should complete Memorandum items 6 through 18, as appropriate, on a fully consolidated basis.

According to [Section 327.8\(f\) of the FDIC's regulations](#), a large institution is an FDIC-insured bank or savings association that reported total assets of \$10 billion or more as of December 31, 2006, that does not meet the definition of a highly complex institution. After December 31, 2006, if a bank or savings association classified as a small institution in accordance with [Section 327.8\(e\) of the FDIC's regulations](#) reports total assets of \$10 billion or more for four consecutive quarters, the bank or savings association will be classified as a large institution beginning the following quarter. In the Consolidated Reports of Condition and Income, an FDIC-insured depository institution's total assets are reported in Schedule RC, item 12.

An institution that has a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date, as reported in Schedule RC-R, Part I, item 31.a (and further described in the General Instructions for Schedule RC-R, Part I), shall be classified as a small institution for deposit insurance assessments, even if that institution otherwise would be classified as a large institution.¹

According to [Section 327.8\(g\) of the FDIC's regulations](#), a highly complex institution is an FDIC-insured bank or savings association (excluding a credit card bank²) that:

- (1) Has had \$50 billion or more in total assets for at least four consecutive quarters that either is controlled by a U.S. parent holding company that has had \$500 billion or more in total assets for four consecutive quarters, or is controlled by one or more intermediate U.S. parent holding companies that are controlled by a U.S. holding company that has had \$500 billion or more in total assets for four consecutive quarters; or
- (2) Is a processing bank or trust company that has had \$10 billion or more in total assets for at least four consecutive quarters. According to [Section 327.8\(s\) of the FDIC's regulations](#), a processing bank or trust company is "an institution whose last three years' non-lending interest income, fiduciary revenues, and investment banking fees, combined, exceed 50 percent of total revenues (and its last three years fiduciary revenues are non-zero), and whose total fiduciary assets total \$500 billion or more."

¹ An institution that has a CBLR framework election in effect as of the quarter-end report date that meets the definition of an established depository institution under [12 CFR 327.8\(k\)](#), generally one that has been federally insured for at least five years, will be assessed as an established small institution. An institution that has a CBLR framework election in effect as of the quarter-end report date that has been federally insured for less than five years will be assessed as a new small institution under [12 CFR 327.8\(w\)](#). An institution that has a CBLR framework election in effect as of the quarter-end report date with assets between \$5 and \$10 billion cannot request to be treated as a large institution for deposit insurance assessments under [12 CFR 327.16\(f\)](#).

² As defined in [Section 327.8\(t\) of the FDIC's regulations](#), a credit card bank is "a bank for which credit card receivables plus securitized receivables exceed 50 percent of assets plus securitized receivables."

Memoranda

General Instructions for Schedule RC-O, Memorandum items 6 through 18 (cont.)

If, after December 31, 2010, a bank or savings association classified as a highly complex institution falls below \$50 billion in total assets for four consecutive quarters, or its parent company or companies fall below \$500 billion in total assets for four consecutive quarters, or a processing bank or trust company falls below \$10 billion in total assets for four consecutive quarters, the FDIC will reclassify the bank or savings association as a large institution or a small institution, as appropriate,¹ beginning the quarter after the fourth consecutive quarter.

Amounts Guaranteed or Insured by the U.S. Government, its Agencies, or its Government-Sponsored Agencies – The instructions for Schedule RC-O, Memorandum items 6, 11, and 16 refer to amounts recoverable from, or guaranteed or insured by, the U.S. government, its agencies, or its government-sponsored agencies under guarantee or insurance provisions. Examples include guarantees or insurance (or reinsurance) provided by the Department of Veterans Affairs, the Federal Housing Administration, the Small Business Administration (SBA), the Department of Agriculture Rural Development Loan Program, and the Department of Education for individual loans as well as coverage provided by the FDIC under loss-sharing agreements. For loan securitizations and securities, examples include those guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac) as well as SBA Guaranteed Loan Pool Certificates and securities covered by FDIC loss-sharing agreements. However, if an institution holds securities backed by mortgages it has transferred to Fannie Mae or Freddie Mac with recourse or other transferor-provided credit enhancements, these securities should not be considered guaranteed to the extent of the institution's maximum contractual credit exposure arising from the credit enhancements.

Amounts Guaranteed or Insured by the U.S. Government – The instructions for Schedule RC-O, Memorandum items 7 through 10, 13, and 18 refer to the maximum amounts recoverable from the U.S. Government. Amounts recoverable from the U.S. government do *not* include amounts recoverable from government-sponsored agencies (also known as government-sponsored enterprises) including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks, and the Farm Credit System.

² An institution that has a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date, as reported in Schedule RC-R, Part I, item 31.a (and further described in the General Instructions for Schedule RC-R, Part I), shall be classified as a small institution, even if that institution otherwise would be classified as a large institution.

Memoranda

General Instructions for Schedule RC-O, Memorandum items 6 through 18 (cont.)

NOTE: Because certain information on coverage under FDIC loss-sharing agreements is reported elsewhere in the Consolidated Reports of Condition and Income, the treatment of FDIC loss-sharing agreements varies in Schedule RC-O, Memorandum items 6 through 9, 10.b, 11, 13, 16, and 18.

Higher-risk Securitizations – For purposes of Schedule RC-O, Memorandum items 7.b, 8.b, and 9.b, higher-risk securitizations are securitizations where more than 50 percent of the assets backing the securitization meet the criteria for “nontraditional 1-4 family residential mortgage loans,” “higher-risk consumer loans,” or “higher-risk commercial and industrial loans and securities” as those terms are defined in the instructions for Schedule RC-O, Memorandum items 7.a, 8.a, and 9.a, and in [Appendix C to Subpart A to Part 327 of the FDIC’s regulations](#).

Item No. Caption and Instructions

NOTE: Memorandum items 6 through 12 are to be completed on a fully consolidated basis by “large institutions” and “highly complex institutions.”

- 6** **Criticized and classified items.** Criticized and classified items should be reported on a consolidated basis and include all on- and off-balance sheet items an institution or its primary federal regulator has graded Special Mention or worse (Substandard, Doubtful, or Loss). Such items include, but are not limited to, retail items adversely classified under the agencies’ [Uniform Retail Credit Classification and Account Management Policy](#), securities, funded and unfunded loans,¹ other real estate owned, other assets, and marked-to-market counterparty positions (less credit valuation adjustments for these counterparty positions).² Criticized and classified items exclude loans and securities reported as trading assets, and the amount recoverable on an on- or off-balance sheet item from the U.S. government, its agencies, or its government-sponsored agencies under guarantee or insurance provisions, including FDIC loss-sharing agreements.

For purposes of the criticized and classified items definition, Loss items include any items graded Loss that have not yet been written off against the allowance for loan and lease losses (or another valuation allowance) or charged directly to earnings, as appropriate. However, because an item should be written off or charged off in the period in which the item is deemed Loss, the amount reported in Memorandum item 6.d, below, generally should be zero.

A marked-to-market counterparty position is equal to the sum of the net marked-to-market derivative exposures for each counterparty. The net marked-to-market derivative exposure equals the sum of all positive marked-to-market exposures net of legally enforceable netting provisions and net of all collateral held under a legally enforceable Credit Support Annex plus any exposure where excess collateral has been posted to the counterparty. For purposes of this item, a marked-to-market counterparty position less any credit valuation adjustment can never be less than zero.

¹ The amount of the unfunded loan that should be reported as criticized or classified should equal the amount that the borrower is entitled to draw upon as of the reporting date, i.e., the unused commitment as defined in the instructions for Schedule RC-L, item 1.

² An institution that has not previously measured its marked-to-market counterparty positions net of any applicable credit valuation adjustments for purposes of reporting criticized and classified items internally and to its primary federal regulator may report these positions in this same manner in Schedule RC-O, Memorandum item 6, particularly if the institution concludes that updating its reporting systems to net these adjustments would impose an undue burden on the institution.

Memoranda**Item No. Caption and Instructions**

- 6.a** **Special mention.** Report on a fully consolidated basis the amount of on- and off-balance sheet items the reporting institution or its primary federal regulator has graded Special Mention.
- 6.b** **Substandard.** Report on a fully consolidated basis the amount of on- and off-balance sheet items the reporting institution or its primary federal regulator has graded Substandard.
- 6.c** **Doubtful.** Report on a fully consolidated basis the amount of on- and off-balance sheet items the reporting institution or its primary federal regulator has graded Doubtful.
- 6.d** **Loss.** Report on a fully consolidated basis the amount of on- and off-balance sheet items the reporting institution or its primary federal regulator has graded Loss.
- 7** **“Nontraditional 1-4 family residential mortgage loans” as defined for assessment purposes only in FDIC regulations.** Report in the appropriate subitem on a fully consolidated basis the balance sheet amount of nontraditional 1-4 family residential mortgage loans and securitizations of such mortgage loans.
- 7.a** **Nontraditional 1-4 family residential mortgage loans.** Report on a fully consolidated basis the balance sheet amount of nontraditional 1-4 family residential mortgage loans, as defined for assessment purposes only in [Appendix C to Subpart A to Part 327 of the FDIC’s regulations](#). Nontraditional 1-4 family residential mortgage loans include all 1-4 family residential loan products (as defined for Schedule RC-C, part I, item 1.c) that allow the borrower to defer repayment of principal or interest and includes all interest-only products, teaser rate mortgages, and negative amortizing mortgages, with the exception of home equity lines of credit and reverse mortgages. Nontraditional 1-4 family residential mortgage loans do not include loans reported as trading assets in Schedule RC, item 5; conventional fully amortizing adjustable rate mortgage loans that do not have a teaser rate; business-purpose loans secured by one or more 1-4 family residential properties; and interest-only residential construction loans, but include conventional fully amortizing adjustable rate mortgage loans that have a teaser rate.

A teaser-rate mortgage loan is defined for assessment purposes as a mortgage with a discounted initial rate. A discounted initial rate is an effective interest rate at the time of origination or refinancing that is less than the rate the bank is willing to accept for an otherwise similar extension of credit with comparable risk. A mortgage loan is no longer considered a nontraditional 1-4 family residential mortgage loan once the teaser rate has expired, or in the case of an escalating interest rate, once the rate is no longer discounted and the borrower is making full principal and interest payments (has not been granted any principal and interest concessions). Nontraditional 1-4 family residential mortgage loans can be reclassified as traditional loans once they become fully amortizing loans, provided they no longer have a teaser rate.

The amount to be reported in this item for nontraditional 1-4 family residential mortgage loans should include purchased credit-impaired loans as defined in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, “Accounting for Certain Loans or Debt Securities Acquired in a Transfer”), provided they meet the characteristics of nontraditional 1-4 family residential mortgage loans as described above.

Memoranda**Item No. Caption and Instructions**

7.a
(cont.) The amount to be reported in this item should exclude the maximum amount recoverable on nontraditional 1-4 family residential mortgage loans under guarantee or insurance provisions from the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.

7.b **Securitized nontraditional 1-4 family residential mortgage loans.** Report on a fully consolidated basis the balance sheet amount of higher-risk securitizations where more than 50 percent of the assets backing the securitization meet the criteria for nontraditional 1-4 family residential mortgage loans (as defined for Schedule RC-O, Memorandum item 7.a, above), with the exception of those securities reported as trading assets in Schedule RC, item 5.

For securitizations issued before April 1, 2013, the amount to be reported in this item should include those securitizations where more than 50 percent of the assets backing the securitization meet one or more of the criteria for nontraditional 1-4 family residential mortgage loans, with the exception of those securities reported as trading assets in Schedule RC, item 5. Alternatively, an institution may apply the definitions in [Appendix C to Subpart A to Part 327 of the FDIC's regulations](#) to all of its securitizations. For securitizations issued on or after April 1, 2013, the amount to be reported in this item should include those securitizations (with the exception of those securities reported as trading assets in Schedule RC, item 5) where more than 50 percent of the assets backing the securitization meet either the criteria for nontraditional 1-4 family residential mortgage loans or the criteria for higher-risk consumer loans (as defined for Schedule RC-O, Memorandum item 8.a, below), and the amount of nontraditional 1-4 family residential mortgage loans exceeds the amount of higher-risk consumer loans.

8 **“Higher-risk consumer loans” as defined for assessment purposes only in FDIC regulations.** Report in the appropriate subitem on a fully consolidated basis the balance sheet amount of higher-risk consumer loans and securitizations of such higher-risk consumer loans.

8.a **Higher-risk consumer loans.** Report on a fully consolidated basis the balance sheet amount of higher-risk consumer loans, as defined for assessment purposes only in [Appendix C to Subpart A to Part 327 of the FDIC's regulations](#), but excluding higher-risk consumer loans that have been reported as nontraditional 1-4 family residential mortgage loans in Schedule RC-O, Memorandum item 7.a, above. For assessment purposes, higher-risk consumer loans are loans secured by 1-4 family residential properties (as defined for Schedule RC-C, part I, item 1.c) and loans and leases to individuals for household, family, and other personal expenditures (as defined for Schedule RC-C, part I, items 6 and 10.a) where, as of origination, or, if the loan has been refinanced, as of refinance, the probability of default (PD) within two years is greater than 20 percent, excluding loans that meet the definition of a nontraditional 1-4 family residential mortgage loan (as defined for Schedule RC-O, Memorandum item 7.a, above). The PD must be calculated in accordance with the requirements of [Appendix C to Subpart A to Part 327 of the FDIC's regulations](#).

The amount to be reported in this item for higher-risk consumer loans should include unscorable consumer loans (excluding loans that meet the definition of a nontraditional 1-4 family residential mortgage loan as defined for Schedule RC-O, Memorandum item 7.a, above) that meet the “de minimis approach” described in [Appendix C to Subpart A to Part 327 of the FDIC's regulations](#). Under the “de minimis approach,” if the total outstanding

Memoranda**Item No. Caption and Instructions**

8.a
(cont.) balance of unscorable consumer loans of a particular product type reported in column M of Schedule RC-O, Memorandum item 18, exceeds 5 percent of the total outstanding balance for that product type (including both foreign and domestic loans) reported in column N of Schedule RC-O, Memorandum item 18, the excess amount of unscorable loans for that product type (i.e., the amount over 5 percent) shall be reported as higher-risk consumer loans in this item.

The amount to be reported in this item for higher-risk consumer loans also should include purchased credit-impaired loans as defined in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, “Accounting for Certain Loans or Debt Securities Acquired in a Transfer”), provided they meet the characteristics of higher-risk consumer loans described above.

The amount to be reported in this item should exclude:

- (1) Consumer loans reported as trading assets in Schedule RC, item 5.
- (2) The maximum amounts recoverable on higher-risk consumer loans under guarantee or insurance provisions from the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.
- (3) Loans fully secured by cash collateral (provided the requirements regarding loans fully secured by cash collateral that are detailed in [Appendix C to Subpart A to Part 327](#) are met).
- (4) Business-purpose loans secured by one or more 1-4 family residential properties.

8.b **Securitizations of higher-risk consumer loans.** Report on a fully consolidated basis the balance sheet amount of higher-risk securitizations issued on or after April 1, 2013, where more than 50 percent of the assets backing the securitization meet the criteria for higher-risk consumer loans (as defined for Schedule RC-O, Memorandum item 8.a, above), with the exception of those securities reported as trading assets in Schedule RC, item 5.

Securitizations of higher-risk consumer loans also include securitizations (other than those securities reported as trading assets in Schedule RC, item 5) issued on or after April 1, 2013, where more than 50 percent of the assets backing the securitization meet either the criteria for higher-risk consumer loans or the criteria for nontraditional 1-4 family residential mortgage loans (as defined for Schedule RC-O, Memorandum item 7.a, above) and the amount of higher-risk consumer loans exceeds the amount of nontraditional 1-4 family residential mortgage loans.

Memoranda**Item No. Caption and Instructions**

8.b For securitizations issued before April 1, 2013, that contain consumer loans, the reporting
(cont.) institution must either:

- (1) Report the securitizations using the definition of subprime loans contained in the FDIC's final rule on assessments and large bank pricing, [76 Fed. Reg. 10672](#) (February 25, 2011), or
- (2) Report the securitizations if more than 50 percent of the assets backing the securitization were identified as subprime loans by the institution's then existing internal methodology for identifying loans as subprime loans.¹

Alternatively, an institution may apply the definitions in [Appendix C to Subpart A to Part 327 of the FDIC's regulations](#) to all of its securitizations.

¹ Institutions that did not have an existing methodology in place to identify subprime consumer loans and securities (because they were not required to report on these exposures to their primary federal regulator for examination or other supervisory purposes or did not measure and monitor loans and securities with these characteristics for internal risk management purposes) may, as an alternative to applying the definitions in the FDIC's assessment regulations to loans backing securitizations issued before April 1, 2013, apply then existing guidance provided by their primary federal regulator or the agencies' [2001 Expanded Guidance for Subprime Lending Programs](#) to determine whether more than 50 percent of the assets backing the securitization are subprime consumer loans, thus requiring that the securitization be reported as a securitization of higher-risk consumer loans in Schedule RC-O, Memorandum item 8.b.

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Memoranda**Item No. Caption and Instructions**

- 13.d Closed-end loans secured by junior liens on 1-4 family residential properties and revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.** Report on a fully consolidated basis the portion of the balance sheet amount of closed-end loans secured by junior liens on 1-4 family residential properties and revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit (in domestic and foreign offices) (as defined for Schedule RC-C, part I, items 1.c.(2)(b) and 1.c.(1), respectively) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.
- 13.e Commercial and industrial loans.** Report on a fully consolidated basis the portion of the balance sheet amount of commercial and industrial loans (as defined for Schedule RC-C, part I, item 4) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.
- 13.f Credit card loans to individuals for household, family, and other personal expenditures.** Report on a fully consolidated basis the portion of the balance sheet amount of credit card loans to individuals for household, family, and other personal expenditures (as defined for Schedule RC-C, part I, item 6.a) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.
- 13.g All other loans to individuals for household, family, and other personal expenditures.** Report on a fully consolidated basis the portion of the balance sheet amount of revolving credit plans other than credit cards (as defined for Schedule RC-C, part I, item 6.b), automobile loans (as defined for Schedule RC-C, part I, item 6.c), and other consumer loans (as defined for Schedule RC-C, part I, item 6.d) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.
- 13.h Non-agency residential mortgage-backed securities.** Report on a fully consolidated basis the portion of the balance sheet amount of residential mortgage-backed securities (as defined for Schedule RC-B, items 4.a.(3) and 4.b.(3)) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.

Memoranda**Item No. Caption and Instructions**

NOTE: Memorandum items 14 and 15 are to be completed by “highly complex institutions.”

- 14** **Amount of the institution’s largest counterparty exposure.** Report on a fully consolidated basis the amount of total exposure to the counterparty to which the institution has the largest total counterparty exposure.

Counterparty exposure is equal to the sum of (1) the institution’s exposure amounts to one counterparty (or borrower) for derivatives, securities financing transactions (SFTs), and cleared transactions, and (2) its gross lending exposure (including all unfunded commitments) to that counterparty (or borrower).

A counterparty includes an entity’s own affiliates, including its parent company. Exposures to entities that are affiliates of each other (including a bank’s own affiliates) should be aggregated and treated as an exposure to a single counterparty (or borrower). Counterparty exposure excludes all counterparty exposure to the U.S. Government and departments or agencies of the U.S. Government that is unconditionally guaranteed by the full faith and credit of the United States.

The exposure amount for derivatives, including over-the-counter derivatives, cleared transactions that are derivative contracts, and netting sets of derivative contracts, must be calculated using the methodology set forth in 12 CFR 324.34(b), but without any reduction for collateral other than cash collateral that is all or part of variation margin and that satisfies the requirements of 12 CFR 324.10(c)(4)(ii)(C)(1)(ii) and (iii) and 324.10(c)(4)(ii)(C)(3) – (7). The exposure amount associated with SFTs, including cleared transactions that are SFTs, must be calculated using the standardized approach set forth in 12 CFR 324.37(b) or (c). For both derivatives and SFT exposures, the exposure amount to central counterparties must also include the default fund contribution.¹

- 15** **Total amount of the institution’s 20 largest counterparty exposures.** Report on a fully consolidated basis the sum of the total exposure amounts to the 20 counterparties to which the institution has the 20 largest total counterparty exposures.

Counterparty exposure should be measured as described in the instructions for Schedule RC-O, Memorandum item 14, above.

¹ SFTs include repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements. The default fund contribution is the funds contributed or commitments made by a clearing member to a central counterparty’s mutualized loss sharing arrangement. The other terms used in this description are as defined in 12 CFR Part 324, Subparts A and D, unless defined otherwise in 12 CFR Part 327.

SCHEDULE RC-Q – ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

General Instructions

Schedule RC-Q is required to be completed only by institutions that:

- (1) Have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings, or
- (2) Are required to complete Schedule RC-D, Trading Assets and Liabilities.

Your institution is not required to complete Schedule RC-Q if the only financial instruments that your institution measures at fair value in the financial statements on a recurring basis are:

- (1) Available-for-sale securities (reported in Schedule RC, item 2.b), and
- (2) For institutions that have adopted FASB [Accounting Standards Update No. 2016-01](#) (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities,
 - (a) Equity securities with readily determinable fair values not held for trading (reported in Schedule RC, item 2.c), and
 - (b) Equity securities and other equity investments that do not have readily determinable fair values that your institution measures at fair value (i.e., equity securities and other equity investments that do not have readily determinable values that your institution has not elected to measure at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer) (reported in Schedule RC, item 9, or Schedule RC-F, item 4, as appropriate).

An institution that is required to complete Schedule RC-Q should report all assets and liabilities that are measured at fair value in the financial statements on a recurring basis. Exclude from Schedule RC-Q those assets and liabilities that are measured at fair value on a nonrecurring basis. Recurring fair value measurements of assets or liabilities are those fair value measurements that applicable accounting standards and these instructions require or permit in the balance sheet at the end of each reporting period. In contrast, nonrecurring fair value measurements of assets or liabilities are those fair value measurements that applicable accounting standards and these instructions require or permit in the balance sheet in particular circumstances (for example, when an institution subsequently measures foreclosed real estate at the lower of cost or fair value less estimated costs to sell).

Column Instructions

Column A, Total Fair Value Reported on Schedule RC

Report in Column A the total fair value, as defined by ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), of those assets and liabilities reported on Schedule RC, Balance Sheet, that the bank reports at fair value on a recurring basis.

Columns B through E, Fair Value Measurements and Netting Adjustments

For items reported in Column A, report in Columns C, D, and E the fair value amounts which fall in their entirety in Levels 1, 2, and 3, respectively. The level in the fair value hierarchy within which a fair value measurement in its entirety falls should be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, for example, if the fair value of an asset or liability has elements of both Level 2 and Level 3 measurement inputs, report the entire fair value of the asset or liability in Column D or Column E based on the lowest level measurement input with the most significance.

Column Instructions (cont.)

to the fair value of the asset or liability in its entirety as described in ASC Topic 820. For assets and liabilities that the bank has netted under legally enforceable master netting agreements in accordance with ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts,” and FASB Interpretation No. 41, “Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements”), report the gross amounts in Columns C, D, and E and the related netting adjustment in Column B. For more information on Level 1, 2, and 3 measurement inputs, see the Glossary entry for “fair value.”

ASC Topic 820 permits an institution, as a practical expedient, to measure the fair value of investments in investment companies and real estate funds that meet criteria specified in this topic using the investment’s net asset value (NAV) per share (or its equivalent). When an institution has elected to measure the fair value of such an investment using the NAV per share practical expedient and the fair value is measured on a recurring basis, the institution should report the investment’s fair value in column A of the appropriate asset item of Schedule RC-Q. However, the institution should exclude the investment from the Level 1, 2, and 3 disclosures in columns C, D, and E of Schedule RC-Q.¹ Instead, the institution should report the fair value measured using the NAV per share practical expedient in column B along with the netting adjustments reported in column B. In contrast, for an investment measured at fair value on a recurring basis that meets the criteria specified in Topic 820, if the institution does not elect to measure fair value using the NAV per share practical expedient, it should report the investment’s fair value in column A of Schedule RC-Q and disclose this fair value in column C, D, or E, as appropriate, based on the lowest level input that is significant to the fair value measurement in its entirety.

Item Instructions

For each item in Schedule RC-Q, the sum of columns C, D, and E less column B must equal column A.

Item No. Caption and Instructions**1 Available-for-sale debt securities and equity securities with readily determinable fair values not held for trading.**

For institutions that have adopted FASB [Accounting Standards Update No. 2016-01](#) (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investment in mutual funds, and eliminates the concept of available-for-sale equity securities (see the Note preceding the instructions for Schedule RC, item 2.c), report in column A the sum of Schedule RC, items 2.b and 2.c.

For institutions that have not adopted ASU 2016-01, report in column A the amount reported in Schedule RC, item 2.b.

Report in columns B through E, as appropriate, the fair values of the debt and equity securities reported in column A determined using Level 1, Level 2, and Level 3 measurement inputs and any netting adjustments.

2 Federal funds sold and securities purchased under agreements to resell. Report in the appropriate column the total fair value of those federal funds sold and securities purchased under agreements to resell reported in Schedule RC, items 3.a and 3.b, that the bank has

¹ Refer to FASB [Accounting Standards Update \(ASU\) No. 2015-07](#), “Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),” which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share (or its equivalent) practical expedient described in ASC Topic 820.

Item No.	Caption and Instructions
2 (cont.)	elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
3	<u>Loans and leases held for sale.</u> Report in the appropriate column the total fair value of those loans held for sale reported in Schedule RC-C, Part I, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Loans held for sale that the bank has elected to report under the fair value option are included in Schedule RC-C, Part I, and Schedule RC, item 4.a. Exclude loans held for sale that are reported at the lower of cost or fair value in Schedule RC, item 4.a, and loans that have been reported as trading assets in Schedule RC, item 5. Leases are generally not eligible for the fair value option.
4	<u>Loans and leases held for investment.</u> Report in the appropriate column the total fair value of those loans held for investment reported in Schedule RC-C, Part I, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Loans held for investment that the bank has elected to report under the fair value option are included in Schedule RC-C, Part I, and Schedule RC, item 4.b. Leases are generally not eligible for the fair value option.
5	<u>Trading assets:</u>
5.a	<u>Derivative assets.</u> Report in the appropriate column the total fair value of derivative assets held for trading purposes as reported in Schedule RC, item 5; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
5.b	<u>Other trading assets.</u> Report in the appropriate column the total fair value of all trading assets, except for derivatives, as reported in Schedule RC, item 5; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs, including the fair values of loans that have been reported as trading assets; and any netting adjustments.
5.b.(1)	<u>Nontrading securities at fair value with changes in fair value reported in current earnings.</u> Report in the appropriate column the total fair value of those debt securities the bank has elected to report under the fair value option that is included in Schedule RC-Q, item 5.b above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Debt securities that the bank has elected to report at fair value under the fair value option are reported as trading securities pursuant to ASC Subtopic 825-10, Financial Instruments – Overall (formerly FASB Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”) even though management did not acquire the securities principally for the purpose of trading.
6	<u>All other assets.</u> Report in the appropriate column the total fair value of all other assets that are required to be measured at fair value on a recurring basis or that the institution has elected to report under the fair value option that is included in Schedule RC, Balance Sheet, and is not reported in Schedule RC-Q, items 1 through 5 above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Include derivative assets held for purposes other than trading, interest-only strips receivable (not in the form of a security) held for purposes other than trading, servicing assets measured at fair value under a fair value option, and other categories of assets measured at fair value on the balance sheet on a recurring basis under applicable accounting standards and these instructions. Exclude servicing assets initially measured at fair value, but subsequently measured using the amortization method, and other real estate owned (which are subject to fair value measurement on a nonrecurring basis).

- | Item No. | Caption and Instructions |
|-----------------|---|
| 7 | <u>Total assets measured at fair value on a recurring basis.</u> Report the sum of items 1 through 5.b plus item 6. |
| 8 | <u>Deposits.</u> Report in the appropriate column the total fair value of those deposits reported in Schedule RC, items 13.a and 13.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Deposits withdrawable on demand (e.g., demand and savings deposits in domestic offices) are generally not eligible for the fair value option. |
| 9 | <u>Federal funds purchased and securities sold under agreements to repurchase.</u> Report in the appropriate column the total fair value of those federal funds purchased and securities sold under agreements to repurchase reported in Schedule RC, items 14.a and 14.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. |
| 10 | <u>Trading liabilities:</u> |
| 10.a | <u>Derivative liabilities.</u> Report in the appropriate column the total fair value of derivative liabilities held for trading purposes as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. |
| 10.b | <u>Other trading liabilities.</u> Report in the appropriate column the total fair value of trading liabilities, except for derivatives, as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. |
| 11 | <u>Other borrowed money.</u> Report in the appropriate column the total fair value of those Federal Home Loan Bank advances and other borrowings reported in Schedule RC, item 16, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. |
| 12 | <u>Subordinated notes and debentures.</u> Report in the appropriate column the total fair value of those subordinated notes and debentures (including mandatory convertible debt) reported in Schedule RC, item 19, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. |
| 13 | <u>All other liabilities.</u> Report in the appropriate column the total fair value of all other liabilities that are required to be measured at fair value on a recurring basis or that the institution has elected to report under the fair value option that is included in Schedule RC, Balance Sheet, and is not reported in Schedule RC-Q, items 8 through 12 above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

Include derivative liabilities held for purposes other than trading, servicing liabilities measured at fair value under a fair value option, and other categories of liabilities measured at fair value on the balance sheet on a recurring basis under applicable accounting standards and these instructions. Exclude servicing liabilities initially measured at fair value, but subsequently measured using the amortization method (which are subject to fair value measurement on a nonrecurring basis). |
| 14 | <u>Total liabilities measured at fair value on a recurring basis.</u> Report the sum of items 8 through 13. |

SCHEDULE RC-R – REGULATORY CAPITAL

General Instructions for Schedule RC-R

The instructions for Schedule RC-R should be read in conjunction with the regulatory capital rules issued by the primary federal supervisory authority of the reporting bank or saving association (collectively, banks): for national banks and federal savings associations, [12 CFR Part 3](#); for state member banks, [12 CFR Part 217](#); and for state nonmember banks and state savings associations, [12 CFR Part 324](#).

Capital Simplifications Rule

On July 22, 2019, the banking agencies issued the [capital simplifications rule](#). The key elements of the capital simplifications rule apply solely to institutions that are not subject to the advanced approaches capital rule¹ (i.e., non-advanced approaches institutions). Under the capital simplifications rule, non-advanced approaches institutions are subject to simpler regulatory capital requirements for mortgage servicing assets, certain deferred tax assets arising from temporary differences, and investments in the capital of unconsolidated financial institutions than those previously applied. The capital simplifications rule also simplifies, for non-advanced approaches institutions, the calculation for the amount of capital issued by a consolidated subsidiary of an institution and held by third parties (sometimes referred to as a minority interest) that is includable in regulatory capital.

These simpler capital requirements were originally effective April 1, 2020. On November 13, 2019, the agencies adopted a [final rule](#) permitting non-advanced approaches institutions to implement these simpler capital requirements on January 1, 2020, rather than April 1, 2020. Non-advanced approaches institutions can elect whether to implement these changes in the capital requirements in the quarter beginning January 1, 2020, or to implement them in the quarter beginning April 1, 2020. As a result, non-advanced approaches institutions may choose to begin implementing, i.e., early adopt, the capital treatment under the capital simplifications rule for the reporting period ending on March 31, 2020. All non-advanced approaches institutions must implement the capital treatment for mortgage servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions, and the calculation of minority interest under the capital simplifications rule no later than the reporting period ending on June 30, 2020.

For purposes of preparing Schedule RC-R in the FFIEC 031 and the FFIEC 041 Call Reports for the March 31, 2020, report date only, non-advanced approaches institutions that:

- Choose to early adopt the capital simplifications rule in the quarter beginning January 1, 2020, should follow the revised instructions for Schedule RC-R, Parts I and II, in this FFIEC 031-FFIEC 041 Call Report instruction book (updated as of March 2020) that are applicable to non-advanced approaches institutions.
- File the FFIEC 041 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the simplifications rule in the quarter beginning April 1, 2020), should refer to the separate standalone instructions for Schedule RC-R, Regulatory Capital, that are applicable to non-advanced approaches institutions that file the FFIEC 041 or the FFIEC 051 Call Report for the March 31, 2020, report date only. These separate

¹ An institution that is subject to the advanced approaches capital rule (i.e., an advanced approaches institution as defined in the federal banking agencies' regulatory capital rules) is (i) a subsidiary of a global systemically important bank holding company, as identified pursuant to 12 CFR 217.402; (ii) a Category II institution; (iii) a subsidiary of a depository institution that uses the advanced approaches pursuant to subpart E of 12 CFR part 3 (OCC), 12 CFR part 217 (Board), or 12 CFR part 324 (FDIC) to calculate its risk-based capital requirements; (iv) a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches pursuant to subpart E of 12 CFR part 217 to calculate its risk-based capital requirements; or (v) an institution that elects to use the advanced approaches to calculate its risk-based capital requirements.

Category II institutions include institutions with (1) at least \$700 billion in total consolidated assets or (2) at least \$75 billion in cross-jurisdictional activity and at least \$100 billion in total consolidated assets. In addition, depository institution subsidiaries of Category II institutions are considered Category II institutions.

General Instructions for Schedule RC-R (cont.)

standalone instructions will be available on the FFIEC webpage for the [FFIEC 051 Reporting Form](#) and the FDIC [Bank Financial Reports](#) webpage.

- File the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), should follow the revised instructions for Schedule RC-R, Parts I and II, in this FFIEC 031-FFIEC 041 Call Report instruction book (updated as of March 2020), but must:
 - Complete column B for Schedule RC-R, Part I, items 11 through 19, and must not complete column A for these items;
 - Follow the instructions for advanced approaches institutions (unless otherwise indicated), and not the instructions for non-advanced approaches institutions, when completing Schedule RC-R, Part I, items 4, 22, and 41, which pertain to minority interest, and items 24, 28, and 45, which pertain to certain capital deductions; and
 - Follow the instructions for advanced approaches institutions (unless otherwise indicated), and not the instructions for non-advanced approaches institutions, when completing Schedule RC-R, Part II, items 2.a, 2.b, 7, 8, and 26.

In addition, regardless of whether a non-advanced approaches institution chooses to early adopt the capital simplifications rule for the reporting period ending on March 31, 2020, or elects to wait to adopt the simplifications rule for the reporting period ending on June 30, 2020, a non-advanced approaches institution that has a community bank leverage ratio (CBLR) framework election in effect as of the March 31, 2020, report date (i.e., enters “1” for Yes in Schedule RC-R, Part I, item 31.a) should not complete Schedule RC-R, Part I, items 39 through 55.b, and should not complete Schedule RC-R, Part II, as of the March 31, 2020, report date.

Part I. Regulatory Capital Components and Ratios**Contents – Part I. Regulatory Capital Components and Ratios**

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General Instructions for Schedule RC-R, Part I.

In the FFIEC 031, Schedule RC-R, Part I, has two columns for items 11 through 19. Except as noted for the March 31, 2020, report date in the preceding section on the [capital simplifications rule](#), items 11 through 19 in column A are to be completed by non-advanced approaches institutions (including institutions subject to Category III capital standards¹) and items 11 through 19 in column B are to be completed by advanced approaches institutions.

In the FFIEC 041, Schedule RC-R, Part I, has only one column for items 11 through 19 because advanced approaches institutions are required to complete the FFIEC 031.

However, for purposes of completing Schedule RC-R in the FFIEC 031 and the FFIEC 041 Call Reports for the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the capital simplifications rule on April 1, 2020) should follow the reporting guidance in the preceding section on the [capital simplifications rule](#).

Community Bank Leverage Ratio Framework

Opting into the Community Bank Leverage Ratio (CBLR) Framework – A qualifying institution may opt into the CBLR framework. A qualifying institution opts into and out of the framework through its reporting in Call Report Schedule RC-R. A qualifying institution that opts into the CBLR framework (CBLR electing institution) must complete Schedule RC-R, Part I, items 1 through 37, and, if applicable, items 38.a through 38.c, and can make that election on Schedule RC-R, Part I, item 31.a. A qualifying institution can opt out of the CBLR framework by completing Schedule RC-R, Parts I and II, excluding Schedule RC-R, Part I, items 32 through 38.c.

In general, an institution may qualify for the CBLR framework if it has a leverage ratio greater than 9 percent (as reported in Schedule RC-R, Part I, item 31); has less than \$10 billion in total consolidated assets (Schedule RC-R, Part I, item 32); is not an advanced approaches institution; has total trading assets and trading liabilities of 5 percent or less of total consolidated assets (Schedule RC-R, Part I, item 33); and has total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets (Schedule RC-R, Part I, item 34). However, an otherwise qualifying institution's primary federal

¹ Category III institutions include institutions, which are not advanced approaches institutions, that have (1) at least \$250 billion in average total consolidated assets or (2) at least \$100 billion in average total consolidated assets and at least \$75 billion in average total nonbank assets, average weighted short-term wholesale funding; or average off-balance sheet exposure. In addition, depository institution subsidiaries of Category III institutions are considered Category III institutions.

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General Instructions for Schedule RC-R, Part I. (cont.)

supervisory authority may disallow the institution's use of the CBLR framework based on the supervisory authority's evaluation of the risk profile of the institution.

A qualifying institution with a leverage ratio that exceeds 9 percent and opts into the CBLR framework shall be considered to have met: (i) the generally applicable risk-based and leverage capital requirements in the agencies' capital rules; (ii) the capital ratio requirements to be considered well capitalized under the agencies' prompt corrective action (PCA) framework (in the case of insured depository institutions); and (iii) any other applicable capital or leverage requirements.¹

Ceasing to Have a CBLR Greater Than 9 Percent or Failing to Meet Any of the Qualifying Criteria – A qualifying institution that temporarily fails to meet any of the qualifying criteria, including the greater than 9 percent leverage ratio requirement, generally would still be deemed well-capitalized so long as the institution maintains a leverage ratio greater than 8 percent. At the end of the grace period (see below), the institution must meet all qualifying criteria to remain in the community bank leverage ratio framework or otherwise must apply and report under the generally applicable capital rule. Similarly, an institution with a leverage ratio of 8 percent or less is not eligible for the grace period and must comply with the generally applicable capital rule, i.e., for the calendar quarter in which the institution reports a leverage ratio of 8 percent or less, by completing all of Schedule RC-R, Parts I and II, excluding Schedule RC-R, Part I, items 32 through 38.c.

Under the CBLR framework, the grace period will begin as of the end of the calendar quarter in which the CBLR electing institution ceases to satisfy any of the qualifying criteria and will end after two consecutive calendar quarters. For example, if the CBLR electing institution no longer meets one of the qualifying criteria as of February 15, and still does not meet the criteria as of the end of that quarter, the grace period for such an institution will begin as of the end of the quarter ending March 31. The institution may continue to use the community bank leverage ratio framework as of June 30, but will need to comply fully with the generally applicable rule (including the associated Schedule RC-R reporting requirements) as of September 30, unless the institution once again meets all qualifying criteria of the CBLR framework, including a leverage ratio of greater than 9 percent, before that time.

Advanced approaches institutions: Advanced approaches institutions may use the amounts reported in Schedule RC-R, Part I, to complete the FFIEC 101, Schedule A, as applicable. As described in the General Instructions for the FFIEC 101, an institution must begin reporting on the FFIEC 101, Schedule A, except for a few specific line items, at the end of the quarter after the quarter in which the institution triggers one of the threshold criteria for applying the advanced approaches rule or elects to use the advanced approaches rule (an opt-in institution),² and it must begin reporting data on the remaining schedules of the FFIEC 101 at the end of the first quarter in which it has begun its parallel run period.

Advanced approaches institutions must continue to file Schedule RC-R, Regulatory Capital, as well as the FFIEC 101.

¹ See [12 CFR 3](#) (OCC); [12 CFR 217](#) (Board); [12 CFR 324](#) (FDIC).

² An institution is deemed to have elected to use the advanced approaches rule on the date that its primary federal supervisor receives from the institution a board-approved implementation plan pursuant to section 121(b)(2) of the regulatory capital rules. After that date, in addition to being required to report on the FFIEC 101, Schedule A, the institution may no longer apply the AOCI opt-out election in section 22(b)(2) of the regulatory capital rules and it becomes subject to the supplementary leverage ratio in section 10(c)(4) of the rules and its associated transition provisions.

Item Instructions for Schedule RC-R, Part I.**Item No. Caption and Instructions****Common Equity Tier 1 Capital**

- 1 Common stock plus related surplus, net of treasury stock and unearned employee stock ownership plan (ESOP) shares.** Report the sum of Schedule RC, items 24, 25, and 26.c, as follows:
- (1) Common stock: Report the amount of common stock reported in Schedule RC, item 24, provided it meets the criteria for common equity tier 1 capital based on the regulatory capital rules of the institution's primary federal supervisor. Include capital instruments issued by mutual banking organizations that meet the criteria for common equity tier 1 capital.
- (2) Related surplus: Adjust the amount reported in Schedule RC, item 25 as follows: include the net amount formally transferred to the surplus account, including capital contributions, and any amount received for common stock in excess of its par or stated value on or before the report date; exclude adjustments arising from treasury stock transactions.
- (3) Treasury stock, unearned ESOP shares, and any other contra-equity components: Report the amount of contra-equity components reported in Schedule RC, item 26.c. Because contra-equity components reduce equity capital, the amount reported in Schedule RC, item 26.c, is a negative amount.
- 2 Retained earnings.** Report the amount of the institution's retained earnings as reported in Schedule RC, item 26.a.

An institution that has adopted FASB [Accounting Standards Update No. 2016-13](#) (ASU 2016-13), which governs the accounting for credit losses and introduces the current expected credit losses methodology (CECL), and has elected to apply the CECL transition provision (CECL electing institution) should also include in this item its applicable CECL transitional amount, in accordance with section 301 of the regulatory capital rules. Specifically, a CECL electing institution includes 75 percent of its CECL transitional amount during the first year of the transition period, 50 percent of its CECL transitional amount during the second year of the transition period, and 25 percent of its CECL transitional amount during the third year of the transition period.

A CECL electing advanced approaches institution (1) that has completed the parallel run process and has received notification from its primary federal regulator pursuant to section 121(d) under subpart E of the regulatory capital rules, (2) whose amount of expected credit loss exceeded its eligible credit reserves immediately prior to the adoption of CECL, and (3) would have an increase in CET1 capital as of the beginning of the fiscal year in which it adopts CECL after including the first year portion of the CECL transitional amount must decrease its CECL transitional amount by its DTA transitional amount.

Example and a worksheet calculation:***Assumptions:***

- For example, consider an institution that elects to apply the CECL transition and that has a CECL effective date of January 1, 2020, and a 21 percent tax rate.
- On the closing balance sheet date immediately prior to adopting CECL (i.e., December 31, 2019), the CECL electing institution has \$10 million in retained earnings and \$1 million in the allowance for loan and lease losses. On the opening balance sheet date

Part I. (cont.)**Item No. Caption and Instructions**

- 2 (cont.) immediately after adopting CECL (i.e., January 1, 2020), the CECL electing institution has \$1.2 million in allowances for credit losses (ACL), which also equals \$1.2 million of adjusted allowances for credit losses (AACL), as defined in the regulatory capital rules.
- The CECL electing institution recognizes the effect of the adoption of CECL as of January 1, 2020, by recording an increase in its ACL of \$200,000 (credit), with an offsetting increase in temporary difference deferred tax assets (DTAs) of \$42,000 (debit) and a reduction in beginning retained earnings of \$158,000 (debit).
 - For each of the quarterly reporting periods in year 1 of the transition period (i.e., 2020), the CECL electing institution increases both retained earnings and average total consolidated assets by \$118,500 (\$158,000 x 75 percent), decreases temporary difference DTAs by \$31,500 (\$42,000 x 75 percent), and decreases AACL by \$150,000 (\$200,000 x 75 percent) for purposes of calculating its regulatory capital ratios. The remainder of the CECL transition provision of the CECL electing institution is transitioned into regulatory capital according to the schedule provided in Table 1 below.

Table 1 – Example of a CECL Transition Provision Schedule

Dollar Amounts in Thousands	Transitional Amounts	Transitional Amounts Applicable During Each Year of the Transition Period		
		Year 1 at 75%	Year 2 at 50%	Year 3 at 25%
	Column A	Column B	Column C	Column D
1. Increase retained earnings and average total consolidated assets by the CECL transitional amount	CECL transitional amount = \$158	\$118.50	\$79	\$39.50
2. Decrease temporary difference DTAs by the DTA transitional amount	DTA transitional amount = \$42	\$31.50	\$21	\$10.50
3. Decrease AACL by the AACL transitional amount	AACL transitional amount = \$200	\$150	\$100	\$50

2.a To be completed only by institutions that have adopted ASU 2016-13: Does your institution have a CECL transition election in effect as of the quarter-end report date?

An institution may make a one-time election to use the CECL transition provision, as described in section 301 of the regulatory capital rules. Such an institution is required to begin applying the CECL transition provision as of the institution's CECL adoption date. An institution must indicate its election to use the CECL transition provision beginning in the quarter that it first reports its credit loss allowances in the Call Report as measured under CECL. An institution that does not elect to use the CECL transition provision in the quarter that it first reports its credit loss allowances in the Call Report as measured under CECL would not be permitted to make an election in subsequent reporting periods. For example, an institution that adopts CECL as of January 1, 2020, and does not elect to use the CECL transition provision in its Call Report for the March 31, 2020, report date would not be permitted to use the CECL transition provision in any subsequent reporting period.

An institution that has adopted CECL and has elected to apply the CECL transition provision must enter "1" for "Yes" in item 2.a for each quarter in which the institution uses the transition provisions. An institution that has adopted CECL and has elected not to use the CECL transition provision must enter a "0" for "No" in item 2.a. An institution that has not adopted CECL must not complete item 2.a.

Part I. (cont.)**Item No. Caption and Instructions**

2.a Each institution should complete item 2.a beginning in the quarter that it first reports its credit loss allowances in the Call Report as measured under CECL and in each subsequent (cont.) Call Report thereafter until item 2.a is removed from the report. Effective December 31, 2026, item 2.a will be removed from Schedule RC-R, Part I, because the optional three-year phase-in period will have ended for all CECL electing institutions. If an individual CECL electing institution's three-year phase-in period ends before item 2.a is removed (e.g., its phase-in period ends December 31, 2022), the institution would report "0" in item 2.a to indicate that it no longer has a CECL transition election in effect.

3 **Accumulated other comprehensive income (AOCI).** Report the amount of AOCI as reported under U.S. generally accepted accounting principles (GAAP) that is included in Schedule RC, item 26.b.

3.a **AOCI opt-out election.**

(i) All institutions, except advanced approaches institutions

An institution that is not an advanced approaches institution may make a one-time election to become subject to the AOCI-related adjustments in Schedule RC-R, Part I, items 9.a through 9.e. That is, such an institution may opt out of the requirement to include most components of AOCI in common equity tier 1 capital (with the exception of accumulated net gains and losses on cash flow hedges related to items that are not recognized at fair value on the balance sheet). An institution that makes an AOCI opt-out election must enter "1" for "Yes" in this item 3.a.

Each institution (except an advanced approaches institution) in existence as of March 31, 2015, made its AOCI opt-out election on the institution's March 31, 2015, Call Report. For an institution that comes into existence after March 31, 2015, or becomes a non-advanced approaches institution, the institution must make its AOCI opt-out election in the first Call Report the institution files after the occurrence of this event. After an institution initially makes its AOCI opt-out election, the institution must report its election in each quarterly Call Report thereafter. Each of the institution's depository institution subsidiaries, if any, must elect the same option as the institution. With prior notice to its primary federal supervisor, an institution resulting from a merger, acquisition, or purchase transaction may make a new AOCI opt-out election, as described in section 22(b)(2) of the regulatory capital rules.

(ii) Institutions that do not make an AOCI opt-out election and all advanced approaches institutions:

An institution that does not make an AOCI opt-out election and enters "0" for "No" in this item 3.a and all advanced approaches institutions are subject to the AOCI-related adjustment in Schedule RC-R, Part I, item 9.f.

4 **Common equity tier 1 minority interest includable in common equity tier 1 capital.** Report the aggregate amount of common equity tier 1 minority interest, calculated as described below and in section 21 of the regulatory capital rules. Common equity tier 1 minority interest is the portion of common equity tier 1 capital in a reporting institution's subsidiary not attributable, directly or indirectly, to the parent institution. Note that a bank may only include common equity tier 1 minority interest if: (a) the subsidiary is a depository institution or a foreign bank; and (b) the capital instruments issued by the subsidiary meet all of the criteria for common equity tier 1 capital (qualifying common equity tier 1 capital instruments).

Part I. (cont.)**Item No. Caption and Instructions**

4 ***(i) All institutions, except advanced approaches institutions¹***
(cont.) In order to complete this item 4, institutions need to complete items 6 to 10 of Schedule RC-R, Part I. Non-advanced approaches institutions are able to include common equity tier 1 minority interest up to 10 percent of the parent banking organization's common equity tier 1 capital. The 10 percent limitation is measured before the inclusion of any minority interest and after the deductions from and adjustments to the regulatory capital of the parent banking organization described in sections 22(a) and (b) of the regulatory capital rules.

Example and a worksheet calculation for all institutions, except advanced approaches institutions: Calculate common equity tier 1 minority interest includable at the reporting institution's level as follows:

Assumptions:

- The parent banking organization's common equity tier 1 capital is \$100, it has two subsidiaries (subsidiary A and subsidiary B), and it has \$10 of common equity tier 1 capital adjustments and deductions;
- Subsidiary A has \$7 of common equity tier 1 minority interest (that is, owned by minority shareholders).
- Subsidiary B has \$5 of common equity tier 1 minority interest (that is, owned by minority shareholders).

(1)	Common Equity Tier 1 Capital Elements Before Minority Interest and Adjustments and Deductions = Schedule RC-R, Part I, sum of items 1, 2, and 3	\$100
(2)	Common Equity Tier 1 Capital: Adjustments and Deductions = Schedule RC-R, Part I, sum of items 6, 7, 8, 9.a through 9.f, 10.a, and 10.b	\$10
(3)	Subtract the amount in step (2) from the amount in step (1). This is the base to calculate the 10 percent limitation.	$\$100 - \$10 =$ $\$90$
(4)	Multiply step (3) by 10 percent. This is the maximum includable common equity tier 1 minority interest from all subsidiaries.	$\$90 \times 10\% =$ $\$9$
(5)	Determine the lower of (4) and the total common equity tier 1 minority interest from all subsidiaries. This is the "common equity tier 1 minority interest includable at the reporting institution's level" to be included in Schedule RC-R, Part I, item 4.	<i>Minimum of</i> <i>(\$9 from Step</i> <i>4 or \$12</i> <i>(\$7+\$5) from</i> <i>the</i> <i>assumptions)</i> <i>= \$9</i>

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for all institutions, except advanced approaches institutions) for purposes of reporting the amount of common equity tier 1 minority interest includable in common equity tier 1 capital in this item 4.

Part I. (cont.)**Item No. Caption and Instructions**

- 4** **(ii) *Advanced approaches institutions:***¹
(cont.) In general, the minority interest limitation applies only if a subsidiary has a surplus common equity tier 1 capital (that is, in excess of the subsidiary’s minimum capital requirements and the applicable capital conservation buffer).

Example and a worksheet calculation for advanced approaches institutions: For each consolidated subsidiary that is a depository institution or a foreign bank, calculate common equity tier 1 minority interest includable at the reporting institution’s level as follows:

Assumptions:

- For this example, assume that risk-weighted assets of the consolidated subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary (\$1,000);
- The subsidiary’s common equity tier 1 capital is \$80;
- The subsidiary’s common equity tier 1 minority interest (that is, owned by minority shareholders) is \$24.

(1)	Determine the risk-weighted assets of the subsidiary.	\$1,000
(2)	Using the standardized approach, determine the risk-weighted assets of the reporting institution that relate to the subsidiary depository institution. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	\$1,000
(3)	Determine the lower of (1) or (2), and multiply that amount by 7.0 percent. ²	$\$1,000 \times 7\% = \70
(4)	Determine the dollar amount of the subsidiary’s common equity tier 1 capital (assumed \$80 in this example). If this amount is less than step (3), include common equity tier 1 minority interest (assumed to be \$24 in this example) in Schedule RC-R, Part I, item 4. Otherwise, continue to step (5).	\$80
(5)	Subtract the amount in step (3) from the amount in step (4). This is the “surplus common equity tier 1 capital of the subsidiary.”	$\$80 - \$70 = \$10$
(6)	Determine the percent of the subsidiary’s common equity tier 1 capital owned by third parties (the minority shareholders).	$\$24/\$80 = 30\%$
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the “surplus common equity tier 1 minority interest of the subsidiary,” subject to the transition provisions below.	$30\% \times \$10 = \3
(8)	Subtract the amount in step (7) from the subsidiary’s common equity tier 1 minority interest.	$\$24 - \$3 = \$21$
(9)	This is the “common equity tier 1 minority interest includable at the reporting institution’s level” to be included in Schedule RC-R, Part I, item 4, for this subsidiary.	\$21

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of reporting the amount of common equity tier 1 minority interest includable in common equity tier 1 capital in this item 4. In addition, such non-advanced approaches institutions should apply the instructions below for the transition provision for surplus minority interest for the March 31, 2020, report date only.

² The percentage multiplier in step (3) is the capital ratio necessary for the depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this percentage to account for all the applicable buffers.

Part I. (cont.)**Item No. Caption and Instructions**

- 4** **FFIEC 031 only: Transition provision for surplus minority interest for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):**
(cont.)

A non-advanced approaches institution may include in common equity tier 1 capital, tier 1 capital, or total capital the percentage of the common equity tier 1 minority interest, tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that exceeds any common equity tier 1 minority interest, tier 1 minority interest or total capital minority interest includable under section 21 of the regulatory capital rules (surplus minority interest) as follows:

- (i) Determine the amounts of outstanding surplus minority interest (for the case of common equity tier 1, tier 1, and total capital).
- (ii) Multiply the amounts in (i) by 20 percent.
- (iii) Include the amounts in (ii) in the corresponding line items (that is, Schedule RC-R, Part I, item 4, item 22, or item 41).

In the worksheet calculation above, the transition provision for surplus minority interest would apply at step (7). Specifically, if the non-advanced approaches institution has \$3 of surplus common equity tier 1 minority interest of the subsidiary as of January 1, 2014, it may include \$0.60 (that is, \$3 multiplied by 20%) in Schedule RC-R, item 4, for the March 31, 2020, report date only.

- 5** **Common equity tier 1 capital before adjustments and deductions.** Report the sum of Schedule RC-R, Part I, items 1, 2, 3, and 4.

Common Equity Tier 1 Capital: Adjustments and Deductions**General Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions**

Note 1: As described in section 22(b) of the regulatory capital rules, regulatory adjustments to common equity tier 1 capital must be made net of associated deferred tax effects.

Note 2: As described in section 22(e) of the regulatory capital rules, netting of deferred tax liabilities (DTLs) against assets that are subject to deduction is permitted if the following conditions are met:

- (i) The DTL is associated with the asset;
- (ii) The DTL would be extinguished if the associated asset becomes impaired or is derecognized under GAAP; and
- (iii) A DTL can only be netted against a single asset.

The amount of deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and of DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks, net of any related valuation allowances, may be offset by DTLs (that have not been netted against assets subject to deduction) subject to the following conditions:

- (i) Only the DTAs and DTLs that relate to taxes levied by the same taxation authority and that are eligible for offsetting by that authority may be offset for purposes of this deduction.
- (ii) The amount of DTLs that the institution nets against DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and against DTAs arising from

Part I. (cont.)**General Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions (cont.)**

temporary differences that the institution could not realize through net operating loss carrybacks, net of any related valuation allowances, must be allocated in proportion to the amount of DTAs that arise from net operating loss and tax credit carryforwards (net of any related valuation allowances, but before any offsetting of DTLs) and of DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks (net of any related valuation allowances, but before any offsetting of DTLs), respectively.

An institution may offset DTLs embedded in the carrying value of a leveraged lease portfolio acquired in a business combination that are not recognized under GAAP against DTAs that are subject to section 22(a) of the regulatory capital rules in accordance with section 22(e).

An institution must net DTLs against assets subject to deduction in a consistent manner from reporting period to reporting period. An institution may change its DTL netting preference only after obtaining the prior written approval of the primary federal supervisor.

In addition, note that even though certain deductions may be net of associated DTLs, the risk-weighted portion of those items may not be reduced by the associated DTLs.

Item Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions**Item No. Caption and Instructions**

- 6** **LESS: Goodwill net of associated deferred tax liabilities (DTLs).** Report the amount of goodwill included in Schedule RC-M, item 2.b.

However, if the institution has a DTL that is specifically related to goodwill that it chooses to net against the goodwill, the amount of disallowed goodwill to be reported in this item should be reduced by the amount of the associated DTL.

If an advanced approaches institution has significant investments in the capital of unconsolidated financial institutions in the form of common stock, the institution should report in this item goodwill embedded in the valuation of a significant investment in the capital of an unconsolidated financial institution in the form of common stock (embedded goodwill). Such deduction of embedded goodwill would apply to investments accounted for under the equity method. Under GAAP, if there is a difference between the initial cost basis of the investment and the amount of underlying equity in the net assets of the investee, the resulting difference should be accounted for as if the investee were a consolidated subsidiary (which may include imputed goodwill).

- 7** **LESS: Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs.** Report all intangible assets (other than goodwill and MSAs) included in Schedule RC-M, item 2.c, that do not qualify for inclusion in common equity tier 1 capital based on the regulatory capital rules of the institution's primary federal supervisor. Generally, all purchased credit card relationships (PCCRs), nonmortgage servicing assets, and all other intangibles reported in Schedule RC-M, item 2.c, do not qualify for inclusion in common equity tier 1 capital and should be included in this item.

However, if the institution has a DTL that is specifically related to an intangible asset (other than goodwill and MSAs) that it chooses to net against the intangible asset for regulatory capital purposes, the amount of disallowed intangibles to be reported in this item should be

Part I. (cont.)**Item No. Caption and Instructions**

7 reduced by the amount of the associated DTL. Furthermore, a DTL that the institution chooses to net against the related intangible reported in this item may not also be netted against DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and DTAs that arise from temporary differences, net of any related valuation allowances, for regulatory capital purposes.

(cont.)

For state member banks, if the amount reported for other intangible assets in Schedule RC-M, item 2.c, includes intangible assets that were recorded on the reporting bank's balance sheet on or before February 19, 1992, the remaining book value as of the report date of these intangible assets may be excluded from this item.

8 **LESS: Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs.** Report the amount of DTAs that arise from net operating loss and tax credit carryforwards, net of associated valuation allowances and net of associated DTLs.

9 **AOCI-related adjustments.** Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and have not adopted [FASB Accounting Standards Update No. 2016-01](#) (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investment in mutual funds, and eliminates the concept of available-for-sale equity securities (see the Note preceding the instructions for Schedule RC, item 2.c) must complete Schedule RC-R, Part I, items 9.a through 9.e, only.

Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and have adopted ASU 2016-01 must complete Schedule RC-R, Part I, items 9.a and 9.c through 9.e, only.

Institutions that entered "0" for No in Schedule RC-R, Part I, item 3.a, must complete Schedule RC-R, Part I, item 9.f, only.

9.a **LESS: Net unrealized gains (losses) on available-for-sale securities.**

For institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and have not adopted ASU 2016-01 (as referenced in the instructions for item 9, above), report the amount of net unrealized gains (losses) on available-for-sale debt and equity securities, net of applicable income taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

For such institutions, include in this item net unrealized gains (losses) on available-for-sale debt and equity securities reported in Schedule RC-B, items 1 through 7, columns C and D, and on those assets not reported in Schedule RC-B, that the bank accounts for like available-for-sale debt securities in accordance with applicable accounting standards (e.g., negotiable certificates of deposit and nonrated industrial development obligations).

For institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and have adopted ASU 2016-01, report the amount of net unrealized gains (losses) on available-for-sale debt securities, net of applicable income taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

Part I. (cont.)**Item No. Caption and Instructions**

9.a For such institutions, include in this item net unrealized gains (losses) on available-for-sale debt securities reported in Schedule RC-B, items 1 through 6, columns C and D, and on those assets not reported in Schedule RC-B, that the bank accounts for like available-for-sale debt securities in accordance with applicable accounting standards (e.g., negotiable certificates of deposit and nonrated industrial development obligations).

NOTE: Schedule RC-R, Part I, item 9.b, is to be completed only by institutions that entered “1” for Yes in Schedule RC-R, Part I, item 3.a, and have not adopted ASU 2016-01 (as referenced in the instructions for Schedule RC-R, Part I, item 9, above).

Institutions that entered “1” for Yes in Schedule RC-R, Part I, item 3.a, and have adopted ASU 2016-01 should leave Schedule RC-R, Part I, item 9.b, blank.

9.b **LESS: Net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.** Report as a positive value the amount of any net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures, net of applicable income taxes, that is included in Schedule RC, item 26.b, “Accumulated other comprehensive income.” Available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures are reported in Schedule RC-B, item 7, columns C and D, and include investments in mutual funds.

9.c **LESS: Accumulated net gains (losses) on cash flow hedges.** Report the amount of accumulated net gains (losses) on cash flow hedges, net of applicable income taxes, that is included in Schedule RC, item 26.b, “Accumulated other comprehensive income.” The amount reported in Schedule RC-R, Part I, item 9.c, should include gains (losses) on cash flow hedges that are no longer effective but included in AOCI. If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

9.d **LESS: Amounts recorded in AOCI attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans.** Report the amounts recorded in AOCI, net of applicable income taxes, and included in Schedule RC, item 26.b, “Accumulated other comprehensive income,” resulting from the initial and subsequent application of ASC Topic 715, Compensation—Retirement Benefits (formerly FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”) to defined benefit postretirement plans (an institution may exclude the portion relating to pension assets deducted in Schedule RC-R, Part I, item 10.b). If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

9.e **LESS: Net unrealized gains (losses) on held-to-maturity securities that are included in AOCI.** Report the amount of net unrealized gains (losses) on held-to-maturity securities that is not credit-related, net of applicable taxes, and is included in AOCI as reported in Schedule RC, item 26.b, “Accumulated other comprehensive income.” If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

Include (i) the unamortized balance of the unrealized gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available-for-sale category, net of applicable income taxes, and (ii) the unaccreted portion of other-than-temporary impairment losses on available-for-sale and held-to-maturity debt securities that was not recognized in earnings in accordance with ASC Topic 320, Investments-Debt Securities (formerly FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”), net of applicable income taxes.

Part I. (cont.)**Item No. Caption and Instructions**

9.f To be completed only by institutions that entered “0” for No in in Schedule RC-R, Part I, item 3.a:

LESS: Accumulated net gain (loss) on cash flow hedges included in AOCI, net of applicable income taxes, that relates to the hedging of items that are not recognized at fair value on the balance sheet. Report the amount of accumulated net gain (loss) on cash flow hedges included in AOCI, net of applicable income taxes, that relates to the hedging of items that are not recognized at fair value on the balance sheet. If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

10 Other deductions from (additions to) common equity tier 1 capital before threshold-based deductions:

10.a LESS: Unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in own credit risk. Report the amount of unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in the institution’s own credit risk. If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

Advanced approaches institutions only: Include the credit spread premium over the risk-free rate for derivatives that are liabilities.

10.b LESS: All other deductions from (additions to) common equity tier 1 capital before threshold-based deductions. Report the amount of all other deductions from (additions to) common equity tier 1 capital that are not included in Schedule RC-R, Part I, items 1 through 9, as described below.

(1) After-tax gain-on-sale in connection with a securitization exposure. Include any after-tax gain-on-sale in connection with a securitization exposure. Gain-on-sale means an increase in the equity capital of an institution resulting from a securitization (other than an increase in equity capital resulting from the institution’s receipt of cash in connection with the securitization or reporting of a mortgage servicing asset on Schedule RC).

(2) Defined benefit pension fund net asset, net of associated DTLs. An institution that is not an insured depository institution should include any defined benefit pension fund net asset. This amount may be net of any associated DTLs in accordance with section 22(e) of the capital rules.

(3) Investments in the institution’s own shares to the extent not excluded as part of treasury stock. Include the institution’s investments in (including any contractual obligation to purchase) its own common stock instruments, including direct, indirect, and synthetic exposures to such capital instruments (as defined in the regulatory capital rules), to the extent such capital instruments are not excluded as part of treasury stock, reported in Schedule RC-R, Part I, item 1.

If an institution already deducts its investment in its own shares (for example, treasury stock) from its common equity tier 1 capital elements, it does not need to make such deduction twice.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty credit risk and all other criteria in section 22(h) of the regulatory capital rules are met.

Part I. (cont.)**Item No. Caption and Instructions**

10.b The institution must look through any holdings of index securities to deduct investments
(cont.) in its own capital instruments. In addition:

- (i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same underlying index;
- (ii) Short positions in index securities to hedge long cash or synthetic positions may be decomposed to recognize the hedge; and
- (iii) The portion of the index composed of the same underlying exposure that is being hedged may be used to offset the long position only if both the exposure being hedged and the short position in the index are covered positions under the market risk rule, and the hedge is deemed effective by the institution's internal control processes.

(4) Reciprocal cross-holdings in the capital of financial institutions in the form of common stock. Include investments in the capital of other financial institutions (in the form of common stock) that the institution holds reciprocally (this is the corresponding deduction approach). Such reciprocal crossholdings may result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

(5) Equity investments in financial subsidiaries. Include the aggregate amount of the institutions' outstanding equity investments, including retained earnings, in its financial subsidiaries (as defined in 12 CFR 5.39 (OCC); 12 CFR 208.77 (Board); and 12 CFR 362.17 (FDIC)). The assets and liabilities of financial subsidiaries may not be consolidated with those of the parent institution for regulatory capital purposes. No other deduction is required for these investments in the capital instruments of financial subsidiaries.

(6) Advanced approaches institutions only that exit parallel run.¹ Include the amount of expected credit loss that exceeds the institution's eligible credit reserves.

(7) Deductions for non-includable subsidiaries. A savings association that has a non-includable subsidiary must deduct its outstanding investments (both equity and debt) in, and extensions of credit to, the subsidiary in this item 10.b.

¹ An advanced approaches institution that exits the parallel run is an advanced approaches institution that has completed the parallel run process and that has received notification from the primary federal supervisor pursuant to section 121(d) of subpart E of the regulatory capital rules.

Part I. (cont.)**Item No. Caption and Instructions**

NOTE: On the FFIEC 031 for the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the [capital simplifications rule](#) in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the capital simplifications rule on April 1, 2020), must follow the instructions applicable to advanced approaches institutions in Schedule RC-R, Part I, items 11 through 19, subject to the transition provisions applicable to such non-advanced approaches institutions included in the instructions for these items; complete column B for Schedule RC-R, Part I, items 11 through 19; and not complete column A for these items.

11 LESS: Non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that exceed the 10 percent threshold for non-significant investments.

(i) All non-advanced approaches institutions (column A on the FFIEC 031):¹

Not applicable. Proceed to Schedule RC-R, Part I, item 12, (column A on the FFIEC 031,) to complete the subtotal calculation.

(ii) All advanced approaches institutions (column B on the FFIEC 031):¹

An institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution.

Report the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that, in the aggregate, exceed the 10 percent threshold for non-significant investments, calculated as described below. The institution may apply associated DTLs to this deduction.

Example and a worksheet calculation for all advanced approaches institutions:

Assumptions:

- Assume that an institution has a total of \$200 in non-significant investments in the capital of unconsolidated financial institutions, of which \$100 is in common shares. For this example, all of the \$100 in common shares is in the common stock of a publicly traded financial institution.
- Assume the amount reported in Schedule RC-R, Part I, item 5, “Common equity tier 1 capital before adjustments and deductions,” is \$1,000.
- Assume the amounts reported in Schedule RC-R, Part I, items 6 through 9.f, are all \$0.

¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11. In addition, non-advanced approaches institutions that file the FFIEC 031 and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020) should apply the instructions below for the transition provisions for investments in capital instruments for the March 31, 2020, report date only.

Part I. (cont.)**Item No. Caption and Instructions**

11
(cont.)

(1)	Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions (including in the form of common stock, additional tier 1, and tier 2 capital).	\$200
(2)	Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock.	\$100
(3)	Subtract from Schedule RC-R, Part I, item 5, the amounts in Schedule RC-R, Part I, items 6, 7, 8, 9, 10.a, and 10.b.	$\$1,000 - \$0 = \$1,000$
(4)	Multiply the amount in step (3) by 10 percent. This is “the ten percent threshold for non-significant investments.”	$\$1,000 \times 10\% = \100
(5)	If (1) is greater than (4), subtract (4) from (1) and multiply the result by the ratio of (2) divided by (1). Report this amount in this Schedule RC-R, Part I, item 11. If (1) is less than (4), enter zero in this item 11.	<i>Line (1) is greater than line (4); therefore, $\\$200 - \\$100 = \\$100$. Then $(\\$100 \times 100/200) = \\50. Report \$50 in this item 11.</i>
(6)	Assign the applicable risk weight to the amount of non-significant investments in the capital of unconsolidated financial institutions that does not exceed the ten percent threshold for non-significant investments.	<i>Of the \$100 in common shares, \$50 are deducted in this item 11. The remaining \$50 needs to be included in risk-weighted assets in Schedule RC-R, Part II. *</i>

* In this case (assuming that publicly traded equity exposures do not qualify for a 100 percent risk weight under section 52(b)(3)(iii) of the regulatory capital rules), $\$50 \times 300$ percent risk weight for publicly traded common shares under section 52(b)(5) of the capital rules = \$150 in risk weighted assets for the portion of common shares in an unconsolidated financial institution that are not deducted.

FFIEC 031 only: Transition provisions for investments in capital instruments for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

- (i) Calculate the amount as described in the instructions for this item 11.
- (ii) Multiply the amount in (i) by 80 percent. Report this product in this item 11.
In addition, for institutions that do not have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date:
- (iii) Subtract (ii) from (i); assign it the applicable risk weight; and report it in Schedule RC-R, Part II, as part of risk-weighted assets.

Part I. (cont.)**Item No. Caption and Instructions****12 Subtotal.*****(i) All non-advanced approaches institutions (column A on the FFIEC 031):¹***

Report the amount in Schedule RC-R, Part I, item 5, less the amounts in Schedule RC-R, Part I, items 6 through 10.b.

This subtotal will be used in Schedule RC-R, Part I, items 13 through 15 on the FFIEC 041; items 13.a, 14.a, and 15.a on the FFIEC 031, to calculate the amounts of items subject to the 25 percent common equity tier 1 capital threshold deductions (threshold items):

- (i) Investments in the capital of unconsolidated financial institutions, net of associated DTLs,
- (ii) MSAs, net of associated DTLs; and
- (iii) DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs.

(ii) All advanced approaches institutions (column B on the FFIEC 031):¹

Report the amount in Schedule RC-R, Part I, item 5, less the amounts in Schedule RC-R, Part I, items 6 through 11.

This subtotal will be used in Schedule RC-R, Part I, items 13.b, 14.b, 15.b, and 16, to calculate the amounts of items subject to the 10 and 15 percent common equity tier 1 capital threshold deductions (threshold items):

- (i) Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs,
- (ii) MSAs, net of associated DTLs; and
- (iii) DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs.

FFIEC 041 FFIEC 031**Item No. Item No. Caption and Instructions**

NOTE: On the FFIEC 041, item 13 is to be completed by all reporting institutions. On the FFIEC 031, item 13.a is to be completed only by non-advanced approaches institutions.¹

13 13.a LESS: Investments in the capital of unconsolidated financial institutions, net of associated DTLs, that exceed 25 percent of item 12.

Items that are not deducted from the appropriate capital tier are risk-weighted based on the exposure in Schedule RC-R, Part II, except for institutions under the community bank leverage ratio (CBLR) framework. Institutions have the flexibility when deciding which investments in the capital of unconsolidated financial institutions to risk weight and which to deduct.

¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

Item No.	Item No.	Caption and Instructions
13 (cont.)	13.a (cont.)	<p>Report the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs, that exceed the 25 percent common equity tier 1 capital deduction threshold, calculated as follows:</p> <ol style="list-style-type: none"> (1) Determine the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs. (2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12, (column A on the FFIEC 031), report the difference across item 13 on the FFIEC 041 or item 13.a on the FFIEC 031, as applicable; item 24; or item 45 of Schedule RC-R, Part I, depending on the tier of capital for which the investments in the capital of unconsolidated financial institutions qualify. As mentioned above, the institution can elect which investments it must deduct and which it must risk weight. The institution's election and the component of capital for which the underlying instrument would qualify will determine if the instrument will be deducted and reported in item 13 on the FFIEC 041 or item 13.a on the FFIEC 031, as applicable, or be deducted and reported in item 24 or item 45. (3) If the amount in (1) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12 (column A on the FFIEC 031), report zero in this item 13 on the FFIEC 041; item 13.a on the FFIEC 031.

If the institution included embedded goodwill in Schedule RC-R, Part I, item 6, to avoid double counting, the institution may net such embedded goodwill already deducted against the exposure amount of the investment. For example, if an institution has deducted \$10 of goodwill embedded in a \$100 investment in the capital of an unconsolidated financial institution, the institution would be allowed to net such embedded goodwill against the exposure amount of such investment (that is, the value of the investment would be \$90 for purposes of the calculation of the amount that would be subject to deduction).

Example and a worksheet calculation:*Assumptions:*

For example, assume that an institution:

- has \$20 of total investments in the capital of unconsolidated financial institutions,
- of that \$20, \$9 are investments in common equity tier 1 capital instruments, \$7 are investments in additional tier 1 capital instruments, and \$4 are investments in tier 2 capital instruments,
- has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12 (column A on the FFIEC 031) of \$60
- has total additional tier 1 capital of \$20
- has total tier 2 capital of \$3

Part I. (cont.)

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

13 (cont.) **13.a** (cont.)

(1)	Total investments in the capital of unconsolidated financial institutions	\$20
(2)	Multiply the total common equity tier 1 capital subtotal by 25 percent.	\$60 x 25% = \$15
(3)	Determine if (1) is greater than (2), and if so, the difference between (1) and (2) must be deducted from regulatory capital.	\$20 > \$15, so the amount deducted is \$20-\$15 = \$5
(4)	The amount of investments deducted from regulatory capital can be deducted from the corresponding total amounts of regulatory capital held by the institution that meet each type of capital, as an institution chooses.	Total of \$5 must be deducted from regulatory capital. Of that, \$3 will be deducted from the institution's \$3 of tier 2 capital, and \$2 will be deducted from the institution's \$20 of additional tier 1 capital. No deduction from common equity tier 1 will be reported in this item 13 on the FFIEC 041; item 13.a on the FFIEC 031.

Since the community bank leverage ratio framework does not have a total capital requirement, a CBLR electing institution is neither required to calculate tier 2 capital nor make any deductions that would have been taken from tier 2 capital under the generally applicable rule. Therefore, if a CBLR electing institution has investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital of the CBLR electing institution under the generally applicable rule (tier 2 qualifying investments), and the institution's total investments in the capital of unconsolidated financial institutions exceed the threshold for deduction, the institution is not required to deduct the tier 2 qualifying investments.

Example for a CBLR electing institution and a worksheet calculation:

Assumptions:

For example, assume that a CBLR electing institution:

- has \$20 of total investments in the capital of unconsolidated financial institutions,
- of that \$20, \$15 are investments in tier 1 capital instruments, and \$5 are investments in tier 2 capital instruments,
- has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12 (column A on the FFIEC 031) of \$60

Part I. (cont.)

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

13 **13.a**
(cont.) (cont.)

(1)	Total investments in the capital of unconsolidated financial institutions	\$20
(2)	Multiply the total common equity tier 1 capital subtotal by 25 percent.	\$60 x 25% = \$15
(3)	Determine if (1) is greater than (2), and if so, the difference between (1) and (2) must be deducted from regulatory capital.	\$20 > \$15, so the amount deducted is \$20-\$15 = \$5
(4)	The amount of investments deducted from regulatory capital can be deducted from the corresponding total amounts of regulatory capital held by the institution that meet each type of capital, as an institution chooses.	<i>Total of \$5 must be deducted from regulatory capital. Since institutions have the flexibility to choose which items are deducted, they can elect to allocate the tier 1 investments first. As a result, the remaining investment that exceeds the threshold would be tier 2 instruments. Therefore, since CBLR electing institutions are not required to make tier 2 deductions, no deduction is necessary.</i>

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

NOTE: On the FFIEC 031, item 13.b is to be completed only by advanced approaches institutions.¹ Item 13.b is not applicable to institutions that file the FFIEC 041.

- **13.b** **LESS: Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.**

An institution has a significant investment in the capital of an unconsolidated financial institution when it owns more than 10 percent of the issued and outstanding common shares of that institution.

Report the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold, calculated as follows:

¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

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| - | 13.b
(cont.) | <p>(1) Determine the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs.</p> <p>(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, Part I, item 12, column B, report the difference in this item 13.b.</p> <p>(3) If the amount in (1) is less than 10 percent of Schedule RC-R, Part I, item 12, column B, report zero in this item 13.b.</p> |
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If the institution included embedded goodwill in Schedule RC-R, Part I, item 6, to avoid double counting, the institution may net such embedded goodwill already deducted against the exposure amount of the significant investment. For example, if an institution has deducted \$10 of goodwill embedded in a \$100 significant investment in the capital of an unconsolidated financial institution in the form of common stock, the institution would be allowed to net such embedded goodwill against the exposure amount of such significant investment (that is, the value of the investment would be \$90 for purposes of the calculation of the amount that would be subject to deduction).

For advanced approaches institutions (but not for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020), apply a 250 percent risk weight to the aggregate amount of the items subject to the 10 and 15 percent common equity tier 1 capital deduction thresholds that are not deducted from common equity tier 1 capital, without regard to any associated DTLs. Report this amount in Schedule RC-R, Part II, item 2.b, 7, or 8, as appropriate.

FFIEC 031 only: Transition provisions for items subject to the threshold deductions for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

- (i) Calculate the amount as described in the instructions for this item 13.b.
- (ii) Multiply the amount in (i) by 80 percent. Report this product in this item 13.b. In addition, for institutions that do not have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date:
- (iii) Subtract the amount in (ii) from the amount in (i), without regard to any associated DTLs; assign it a 100 percent risk weight in accordance with transition provisions in section 300 of the regulatory capital rules. Report this amount in Schedule RC-R, Part II, item 2.b, 7, or 8, as appropriate.

NOTE: On the FFIEC 041, item 14 is to be completed by all reporting institutions. On the FFIEC 031, item 14.a is to be completed only by non-advanced approaches institutions.¹

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| 14 | 14.a | <p><u>LESS: MSAs, net of associated DTLs, that exceed 25 percent of item 12.</u>
Report the amount of MSAs included in Schedule RC-M, item 2.a, net of associated DTLs, that exceed the 25 percent common equity tier 1 capital deduction threshold as follows:</p> |
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¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

Part I. (cont.)

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

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| <p>14
(cont.)</p> | <p>14.a
(cont.)</p> | <p>(1) Take the amount of MSAs as reported in Schedule RC-M, item 2.a, net of associated DTLs.</p> <p>(2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12, (column A on the FFIEC 031), report the difference in this item 14 on the FFIEC 041; item 14.a on the FFIEC 031.</p> <p>(3) If the amount in (1) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12 (column A on the FFIEC 031), enter zero in this item 14 on the FFIEC 041; item 14.a on the FFIEC 031.</p> |
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All institutions must apply a 250 percent risk-weight to MSAs that are not deducted from common equity tier 1 capital, without regard to any associated DTLs, except for institutions that are subject to the community bank leverage ratio (CBLR) framework.

Example and a worksheet calculation:

Assumptions:

For example, assume that an institution:

- Has \$20 of MSAs, net of associated DTLs, and
- Has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12, (column A on the FFIEC 031) of \$60.

(1)	Total amount of MSAs, net of associated DTLs	\$20
(2)	Multiply the total common equity tier 1 capital subtotal by 25 percent.	$\$60 \times 25\% = \15
(3)	Determine if (1) is greater than (2), and if so, the difference between (1) and (2) must be deducted from regulatory capital.	$\$20 > \15 , so the amount deducted is $\$20 - \$15 = \$5$

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

NOTE: On the FFIEC 031, item 14.b is to be completed only by advanced approaches institutions.¹ Item 14.b is not applicable to institutions that file the FFIEC 041.

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| <p>-</p> | <p>14.b</p> | <p><u>LESS: MSAs, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.</u> Report the amount of MSAs included in Schedule RC-M, item 2.a, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold as follows:</p> <p>(1) Take the amount of MSAs as reported in Schedule RC-M, item 2.a, net of associated DTLs.</p> <p>(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, Part I, item 12 (column B on the FFIEC 031), report the difference in this item 14.b.</p> <p>(3) If the amount in (1) is less than or equal to 10 percent of Schedule RC-R, Part I, item 12 (column B on the FFIEC 031), enter zero in this item 14.b.</p> |
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¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

- (cont.) **14.b** (cont.) For advanced approaches institutions (but not for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020), apply a 250 percent risk-weight to MSAs that are not deducted from common equity tier 1 capital, without regard to any associated DTLs.

Example and a worksheet calculation:*Assumptions:*

For example, assume that an institution:

- Has \$20 of MSAs, net of associated DTLs, and
- Has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12, (column B on the FFIEC 031) of \$60.

(1)	Total amount of MSAs, net of associated DTLs	\$20
(2)	Multiply the total common equity tier 1 capital subtotal by 10 percent.	$\$60 \times 10\% = \6
(3)	Determine if (1) is greater than (2), and if so, the difference between (1) and (2) must be deducted from regulatory capital.	$\$20 > \6 , so the amount deducted is $\$20 - \$6 = \$14$

FFIEC 031 only: Transition provisions for items subject to the threshold deductions for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

Such institutions should follow the transition provisions in the instructions for Schedule RC-R, Part I, item 13.b (that is, apply 80 percent of the deduction and a 100 percent risk weight to the portion of items not deducted).

NOTE: On the FFIEC 041, item 15 is to be completed by all reporting institutions. On the FFIEC 031, item 15.a is to be completed only by non-advanced approaches institutions.¹

15 15.a LESS: DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed 25 percent of item 12.

- (1) Determine the amount of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowances and net of associated DTLs (for example, DTAs resulting from the institution's allowance for loan and lease losses (ALLL) or allowances for credit losses (ACL), as applicable).
- (2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12 (column A on the FFIEC 031), report the difference in this item 15 on the FFIEC 041; item 15.a on the FFIEC 031.
- (3) If the amount in (1) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12 (column A on the FFIEC 031), enter zero in this item 15 on the FFIEC 041; item 15.a on the FFIEC 031.

¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

Part I. (cont.)

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

15 (cont.) **15.a** (cont.) DTAs arising from temporary differences that could be realized through net operating loss carrybacks are not subject to deduction, and instead must be assigned to a 100 percent risk-weight category. For an institution that is a member of a consolidated group for tax purposes, the amount of DTAs that could be realized through net operating loss carrybacks may not exceed the amount that the institution could reasonably expect to have refunded by its parent holding company.

All institutions must apply a 250 percent risk-weight to DTAs arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from common equity tier 1 capital, without regard to any associated DTLs, except for institutions subject to the community bank leverage ratio (CBLR) framework.

Example and a worksheet calculation:

Assumptions:

For example, assume that an institution:

- Has \$20 of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of associated DTLs, and
- Has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12, (column A on the FFIEC 031) of \$60.

(1)	Total amount of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of associated DTLs.	\$20
(2)	Multiply the total common equity tier 1 capital subtotal by 25 percent.	\$60 x 25% = \$15
(3)	Determine if (1) is greater than (2), and if so, the difference between (1) and (2) must be deducted from regulatory capital.	\$20 > \$15, so the amount deducted is \$20-\$15 = \$5

NOTE: On the FFIEC 031, item 15.b is to be completed only by advanced approaches institutions.¹ Item 15.b is not applicable to institutions that file the FFIEC 041.

- **15.b** **LESS: DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.**

- (1) Determine the amount of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of associated DTLs (for example, DTAs resulting from the institution’s allowance for loan and lease losses (ALLL) or allowances for credit losses (ACL), as applicable).
- (2) If the amount in (1) is greater than 10 percent of Schedule RC-R, Part I, item 12 (column B on the FFIEC 031), report the difference in this item 15.b.
- (3) If the amount in (1) is less than 10 percent of Schedule RC-R, Part I, item 12 (column B on the FFIEC 031), enter zero in this item 15.b.

¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

- **15.b**
(cont.) DTAs arising from temporary differences that could be realized through net operating loss carrybacks are not subject to deduction, and instead must be assigned to a 100 percent risk-weight category. For an institution that is a member of a consolidated group for tax purposes, the amount of DTAs that could be realized through net operating loss carrybacks may not exceed the amount that the institution could reasonably expect to have refunded by its parent holding company.

For advanced approaches institutions (but not for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020), apply a 250 percent risk weight to DTAs arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from common equity tier 1 capital, without regard to any associated DTLs

Example and a worksheet calculation:***Assumptions:***

For example, assume that an institution:

- Has \$20 of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowances and net of associated DTLs, and
- Has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12, (column B on the FFIEC 031) of \$60.

(1)	Total amount of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowances and net of associated DTLs.	\$20
(2)	Multiply the total common equity tier 1 capital subtotal by 10 percent.	$\$60 \times 10\% = \6
(3)	Determine if (1) is greater than (2), and if so, the difference between (1) and (2) must be deducted from regulatory capital.	$\$20 > \6 , so the amount deducted is $\$20 - \$6 = \$14$

FFIEC 031 only: Transition provisions for items subject to the threshold deductions for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

Such institutions should follow the transition provisions in the instructions for Schedule RC-R, Part I, item 13.b (that is, apply 80 percent of the deduction and a 100 percent risk weight to the portion of items not deducted).

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

NOTE: On the FFIEC 031, item 16 is to be completed only by advanced approaches institutions.¹
Item 16 is not applicable to institutions that file the FFIEC 041.

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| - | 16 | <p><u>LESS: Amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs; that exceeds the 15 percent common equity tier 1 capital deduction threshold.</u></p> |
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The aggregate amount of the threshold items (that is, significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs) may not exceed 15 percent of the institution's common equity tier 1 capital, net of applicable adjustments and deductions (the 15 percent common equity tier 1 capital deduction threshold).

Non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020) should follow the instructions below (after the example and a worksheet calculation for advanced approaches institutions) for calculation of the amount to be reported in this item 16, which includes the transition provisions for items subject to the threshold deductions and an example and a worksheet calculation.

Example and a worksheet calculation for advanced approaches institutions:

Assumptions:

- The amount reported in Schedule RC-R, Part I, item 12 (column B on the FFIEC 031) is \$130. (This amount is common equity tier 1 capital after all deductions and adjustments, except for the deduction of the threshold items).
- Assume that the associated DTLs are zero; also assume the following balance sheet amounts prior to deduction of these items:
 - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = \$10
 - MSAs net of associated DTLs = \$20
 - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = \$30.

¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

Part I. (cont.)

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

- **16**
(cont.)

(1)	Aggregate amount of threshold items before deductions Enter the sum of:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs (Schedule RC-R, Part I, item 13.b, step 1);	\$10
	b. MSAs net of associated DTLs (Schedule RC-R, Part I, item 14.b, step 1); and	\$20
	c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs (Schedule RC-R, Part I, item 15.b, step 1).	\$30
	d. Total of a, b, and c:	\$60
(2)	The 10 percent common equity tier 1 capital deduction threshold	
	Multiply the amount reported in Schedule RC-R, Part I, item 12, column B, by 10 percent.	$\$130 \times 10\% = \13
(3)	Amount of threshold items deducted as a result of the 10 percent common equity tier 1 capital deduction threshold	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs (as reported in Schedule RC-R, Part I, item 13.b)	\$0
	b. MSAs net of associated DTLs (as reported in Schedule RC-R, Part I, item 14.b)	$\$20 - \$13 = \$7$
	c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs (as reported in Schedule RC-R, Part I, item 15.b)	$\$30 - \$13 = \$17$
(4)	Sum of threshold items not deducted as a result of the 10 percent common equity tier 1 capital deduction threshold Enter the sum of:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs that are not deducted (that is, the difference between the amount in step (1)(a) of this table and step 3(a) of this table)	\$10
	b. MSAs that are not deducted (that is, the difference between the amount in step (1)(b) of this table and step 3(b) of this table)	$\$20 - \$7 = \$13$
	c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs that are not deducted (that is, the difference between the amount in step (1)(c) of this table and step (3)(c) of this table)	$\$30 - \$17 = \$13$
	d. Total of a, b, and c	$\$10 + 13 + \$13 = \$36$

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

- **16**
(cont.)

(5)	The 15 percent common equity tier 1 capital deduction threshold Calculate as follows:	
	a. Subtract the amount calculated in step (1.d) of this table from Schedule RC-R, Part I, item 12, column B; b. Multiply the resulting amount by 17.65 percent	$(\$130 - \$60) \times 17.65\% = \$12.36$ <i>Rounds to \$12</i>
(6)	Amount of threshold items that exceed the 15 percent common equity tier 1 capital deduction threshold Report as follows:	
	a. If the amount in step (4.d) is greater than the amount in step (5), then subtract (5) from (4.d) and report this number in Schedule RC-R, Part I, item 16. (In addition, the institution must risk-weight the items that are not deducted at 250 percent in the risk-weighted asset section of this form.) b. If the amount in step (4.d) is less than the amount in step (5) amount, report zero in Schedule RC-R, Part I, item 16.	<i>The amount in step (4.d) (\$36) is greater than the amount in step 3 (\$12). Therefore: \$36 - \$12 = \$24</i>
(7)	If the amount in step (6) is above zero, then pro-rate the threshold items' deductions as follows:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock: multiply (6.a) by the ratio of (1.a) over (1.d). b. MSAs net of associated DTAs: multiply (6.a) by the ratio of (1.b) over (1.d). c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks: multiply (6.a) by the ratio of (1.c) over (1.d).	a. $\$12 \times (10/60) = \2 b. $\$12 \times (20/60) = \4 c. $\$12 \times (30/60) = \6 .

FFIEC 031 only: Transition provisions for items subject to the threshold deductions for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

Calculate the amount to be reported in this item 16 as follows:

- (i) Calculate the aggregate amount of the threshold items before deductions:
 - a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs (Schedule RC-R, Part I, item 13.b step 1);
 - b. MSAs, net of associated DTLs (Schedule RC-R, Part I, item 14.b, step 1); and
 - c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs (Schedule RC-R, Part I, item 15.b, step 1).
- (ii) Multiply the amount in Schedule RC-R, Part I, item 12, column B, "Subtotal," by 15 percent. This is *the 15 percent common equity deduction threshold for transition purposes.*

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

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| - | 16
(cont.) | <p>(iii) Sum up the amounts that would have been reported in Schedule RC-R, Part I, items 13.b, 14.b, and 15.b, prior to applying the transition provisions (that is, as if the 10 percent common equity tier 1 capital deduction threshold were fully phased in).</p> <p>(iv) Deduct (iii) from (i).</p> <p>(v) Deduct (ii) from (iv). If this amount is negative, enter zero in this item 16.</p> <p>(vi) Multiply the amount in (v) by 80 percent. Report the resulting amount in this item 16.</p> |
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Example and a worksheet calculation for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020:

Assume the following balance sheet amounts prior to deduction of these items:

- Common equity tier 1 capital subtotal amount reported in Schedule RC-R, Part I, item 12, column B = \$100
- Significant investments in the common shares of unconsolidated financial institutions, net of associated DTLs = \$15
- MSAs, net of associated DTLs = \$7
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs = \$6
- Amount of each item that exceeds the 10 percent common equity tier 1 capital deduction threshold (as if the amounts subject to the 10% limit were fully phased in):
 - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = \$5 (amount that would have been reported in Schedule RC-R, Part I, item 13.b, if the amount were fully phased in)
 - MSAs net of associated DTLs = \$0 (amount that would have been reported in Schedule RC-R, Part I, item 14, if the amount were fully phased in)
 - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = \$0 (amount that would have been reported in Schedule RC-R, Part I, item 15, if the amount were fully phased in).

Calculation steps:

- (i) Sum of the significant investments in the common shares of unconsolidated financial institutions, MSAs, and DTAs (all net of associated DTLs) before deductions: $\$15 + \$7 + \$6 = \28
- (ii) 15% percent of the amount from Schedule RC-R, Part I, item 12: $15\% \times \$100 = \15
- (iii) Sum of the amounts that would have been reported in Schedule RC-R, Part I, items 13.b, 14.b, and 15.b, if the amounts subject to the 10 percent common equity tier 1 capital deduction threshold were fully phased in: \$5
- (iv) Deduct the amount in step (iii) from the amount in step (i): $\$28 - \$5 = \$23$ (This is the amount of these three items that remains after the 10 percent deductions are taken.)
- (v) Deduct the amount in step (ii) from the amount in step (iv): $\$23 - \$15 = \$8$ (This is an additional deduction that must be taken).
- (vi) Multiply the amount in step (v) by 80 percent: $\$8 \times 80\% = \6.40
Report \$6.40 in this item 16.

FFIEC 041 and
FFIEC 031**Item No.** **Caption and Instructions****17** **LESS: Deductions applied to common equity tier 1 capital due to insufficient amounts of additional tier 1 capital and tier 2 capital to cover deductions.*****(i) All non-advanced approaches institutions (column A on the FFIEC 031):¹***

Report the total amount of deductions related to investments in own additional tier 1 and tier 2 capital instruments, reciprocal cross-holdings, and investments in the capital of unconsolidated financial institutions if the reporting institution does not have a sufficient amount of additional tier 1 capital before deductions (reported in Schedule RC-R, Part I, item 23) and tier 2 capital before deductions (reported in Schedule RC-R, Part I, item 44 on the FFIEC 041; item 44.a on the FFIEC 031) to absorb these deductions in Schedule RC-R, Part I, items 24 or 45, as appropriate.

Since the community bank leverage ratio (CBLR) framework does not have a total capital requirement, a CBLR electing institution is neither required to calculate tier 2 capital nor make any deductions that would have been taken from tier 2 capital under the generally applicable capital rule. Therefore, if a CBLR electing institution has investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital of the CBLR electing institution under the generally applicable capital rule (tier 2 qualifying investments), and the institution's total investments in the capital of unconsolidated financial institutions exceed the threshold for deduction, the institution is not required to deduct the tier 2 qualifying investments.

(ii) All advanced approaches institutions (column B on the FFIEC 031):¹

Report the total amount of deductions related to investments in own additional tier 1 and tier 2 capital instruments, reciprocal cross holdings, investments in the capital of unconsolidated financial institutions if the reporting institution does not have a sufficient amount of additional tier 1 capital before deductions (reported in Schedule RC-R, Part I, item 23) and tier 2 capital before deductions (reported in Schedule RC-R, Part I, items 44.a and 44.b) to absorb these deductions in Schedule RC-R, Part I, items 24 or 45, as appropriate.

A CBLR electing institution that is a non-advanced approaches institution that chooses not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020) should follow the instructions above in this item 17 that apply to a CBLR electing institution that has tier 2 qualifying investments.

18 **Total adjustments and deductions for common equity tier 1 capital.** Report the sum of Schedule RC-R, Part I, items 13 through 17.**19** **Common equity tier 1 capital.** Report Schedule RC-R, Part I, item 12 less item 18. Except for a CBLR electing institution under the community bank leverage ratio framework, the amount reported in this item is the numerator of the institution's common equity tier 1 risk-based capital ratio.

¹ Non-advanced approaches institutions that file the FFIEC 031 should refer to the NOTE before the instructions for Schedule RC-R, Part I, item 11.

Part I. (cont.)**Item No. Caption and Instructions****Additional Tier 1 Capital**

- 20** **Additional tier 1 capital instruments plus related surplus.** Report the portion of noncumulative perpetual preferred stock and related surplus included in Schedule RC, item 23, and any other capital instrument and related surplus that satisfy all the eligibility criteria for additional tier 1 capital instruments in section 20(c) of the regulatory capital rules of the institution's primary federal supervisor.

Include instruments that (i) were issued under the Small Business Jobs Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) were included in the tier 1 capital under the primary federal supervisor's general risk-based capital rules (for example, tier 1 instruments issued under the TARP program that are grandfathered permanently). Also include additional tier 1 capital instruments issued as part of an ESOP, provided that the repurchase of such instruments is required solely by virtue of ERISA for an institution that is not publicly-traded.

- 21** **Non-qualifying capital instruments subject to phase-out from additional tier 1 capital.** Report the amount of non-qualifying capital instruments that may not be included in additional tier 1 capital, as described in Schedule RC-R, Part I, item 20, and that is subject to phase-out from additional tier 1 capital.

Depository institutions may include in regulatory capital debt or equity instruments issued prior to September 12, 2010, that do not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the regulatory capital rules but that were included in tier 1 or tier 2 capital, respectively, as of September 12, 2010 (non-qualifying capital instruments issued prior to September 12, 2010) up to the percentage of the outstanding principal amount of such non-qualifying capital instruments as of January 1, 2014, in accordance with Table 2 below.

The amount of non-qualifying capital instruments that is excluded from additional tier 1 capital in accordance with Table 2 may be included in tier 2 capital (in Schedule RC-R, Part I, item 40) without limitation, provided the instruments meet the criteria for tier 2 capital set forth in section 20(d) of the regulatory capital rules.

Transition provisions for non-qualifying capital instruments includable in additional tier 1 or tier 2 capital:

Table 2 applies separately to additional tier 1 and tier 2 non-qualifying capital instruments. For example, an institution that has \$100 in non-qualifying tier 1 instruments may include up to \$20 in additional tier 1 capital in 2020, and \$10 in 2021. If that same institution has \$100 in non-qualifying tier 2 instruments, it may include up to \$20 in tier 2 capital in 2020 and \$10 in 2021.

If the institution is involved in a merger or acquisition, it should treat its non-qualifying capital instruments following the requirements in section 300 of the regulatory capital rules.

Part I. (cont.)**Item No. Caption and Instructions**21
(cont.)**Table 2 – Percentage of non-qualifying capital instruments includable in additional tier 1 or tier 2 capital during the transition period**

Transition period	Percentage of non-qualifying capital instruments includable in additional tier 1 or tier 2 capital
Calendar year 2015	70
Calendar year 2016	60
Calendar year 2017	50
Calendar year 2018	40
Calendar year 2019	30
Calendar year 2020	20
Calendar year 2021	10
Calendar year 2022 and thereafter	0

22 **Tier 1 minority interest not included in common equity tier 1 capital.** Report the amount of tier 1 minority interest not included in common equity tier 1 capital that is includable at the consolidated level, calculated as described below and in section 21 of the regulatory capital rules.

(i) All institutions, except advanced approaches institutions:¹

Non-advanced approaches institutions are able to include tier 1 minority interest up to 10 percent of the parent banking organization's tier 1 capital. The 10 percent limitation is measured before the inclusion of any minority interest and after the deductions from and adjustments to the regulatory capital of the parent banking organization described in sections 22(a) and (b) of the capital rule. Tier 1 minority interest is the portion of tier 1 capital in a reporting institution's subsidiary not attributable, directly or indirectly, to the parent institution. Note that an institution may only include tier 1 minority interest if the capital instruments issued by the subsidiary meet all of the criteria for tier 1 capital (qualifying tier 1 capital instruments).

Example and a worksheet calculation for non-advanced approaches institutions:

Calculate tier 1 minority interest not included in common equity tier 1 minority interest includable at the reporting institution's level as follows:

Assumptions:

- This is a continuation of the example for all institutions, except advanced approaches institutions, used in the instructions for Schedule RC-R, Part I, item 4.
- Assumptions and calculation from Schedule RC-R, Part I, item 4:
 - The parent banking organization's common equity tier 1 before minority interest and common equity tier 1 capital adjustments and deductions is \$100.
 - Common equity tier 1 capital adjustments and deductions is \$10.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for all institutions, except advanced approaches institutions) for purposes of reporting the amount of tier 1 minority interest not included in common equity tier 1 capital in this item 22.

Part I. (cont.)**Item No. Caption and Instructions**

- 22** (cont.)
- The parent banking organization's additional tier 1 capital instruments before minority interest and additional tier 1 deductions equal \$15.
 - Additional tier 1 capital deductions equal \$4.
 - Subsidiary A has \$6 of additional tier 1 minority interest (that is, owned by minority shareholders).
 - Subsidiary B has \$6 of additional tier 1 minority interest (that is, owned by minority shareholders).
 - The subsidiary's tier 1 minority interest (that is, owned by minority shareholders) is \$24 (\$12 of common equity tier 1 minority interest and \$12 of minority interest in the form of additional tier 1 instruments).

(1)	Common equity tier 1 capital before CET1 minority interest + Additional tier 1 capital instruments before minority interest - additional tier 1 capital deductions = Schedule RC-R, Part I, sum of items 19, 20, and 21, minus item 4 minus item 24.	$\$90 + \$15 - \$4 = \101
(2)	Multiply step (1) by 10 percent. This is the maximum includable tier 1 minority interest from all subsidiaries.	$\$101 \times 10\% = \10.1
(3)	Determine the lower of (2) or the tier 1 minority interest from all subsidiaries.	<i>Minimum of (\$10.1 from Step 2 or \$24 from the assumptions) = \$10.1</i>
(4)	From (3), subtract out the common equity tier 1 minority interest reported in Schedule RC-R, Part I, item 4. This is the "tier 1 minority interest not included in common equity tier 1 minority interest includable at the reporting institution's level" to be included in Schedule RC-R, Part I, item 22.	$\$10.1 - \$9 = \$1.1$

(ii) Advanced approaches institutions:¹

For each consolidated subsidiary, perform the calculations in steps (1) through (10) of the worksheet below. Sum the results from step 10 for each consolidated subsidiary and report the aggregate amount in this item 22.

For tier 1 minority interest, there is no requirement that the subsidiary be a depository institution or a foreign bank. However, the instrument that gives rise to tier 1 minority interest must meet all the criteria for either common equity tier 1 capital or additional tier 1 capital instrument.

Example and a worksheet calculation for advanced approaches institutions: Calculate tier 1 minority interest not included in common equity tier 1 capital includable at the institution level as follows:

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of reporting the amount of tier 1 minority interest not included in common equity tier 1 capital in this item 22. In addition, such non-advanced approaches institutions should apply the instructions below for the transition provision for surplus minority interest for the March 31, 2020, report date only.

Part I. (cont.)**Item No. Caption and Instructions**

- 22** *Assumptions:*
(cont.)
- This is a continuation of the example used for common equity tier 1 minority interest from Schedule RC-R, Part I, item 4.
 - For this example, assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary: \$1,000 in each case.
 - Subsidiary's tier 1 capital: \$110, which is composed of subsidiary's common equity tier 1 capital \$80 and additional tier 1 capital of \$30.
 - Subsidiary's common equity tier 1 owned by minority shareholders: \$24.
 - Subsidiary's additional tier 1 capital owned by minority shareholders: \$15
 - Other relevant numbers are taken from the example in Schedule RC-R, Part I, item 4.

(1)	Determine the risk-weighted assets of the subsidiary.	\$1,000
(2)	Using the standardized approach, determine the standardized risk-weighted assets of the reporting institution that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	\$1,000
(3)	Multiply the lower of (1) or (2) by 8.5 percent. ¹	$\$1,000 \times 8.5\% = \85
(4)	Determine the dollar amount of tier 1 capital for the subsidiary. If this amount is less than step (3), enter the sum of common equity tier 1 and additional tier 1 minority interest (\$39 in this example) in step (9). Otherwise continue on to step (5).	\$110
(5)	Subtract the amount in step (3) from the amount in step (4). This is the "surplus tier 1 capital of the subsidiary."	$\$110 - \$85 = \$25$
(6)	Determine the percent of the subsidiary's qualifying tier 1 capital instruments that are owned by third parties (the minority shareholders).	$\$24 + \$15 = \$39$. $\text{Then } \$39/\$110 = 35.45\%$
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus tier 1 minority interest of the subsidiary."	$35.45\% \times \$25 = \8.86
(8)	Determine the total amount of tier 1 minority interest of the subsidiary. Then subtract the surplus tier 1 minority interest of the subsidiary (step 7) from this amount.	$\$24 + \$15 = \$39$. $\text{Then } \$39 - \$8.86 = \$30.14$
(9)	The "tier 1 minority interest includable at the reporting institution's level" is the amount from step (8) (or from step (4) when there is no surplus tier 1 minority interest of the subsidiary).	\$30.14
(10)	Subtract any minority interest that is included in common equity tier 1 capital (from Schedule RC-R, Part I, item 4). The result is the minority interest included in additional tier 1 capital.	$\$30.14 - \21 <i>(from example in item 4) = \$9.14.</i>

Note: As indicated, this example built onto the example under the instructions for item 4, where the subsidiary was a depository institution, and where its common equity tier 1 minority interest was includable in common equity tier 1 capital. However, if this were a subsidiary other than a depository institution, none of its minority interest arising from common equity tier 1 would have been includable in common equity tier 1 capital. If the subsidiary in the example were not a depository institution, the full calculated amount of minority interest (\$30.14) would be includable in additional tier 1 capital of the reporting institution since none of it would have been includable in common equity tier 1 capital.

¹ The percentage multiplier in step (3) is the capital ratio necessary for the subsidiary depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this percentage to account for all applicable buffers.

Part I. (cont.)**Item No. Caption and Instructions**

- 22** **FFIEC 031 only: Transition provision for surplus minority interest for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):**
(cont.)

If such a non-advanced approaches institution has surplus minority interest, it will report the amount includable in additional tier 1 capital in this item 22. For surplus minority interest that can be included in additional tier 1 capital during the transition period, follow the transition provision in the instructions for Schedule RC-R, item 4, after taking into consideration (that is, excluding) any amount of surplus common equity tier 1 minority interest (from step 7 of the worksheet in item 4). In the example, the institution has \$5.86 of surplus tier 1 minority interest available to be included during the transition period in additional tier 1 capital (\$8.86 (from step 7 of the worksheet in item 22) of surplus tier 1 minority interest minus \$3.00 (from step 7 of the worksheet in item 4) of common equity tier 1 minority interest). A non-advanced approaches institution would include surplus minority interest of 20% of \$5.86 or \$1.17 in regulatory capital.

- 23** **Additional tier 1 capital before deductions.** Report the sum of Schedule RC-R, Part I, items 20, 21, and 22.

- 24** **LESS: Additional tier 1 capital deductions.** Report additional tier 1 capital deductions as the sum of the following elements.

Note that an institution should report additional tier 1 capital deductions in this item 24 irrespective of the amount of additional tier 1 capital before deductions reported in Schedule RC-R, Part I, item 23. If an institution does not have a sufficient amount of additional tier 1 capital before deductions in item 23 to absorb these deductions, then the institution must deduct the shortfall from common equity tier 1 capital in Schedule RC-R, Part I, item 17. For example, if an institution reports \$0 of “Additional tier 1 capital before deductions” in Schedule RC-R, Part I, item 23, and has \$100 of additional tier 1 capital deductions, the institution would report \$100 in this item 24, add \$100 to the amount to be reported in Schedule RC-R, Part I, item 17, and report \$0 in Schedule RC-R, Part I, item 25, “Additional tier 1 capital.”

(i) Non-advanced approaches institutions:¹

- (1) Investments in own additional tier 1 capital instruments.** Report the institution’s investments in (including any contractual obligation to purchase) its own additional tier 1 capital instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of reporting additional tier 1 capital deductions in this item 24.

Part I. (cont.)**Item No. Caption and Instructions**

- 24**
(cont.) The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:
- (i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
 - (ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
 - (iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

- (2) Reciprocal cross-holdings in the capital of financial institutions.** Include investments in the additional tier 1 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal cross-holdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments. If the institution does not have a sufficient amount of a specific component of capital to effect the required deduction, the shortfall must be deducted from the next higher (that is, more subordinated) component of regulatory capital.

For example, if an institution is required to deduct a certain amount from additional tier 1 capital and it does not have additional tier 1 capital, then the deduction should be from common equity tier 1 capital in Schedule RC-R, Part I, item 17.

- (3) Investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold to be deducted from additional tier 1 capital.** Report the total amount of investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital that exceed the 25 percent threshold.

- (1) Determine the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs.
- (2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12 (column A on the FFIEC 031), report the difference across Schedule RC-R, Part I, item 13 on the FFIEC 041; item 13.a on the FFIEC 031, as applicable; item 24, or item 43, depending on the tier of capital for which the investments in the capital of unconsolidated financial institutions qualifies. The institution can elect which investments it must deduct and which it must risk weight. The institution's election and the component of capital for which the underlying instrument would qualify will determine if the instrument will be deducted and reported in Schedule RC-R, Part I, item 13 on the FFIEC 041, item 13.a on the FFIEC 031, as applicable; or be deducted and reported in Schedule RC-R, Part I, item 24 or 43.
- (3) If the amount in (1) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12 (column A on the FFIEC 031), no deduction is needed.

See the instructions for Schedule RC-R, Part I, item 13 on the FFIEC 041; item 13.a on the FFIEC 031, for an example of how to deduct amounts of investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold.

Part I. (cont.)**Item No. Caption and Instructions**24
(cont.)

Since the community bank leverage ratio framework does not have a total capital requirement, a CBLR electing institution is neither required to calculate tier 2 capital nor make any deductions that would have been taken from tier 2 capital under the generally applicable rule. Therefore, if a CBLR electing institution has investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital of the CBLR electing institution under the generally applicable rule (tier 2 qualifying investments), and the institution's total investments in the capital of unconsolidated financial institutions exceed the threshold for deduction, the institution is not required to deduct the tier 2 qualifying investments.

- (4) Other adjustments and deductions.** Include adjustments and deductions applied to additional tier 1 capital due to insufficient tier 2 capital to cover deductions (related to reciprocal cross-holdings, and investments in the tier 2 capital of unconsolidated financial institutions.).

Eligible institutions that opt into the community bank leverage ratio framework are not required to calculate tier 2 capital and would not be required to make any deductions that would be taken from tier 2 capital.

In addition, insured state banks with real estate subsidiaries whose continued operations have been approved by the FDIC pursuant to Section 362.4 of the FDIC's Rules and Regulations generally should include as a deduction from additional tier 1 capital their equity investment in the subsidiary. (Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.) Insured state banks with other subsidiaries (that are not financial subsidiaries) whose continued operations have been approved by the FDIC pursuant to Section 362.4 should include as a deduction from additional tier 1 capital the amount required by the approval order.

(ii) Advanced approaches institutions:¹

- (1) Investments in own additional tier 1 capital instruments.** Report the institution's investments in (including any contractual obligation to purchase) its own additional tier 1 capital instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

- (i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
- (ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of reporting additional tier 1 capital deductions in this item 24. In addition, such non-advanced approaches institutions should apply the instructions below for the transition provisions for investments in the capital of unconsolidated financial institutions for the March 31, 2020, report date only.

Part I. (cont.)**Item No. Caption and Instructions**

- 24** (iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.
- (cont.)

- (2) Reciprocal cross-holdings in the capital of financial institutions.** Include investments in the additional tier 1 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal cross-holdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments. If the institution does not have a sufficient amount of a specific component of capital to effect the required deduction, the shortfall must be deducted from the next higher (that is, more subordinated) component of regulatory capital.

For example, if an institution is required to deduct a certain amount from additional tier 1 capital and it does not have additional tier 1 capital, then the deduction should be from common equity tier 1 capital in Schedule RC-R, Part I, item 17.

- (3) Non-significant investments in additional tier 1 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments.** As noted in the instructions for Schedule RC-R, Part I, item 11 above, an institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution. Calculate this amount as follows:

- (1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1 capital, and tier 2 capital.
- (2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.
- (3) If the amount in (1) is greater than the ten percent threshold for non-significant investments (Schedule RC-R, Part I, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item 24.
- (4) If the amount in (1) is less than the 10 percent threshold for non-significant investments, report zero.

For example, assume an institution has a total of \$200 in non-significant investments (step 1), including \$60 in the form of additional tier 1 capital (step 2), and its ten percent threshold for non-significant investments is \$100 (as calculated in step 4 of item 11). Since the aggregate amount of non-significant investments exceeds the ten percent threshold for non-significant investments by \$100 (\$200-\$100), the institution would multiply \$100 by the ratio of 60/200 (step 3). Thus, the institution would need to deduct \$30 from its additional tier 1 capital.

FFIEC 031 only: Transition provisions for investments in capital instruments for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

Follow the transition provisions for such non-advanced approaches institutions in the instructions for Schedule RC-R, Part I, item 11 (that is, apply 80 percent of the deduction and assign the applicable risk weight to the portion of the investments not deducted).

Part I. (cont.)**Item No. Caption and Instructions**

- 24** **(4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from additional tier 1 capital.** Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.

FFIEC 031 only: Transition provisions for investments in capital instruments for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

Follow the transition provisions for such non-advanced approaches institutions in the instructions for Schedule RC-R, Part I, item 11 (that is, apply 80 percent of the deduction and a 100 percent risk weight to the portion of the investments not deducted).

- (5) Other adjustments and deductions.** Include adjustments and deductions applied to additional tier 1 capital due to insufficient tier 2 capital to cover deductions (related to reciprocal cross-holdings, non-significant investments in the tier 2 capital of unconsolidated financial institutions, and significant investments in the tier 2 capital of unconsolidated financial institutions).

In addition, insured state banks with real estate subsidiaries whose continued operations have been approved by the FDIC pursuant to Section 362.4 of the FDIC's Rules and Regulations generally should include as a deduction from additional tier 1 capital their equity investment in the subsidiary. (Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.) Insured state banks with other subsidiaries (that are not financial subsidiaries) whose continued operations have been approved by the FDIC pursuant to Section 362.4 should include as a deduction from additional Tier 1 capital the amount required by the approval order.

- 25** **Additional tier 1 capital.** Report the greater of Schedule RC-R, Part I, item 23 minus item 24, or zero.

Tier 1 Capital

- 26** **Tier 1 capital.** Report the sum of Schedule RC-R, Part I, items 19 and 25.

Total Assets for the Leverage Ratio

- 27** **Average total consolidated assets.** All institutions must report the amount of average total consolidated assets as reported in Schedule RC-K, item 9.

An institution that has adopted [FASB Accounting Standards Update No. 2016-13](#), which governs the accounting for credit losses and introduces the current expected credit losses methodology (CECL), and has elected to apply the CECL transition provision (CECL electing institution) should increase its average total consolidated assets by its applicable CECL transitional amount, in accordance with section 301(c)(1)(iv) of the regulatory capital rules. For example, a CECL electing institution should increase its average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by 75 percent of its CECL transitional amount during the first year of the transition period, 50 percent of its CECL transitional amount during the second year of the transition period, and 25 percent of its CECL transitional amount during the third year of the transition period (see Table 1 in the instructions for Schedule RC-R, Part I, item 2).

Part I. (cont.)**Item No. Caption and Instructions****28 LESS: Deductions from common equity tier 1 capital and additional tier 1 capital.*****(i) Non-advanced approaches institutions:¹***

On the FFIEC 041, report the sum of the amounts deducted from common equity tier 1 capital and additional tier 1 capital in Schedule RC-R, Part I, items 6, 7, 8, 10.b, 13 through 15, 17, and 24.

On the FFIEC 031, report the sum of the amounts deducted from common equity tier 1 capital and additional tier 1 capital in Schedule RC-R, Part I, items 6, 7, 8, 10.b, 13.a, 14.a, 15.a, 17 (column A), and 24.

On the FFIEC 031 and the FFIEC 041, also exclude the amount reported in Schedule RC-R, Part I, item 17, that is due to insufficient amounts of additional tier 1 capital, and which is included in the amount reported in Schedule RC-R, Part I, item 24. (This is to avoid double counting.)

(ii) Advanced approaches institutions:²

Report the sum of the amounts deducted from common equity tier 1 capital and additional tier 1 capital in Schedule RC-R, Part I, items 6, 7, 8, 10.b, 11, 13.b, 14.b, 15.b, 16, 17 (column B), and 24. Also exclude the amount reported in Schedule RC-R, Part I, item 17, that is due to insufficient amounts of additional tier 1 capital, and which is included in the amount reported in Schedule RC-R, Part I, item 24. (This is to avoid double counting.)

29 LESS: Other deductions from (additions to) assets for leverage ratio purposes. Based on the regulatory capital rules of the bank's primary federal supervisor, report the amount of any deductions from (additions to) total assets for leverage ratio purposes that are not included in Schedule RC-R, Part I, item 28, as well as the items below, if applicable. If the amount is a net deduction, report it as a positive value in this item. If the amount is a net addition, report it as a negative value in this item.

Institutions that make the AOCI opt-out election in Schedule RC-R, Part I, item 3.a – Defined benefit postretirement plans:

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Topic 715, Compensation-Retirement Benefits (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"), the institution should adjust total assets for leverage ratio purposes for any amounts included in Schedule RC, item 26.b, "Accumulated other comprehensive income" (AOCI), affecting assets as a result of the initial and subsequent application of ASC Topic 715. The

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of reporting deductions from common equity tier 1 capital and additional tier 1 capital in this item 28.

² For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of reporting deductions from common equity tier 1 capital and additional tier 1 capital in this item 28.

Part I. (cont.)**Item No. Caption and Instructions**

29
(cont.) adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, Part I, item 9.d) is to reverse the effects on AOCI of applying ASC Topic 715 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Topic 715 should be reported as an adjustment to total assets for leverage ratio purposes. For example, the derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying ASC Topic 715 should be added back to total assets for leverage ratio purposes by reporting the amount as a negative number in this item. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b, as an increase to AOCI and in total assets should be deducted from total assets for leverage ratio purposes by reporting the amount as a positive number in this item.

Institutions that do not make the AOCI opt-out election and all advanced approaches institutions – Available-for-sale securities:

Available-for-sale debt securities and available-for-sale equity securities are reflected at amortized cost and at the lower of cost or fair value, respectively, when calculating average total consolidated assets for Schedule RC-K, item 9. Therefore, include in this item as deductions from (additions to) assets for leverage ratio purposes the amounts needed to adjust (i) the quarterly average for available-for-sale debt securities included in Schedule RC-K, item 9, from an average based on amortized cost to an average based on fair value, and (ii) the quarterly average for available-for-sale equity securities included in Schedule RC-K, item 9, from an average based on the lower of cost or fair value to an average based on fair value. If the deferred tax effects of any net unrealized gains (losses) on available-for-sale debt securities were excluded from the determination of average total consolidated assets for Schedule RC-K, item 9, also include in this item as a deduction from (addition to) assets for leverage ratio purposes the quarterly average amount necessary to reverse the effect of this exclusion on the quarterly average amount of net deferred tax assets included in Schedule RC-K, item 9.

Financial Subsidiaries:

If a financial subsidiary is not consolidated into the bank for purposes of the bank's balance sheet, include in this item 29 as a deduction from the bank's average total assets (as reported in Schedule RC-R, Part I, item 27) the quarterly average for the bank's ownership interest in the financial subsidiary accounted for under the equity method of accounting that is included in the bank's average total assets reported in Schedule RC-K, item 9.

If a financial subsidiary is consolidated into the bank for purposes of the bank's balance sheet, include in this item 29 as a deduction from the bank's average total assets (as reported in Schedule RC-R, Part I, item 27) the quarterly average of the assets of the subsidiary that have been included in the bank's consolidated average total assets reported in Schedule RC-K, item 9; minus any deductions from common equity tier 1 capital and additional tier 1 capital attributable to the financial subsidiary that have been included in Schedule RC-R, Part I, item 28; and plus the quarterly average of bank assets representing claims on the financial subsidiary, other than the bank's ownership interest in the subsidiary, that were eliminated in consolidation. Because the bank's claims on the subsidiary were eliminated in consolidation, these bank assets were not included in the bank's consolidated average total assets reported in Schedule RC-K, item 9.

Part I. (cont.)**Item No. Caption and Instructions****29** ***Non-Includable Subsidiaries:***
(cont.)

A savings association with a non-includable subsidiary should include in this item 29 a deduction from average total assets (as reported in Schedule RC-R, Part I, item 27) determined in the same manner as described above for financial subsidiaries, except that for a non-includable subsidiary accounted for under the equity method of accounting, the deduction should be the quarterly average for the savings association's outstanding investments (both equity and debt) in, and extensions of credit to, the subsidiary.

30 **Total assets for the leverage ratio.** Report Schedule RC-R, Part I, item 27, less items 28 and 29.**Leverage Ratio****31** **Leverage ratio.** Report the institution's leverage ratio as a percentage, rounded to four decimal places. Divide Schedule RC-R, Part I, item 26 by item 30.**31.a** **Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date?**

Enter "1" for Yes or enter "0" for No. Refer to the qualifying criteria for using the CBLR framework, which are explained in the instructions for Schedule RC-R, Part I, items 32 through 34, below.

Qualifying Criteria and Other Information for CBLR Institutions

Schedule RC-R, Part I, items 32 through 37 and, if applicable, items 38.a through 38.c, are to be completed only by qualifying institutions that have elected to adopt the community bank leverage ratio (CBLR) framework or are within the grace period as of the quarter-end report date. (For further information on the grace period, see the General Instructions for Part I.)

If your institution entered "1" in item 31.a, then items 32 through 37 and, if applicable, items 38.a through 38.c, must be completed. Institutions that do not qualify for or have not adopted the community bank leverage ratio framework as of the quarter-end report date should leave items 32 through 38.c blank and go to Schedule RC-R, Part I, item 39. A qualifying institution can opt out of the community bank leverage ratio framework by completing Schedule RC-R, Parts I and II, excluding Schedule RC-R, Part I, items 32 through 38.c.

32 **Total assets.** Report total assets from Schedule RC, item 12. A bank's total assets must be less than \$10 billion as part of the qualifying criteria for the CBLR framework.**33** **Trading assets and trading liabilities.** Report in column A the sum of trading assets from Schedule RC, item 5, and trading liabilities from Schedule RC, item 15 (i.e., added, not netted).

Report in column B the sum of trading assets and trading liabilities as a percentage of total assets by dividing the amount of trading assets and trading liabilities reported in column A of this item by total assets reported in Schedule RC-R, Part I, item 32, above, rounded to four decimal places. The percentage reported in this item must be 5 percent or less of total assets as part of the qualifying criteria for the CBLR framework.

34 **Off-balance sheet exposures.** Report in the appropriate subitem the specified off-balance sheet exposure amounts.

Part I. (cont.)**Item No. Caption and Instructions**

34.a Unused portion of conditionally cancellable commitments. Report the amount of unused commitments, excluding unconditionally cancellable commitments that are reported in Schedule RC-R, Part I, item 35, below. Include in this item legally binding arrangements (other than letters of credit, which are reported in Schedule RC-R, Part I, item 34.c) that obligate a bank to extend credit or to purchase assets. Where a bank provides a commitment structured as a syndication or participation, include the amount for the bank's pro rata share of the commitment.

In general, this item would include the unused portion of commitments reported in Schedule RC-L, item 1, that are not unconditionally cancelable.

34.b Securities lent and borrowed. Report the sum of securities lent from Schedule RC-L, item 6.a, and securities borrowed from Schedule RC-L, item 6.b.

34.c Other off-balance sheet exposures. Report the sum of:

- ***Financial standby letters of credit:*** Include the amount outstanding and unused of financial standby letters of credit reported in Schedule RC-L, item 2.
- ***Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit:*** Report transaction-related contingent items, which include the amount outstanding and unused of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items.
- ***Self-liquidating, trade-related contingent items that arise from the movement of goods:*** Include the amount outstanding and unused of self-liquidating, trade-related contingent items that arise from the movement of goods reported in Schedule RC-L, item 4, "Commercial and similar letters of credit."
- ***Sold credit protection in the form of guarantees and credit derivatives:*** Include the notional amount of sold credit protection in the form of guarantees or credit derivatives (such as written credit option contracts). Do not include any non-credit derivatives, such as foreign exchange swaps and interest rate swaps.
- ***Credit-enhancing representations and warranties:*** Include the off-balance sheet amount of exposures transferred with credit-enhancing representations and warranties as defined in §.2 of the regulatory capital rule. Credit-enhancing representations and warranties obligate an institution "to protect another party from losses arising from the credit risk of the underlying exposures" and "include provisions to protect a party from losses resulting from the default or nonperformance of the counterparties of the underlying exposures or from an insufficiency in the value of the collateral backing the underlying exposures." Thus, when loans or other assets are sold "with recourse" and the recourse arrangement provides protection from losses as described in the preceding definition, the recourse arrangement constitutes a credit-enhancing representation and warranty.
- ***Forward agreements that are not derivative contracts:*** Include the notional amount of all forward agreements, which are defined in §.2 of the regulatory capital rule as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.

Part I. (cont.)**Item No. Caption and Instructions**

34.c • **Off-balance sheet securitizations:** Report the notional amount of off-balance sheet items that qualify as securitization exposures. Refer to the definitions of securitization exposure, synthetic securitization, traditional securitization, and tranche in §.2 of the regulatory capital rules and to §.42 of the regulatory capital rules to calculate the relevant exposure amount.
(cont.)

34.d **Total off-balance sheet exposures.** Report in column A the sum of Schedule RC-R, Part I, items 34.a through 34.c.

Report in column B total off-balance sheet exposures as a percentage of total assets by dividing the total amount of off-balance sheet exposures reported in column A of this item by total assets reported in Schedule RC-R, Part I, item 32, above, rounded to four decimal places. The percentage reported in this item must be 25 percent or less as part of the qualifying criteria for the CBLR framework.

35 **Unconditionally cancellable commitments.** Report the unused portion of commitments (facilities) that are unconditionally cancellable (without cause) at any time by the bank (to the extent permitted by applicable law). In general, this item would include the amounts reported in Schedule RC-L, items 1.a, 1.b, and 1.e.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law.

Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are included in this item if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

36 **Investments in the tier 2 capital of unconsolidated financial institutions.** Report the amount of investments in the tier 2 capital of unconsolidated financial institutions, net of associated deferred tax liabilities.

37 **Allocated transfer risk reserve.** Report the entire amount of any allocated transfer risk reserve (ATRR) the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act ([Subpart D of Federal Reserve Regulation K](#), [Part 347 of the FDIC's Rules and Regulations](#), and [12 CFR Part 28, Subpart C \(OCC\)](#)), and in any guidelines, letters, or instructions issued by the agencies. The entire amount of the ATRR equals the ATRR related to loans and leases held for investment (which is reported in Schedule RI-B, Part II, Memorandum item 1) plus the ATRR for assets other than loans and leases held for investment.

NOTE: Schedule RC-R, Part I, items 38.a through 38.c, should be completed only by institutions that have adopted [FASB Accounting Standards Update No. 2016-13](#) (ASU 2016-13), which governs the accounting for credit losses. Institutions that have not adopted ASU 2016-13 should leave items 38.a through 38.c blank.

38 **Amount of allowances for credit losses on purchased credit-deteriorated assets.** ASU 2016-13 introduces the concept of purchased credit-deteriorated (PCD) assets as a replacement for purchased credit-impaired (PCI) assets. The PCD asset definition covers a

Part I. (cont.)**Item No. Caption and Instructions**

38 broader range of assets than the PCI asset definition. As defined in ASU 2016-13, (cont.) “purchased credit-deteriorated assets” are acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) accounted for in accordance with ASC Topic 326, Financial Instruments—Credit Losses, that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by the acquiring institution’s assessment.

ASU 2016-13 requires institutions to estimate and record a credit loss allowance for a PCD asset at the time of purchase. The credit loss allowance is then added to the purchase price to determine the amortized cost basis of the asset for financial reporting purposes. Post-acquisition increases in credit loss allowances on PCD assets will be established through a charge to earnings. This accounting treatment for PCD assets is different from the current treatment of PCI assets, for which institutions are not permitted to estimate and recognize credit loss allowances at the time of purchase. Rather, in general, credit loss allowances for PCI assets are estimated subsequent to the purchase only if there is deterioration in the expected cash flows from the assets.

38.a **Loans and leases held for investment.** Report all allowances for credit losses on PCD loans and leases held for investment.

38.b **Held-to-maturity debt securities.** Report all allowances for credit losses on PCD held-to-maturity debt securities.

38.c **Other financial assets measured at amortized cost.** Report all allowances for credit losses on all other PCD financial assets, excluding PCD loans and leases held for investment, held-to-maturity debt securities, and available-for-sale debt securities.

NOTE: A qualifying institution that has a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date (i.e., entered “1” for Yes in Schedule RC-R, Part I, item 31.a) should not complete Schedule RC-R, Part I, items 39 through 55.b, and should not complete Schedule RC-R, Part II.

Tier 2 Capital

39 **Tier 2 capital instruments plus related surplus.** Report the portion of cumulative perpetual preferred stock and related surplus included in Schedule RC, item 23; the portion of subordinated debt and limited-life preferred stock and related surplus included in Schedule RC, item 19; and any other capital instrument and related surplus that satisfy all the eligibility criteria for tier 2 capital instruments in section 20(d) of the regulatory capital rules of the institution’s primary federal supervisor.

Include instruments that (i) were issued under the Small Business Jobs Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) were included in the tier 2 capital non-qualifying capital instruments (e.g., trust preferred stock and cumulative perpetual preferred stock) under the primary federal supervisor’s general risk-based capital rules.

40 **Non-qualifying capital instruments subject to phase-out from tier 2 capital.** Report the total amount of non-qualifying capital instruments that were included in tier 2 capital and outstanding as of January 1, 2014, and that are subject to phase-out.

Depository institutions may include in regulatory capital debt or equity instruments issued prior to September 12, 2010, that do not meet the criteria for additional tier 1 or tier 2 capital

Part I. (cont.)**Item No. Caption and Instructions**

40 instruments in section 20 of the regulatory capital rules but that were included in tier 1 or
(cont.) tier 2 capital respectively as of September 12, 2010 (non-qualifying capital instruments issued
prior to September 12, 2010) up to the percentage of the outstanding principal amount of
such non-qualifying capital instruments as of January 1, 2014, in accordance with Table 2 in
the instructions for Schedule RC-R, item 21.

41 **Total capital minority interest that is not included in tier 1 capital.**

(i) All institutions, except advanced approaches institutions:¹

Report the aggregate amount of total capital minority interest, calculated as described below and in section 21 of the regulatory capital rules. Non-advanced approaches institutions are able to include total capital minority interest up to 10 percent of the parent banking organization's total capital. The 10 percent limitation is measured before the inclusion of any minority interest and after the deductions from and adjustments to the regulatory capital of the parent banking organization described in sections 22(a) and (b) of the capital rule. Total capital minority interest is the portion of total capital in a reporting institution's subsidiary not attributable, directly or indirectly, to the parent institution. Note that a reporting institution may only include total capital minority interest if the capital instruments issued by the subsidiary meet all of the criteria for capital (qualifying capital instruments).

Example and a worksheet calculation for all institutions, except advanced approaches institutions: Calculate total capital minority interest includable at the reporting institution's level as follows:

Assumptions:

- This is a continuation of the example for all institutions, except advanced approaches institutions, used in the instructions for Schedule RC-R, Part I, items 4 and 22.
- Assumptions and calculation from Schedule RC-R, Part I, item 4:
 - Includable common equity tier 1 minority interest (see Schedule RC-R, Part I, item 4) is \$9.
 - The parent banking organization's common equity tier 1 capital before minority interest and after deductions and adjustments is \$90.
- Assumptions and calculation from Schedule RC-R, Part I, item 22:
 - Includable tier 1 minority interest that is not included in common equity tier 1 minority interest (see Schedule RC-R, Part I, item 22) is \$1.1.
 - The parent banking organization's additional tier 1 capital before minority interest and after deductions is \$11 (\$15 - \$4).
- The parent banking organization's tier 2 capital instruments before minority interest and allowance for loan and lease losses includable in tier 2 capital (or adjusted allowances for credit losses (AACL), as applicable) is \$20. Additional tier 2 capital deductions equal \$2.
- The subsidiary's total capital minority interest (that is, owned by minority shareholders) is \$14.
- Subsidiary A has \$8 of minority interest in the form of tier 2 instruments (that is, owned by minority shareholders).
- Subsidiary B has \$6 of minority interest in the form of tier 2 instruments (that is, owned by minority shareholders).

¹ For the March 31, 2020, report date only, non-advanced institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for all institutions, except advanced approaches institutions) for purposes of reporting the amount of total capital minority interest that is not included in tier 1 capital.

Part I. (cont.)**Item No. Caption and Instructions**41
(cont.)

(1)	Tier 1 capital after deductions and before minority interest + tier 2 capital instruments before minority interest + allowance for loan and lease losses (ALLL) or adjusted allowances for credit losses (AACL), as applicable, for regulatory capital purposes that is includable in tier 2 capital - tier 2 capital deductions = Schedule RC-R, Part I, sum of items 26, 39, 40, and 42.a, minus item 45.	$\$101 + \$20 - \$2 = \119
(2)	Multiply step (1) by 10 percent. This is the maximum includable total capital minority interest from all subsidiaries.	$\$119 \times 10\% = \11.9
(3)	Determine the lower of (2) or the total capital minority interest from all subsidiaries.	<i>Minimum of (\$11.9 from Step 2 or \$38 from the assumptions) = \$11.9</i>
(4)	From (3), subtract out the includable common equity tier 1 minority interest reported in Schedule RC-R, Part I, item 4, and includable tier 1 minority interest that is not included in common equity tier 1 minority interest reported in Schedule RC-R, Part I, item 22. This is the “total capital minority interest not included in tier 1 minority interest includable at the reporting institution’s level” to be included in Schedule RC-R, Part I, item 41.	$\$11.9 - \$9 - \$1.1 = \1.8

(ii) Advanced approaches institutions:¹

Report the amount of total capital minority interest not included in tier 1 capital, as described below. For each consolidated subsidiary, perform the calculations in steps (1) through (10) below. Sum the results for each consolidated subsidiary and report the aggregate number in this item 41.

Example and a worksheet calculation for advanced approaches institutions: Calculate total capital minority interest that is not included in tier 1 capital includable at the institution level as follows:

Assumptions:

- This is a continuation of the example for advanced approaches institutions used in the instructions for Schedule RC-R, Part I, items 4 and 22.
- For this example, assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary: \$1,000 in each case.
- Subsidiary’s total capital: \$130, which is composed of subsidiary’s common equity tier 1 capital \$80, and additional tier 1 capital of \$30, and tier 2 capital of \$20.
- Subsidiary’s common equity tier 1 capital owned by minority shareholders: \$24.
- Subsidiary’s additional tier 1 capital owned by minority shareholders: \$15.
- Subsidiary’s total capital instruments owned by minority shareholders: \$15.
- Other relevant numbers are taken from the examples in Schedule RC-R, Part I, items 4 and 22.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of reporting the amount of total capital minority interest to be included in total capital in this item 41. In addition, such non-advanced approaches institutions should apply the instructions below for the transition provision for surplus minority interest for the March 31, 2020, report date only.

Part I. (cont.)**Item No. Caption and Instructions**41
(cont.)

(1)	Determine the risk-weighted assets of the subsidiary.	\$1,000
(2)	Using the standardized approach, determine the risk-weighted assets of the reporting institution that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	\$1,000
(3)	Determine the lower of (1) or (2), and multiply that amount by 10.5 percent. ¹	$\$1,000 \times 10.5\% =$ \$105
(4)	Determine the dollar amount of total capital for the subsidiary. If this amount is less than step (3), enter the sum of common equity tier 1, additional tier 1, and total capital minority interest (\$54 in this example) in step (9). Otherwise continue on to step (5).	\$130
(5)	Subtract the amount in step (3) from the amount in step (4). This is the “surplus total capital of the subsidiary.”	$\$130 - \105 $= \$25$
(6)	Determine the percent of the subsidiary’s total capital instruments that are owned by third parties (the minority shareholders).	$\$24 + \$15 + \$15 =$ \$54. Then $\$54/\$130 = 41.54\%$
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the “surplus total capital minority interest of the subsidiary”	$41.54\% \times \$25 =$ \$10.39
(8)	Determine the total amount of total capital minority interest of the subsidiary. Then subtract the surplus total capital minority interest of the subsidiary (step 7) from this amount.	$\$24 + \$15 + \$15 =$ \$54. Then $\$54 -$ $\$10.39 = \43.62 .
(9)	The “total capital minority interest includable at the institution level” is the amount from step (8) or step (4) where there is no surplus total capital minority interest of the subsidiary.	\$43.62 (report the lesser of \$43.62 or \$54).
(10)	Subtract from (9) any minority interest that is included in common equity tier 1 and additional tier 1 capital. The result is the total capital minority interest not included in tier 1 capital includable in total capital.	$\$43.62 - (\$21 +$ $\$9.14$ (from examples in items 4 and 22)) = \$13.48.

FFIEC 031 only: Transition provision for surplus minority interest for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

For surplus minority interest that can be included in tier 2 capital during the transition period, such a non-advanced approaches institution must follow the transition provision in the instructions for Schedule RC-R, item 4, after taking into consideration (that is, excluding) any amount of surplus tier 1 minority interest (from step 7 of the worksheet in item 22). In the example, the institution has \$1.53 of surplus total capital minority interest available to be included during the transition period in tier 2 capital (\$10.39 (from step 7 of the worksheet in item 41) of surplus total capital minority interest minus \$8.86 (from step 7 of the worksheet in item 22) of tier 1 minority interest). A non-advanced approaches institution would include surplus minority interest of 20% of \$1.53 or \$0.31 in this item 41.

¹ The percentage multiplier in step (3) is the capital ratio necessary for a subsidiary depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this amount for all applicable buffers.

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

42 42.a Allowance for loan and lease losses includable in tier 2 capital. Report the portion of the institution's allowance for loan and lease losses (ALLL) or adjusted allowances for credit losses (AACL), as applicable, for regulatory capital purposes that is includable in tier 2 capital. None of the institution's allocated transfer risk reserve, if any, is includable in tier 2 capital.

For an institution that has not adopted FASB [Accounting Standards Update No. 2016-13](#) (ASU 2016-13), which governs the accounting for credit losses and introduces the current expected credit losses methodology (CECL), the institution's ALLL for regulatory capital purposes equals Schedule RC, item 4.c, "Allowance for loan and lease losses"; less any allocated transfer risk reserve included in Schedule RC, item 4.c; plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

For an institution that has adopted ASU 2016-13, the institution's AACL for regulatory capital purposes equals Schedule RI-B, Part II, item 7, columns A and B, "Balance end of current period" for loans and leases held for investment and held-to-maturity debt securities, respectively; plus Schedule RI-B, Part II, Memorandum item 6, "Allowance for credit losses on other financial assets measured at amortized cost (not included in item 7, above)"; less Schedule RC-R, Part II, sum of Memorandum items 4.a, 4.b, and 4.c, "Amount of allowances for credit losses on purchased credit-deteriorated assets" for loans and leases held for investment, held-to-maturity debt securities, and other financial assets measured at amortized cost, respectively; less any allocated transfer risk reserve included in Schedule RI-B, Part II, item 7, columns A and B, and Memorandum item 6; plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

An institution that has adopted ASU 2016-13 and has elected to apply the CECL transition provision (CECL electing institution) should decrease its applicable AACL transitional amount in accordance with section 301 of the regulatory capital rules. Specifically, a CECL electing institution should reduce the amount of its AACL includable in tier 2 capital by 75 percent of its AACL transitional amount during the first year of the transition period, 50 percent of its AACL transitional amount during the second year of the transition period, and 25 percent of its AACL transitional amount during the third year of the transition period (see Table 1 in the instructions for Schedule RC-R, Part I, item 2).

The amount to be reported in this item is the lesser of (1) the institution's ALLL or AACL, as applicable, for regulatory capital purposes, as defined above, or (2) 1.25 percent of the institution's risk-weighted assets base for the ALLL or AACL calculation, as applicable, as reported in Schedule RC-R, Part II, item 26. In calculating the risk-weighted assets base for this purpose, an institution would not include items that are deducted from capital under section 22(a). However, an institution would include risk-weighted asset amounts of items deducted from capital under sections 22(c) through (f) of the regulatory capital rule, in accordance with the applicable transition provisions. While amounts deducted from capital under sections 22(c) through (f) are included in the risk-weighted assets base for the ALLL or AACL calculation, as applicable, such amounts are excluded from standardized total risk-weighted assets used in the denominator of the risk-based capital ratios.

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

42 (cont.)	42.a (cont.)	The amount, if any, by which an institution's ALLL or AACL, as applicable, for regulatory capital purposes exceeds 1.25 percent of the institution's risk-weighted assets base for the ALLL or AACL calculation (as reported in Schedule RC-R, Part II, item 26), as applicable, should be reported in Schedule RC-R, Part II, item 29, "LESS: Excess allowance for loan and lease losses." For an institution that has <u>not</u> adopted ASU 2016-13, the sum of the amount of ALLL includable in tier 2 capital reported in Schedule RC-R, Part I, item 42.a on the FFIEC 031, item 42 on the FFIEC 041; plus the amount of excess ALLL reported in Schedule RC-R, Part II, item 29, must equal Schedule RC, item 4.c, less any allocated transfer risk reserve included in Schedule RC, item 4.c, plus Schedule RC-G, item 3.
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NOTE: On the FFIEC 031, item 42.b is to be completed only by advanced approaches institutions that exit parallel run. Item 42.b is not applicable to institutions that file the FFIEC 041.

-	42.b	<u>Advanced approaches institutions that exit parallel run only: eligible credit reserves includable in tier 2 capital.</u> Report the amount of eligible credit reserves includable in tier 2 capital as reported in FFIEC 101, Schedule A, item 50.
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**FFIEC 041 and
FFIEC 031****Item No. Caption and Instructions**

NOTE: Schedule RC-R, Part I, item 43, is to be completed only by institutions that have not adopted FASB [Accounting Standards Update No. 2016-01](#) (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investment in mutual funds, and eliminates the concept of available-for-sale equity securities (see the Note preceding the instructions for Schedule RC, item 2.c).

Institutions that have adopted ASU 2016-01 should leave Schedule RC-R, Part I, item 43, blank.

43	<u>Unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in tier 2 capital.</u>
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(i) Institutions that entered "1" for "Yes" in Schedule RC-R, Part I, item 3.a:

Report the pretax net unrealized holding gain (i.e., the excess of fair value as reported in Schedule RC-B, item 7, column D, over historical cost as reported in Schedule RC-B, item 7, column C), if any, on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in tier 2 capital, subject to the limit in section 20(d) of the regulatory capital rules. The amount to be reported in this item equals 45 percent of the institution's pretax net unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.

(ii) Institutions that entered "0" for "No" in Schedule RC-R, Part I, item 3.a, should report a zero in this item 43.

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

- 44 44.a Tier 2 capital before deductions.** On the FFIEC 041, report the sum of Schedule RC-R, Part I, items 39 through 43. On the FFIEC 031, report the sum of Schedule RC-R, Part I, items 39 through 42.a, plus item 43.

NOTE: On the FFIEC 031, item 44.b is to be completed only by advanced approaches institutions that exit parallel run. Item 44.b is not applicable to institutions that file the FFIEC 041.

- **44.b Advanced approaches institutions that exit parallel run only: tier 2 capital before deductions.** Report the sum of Schedule RC-R, Part I, items 39 through 41, plus items 42.b and 43.

FFIEC 041 and**FFIEC 031****Item No. Caption and Instructions**

- 45 LESS: Tier 2 capital deductions.** Report total tier 2 capital deductions as the sum of the following elements.

Note that an institution should report tier 2 capital deductions in this item 45 irrespective of the amount of tier 2 capital before deductions reported in Schedule RC-R, Part I, item 44 on the FFIEC 041; item 44.a on the FFIEC 031. If an institution does not have a sufficient amount of tier 2 capital before deductions in item 44 or item 44.a, as applicable, to absorb these deductions, then the institution must deduct the shortfall from additional tier 1 capital before deductions in Schedule RC-R, Part I, item 24, or, if there is not enough additional tier 1 capital before deductions, from common equity tier 1 capital in Schedule RC-R, Part I, item 17.

For example, if an institution reports \$98 of “Tier 2 capital before deductions” in Schedule RC-R, Part I, item 44 or item 44.a, as applicable, and must make \$110 in tier 2 capital deductions, the institution would report \$110 in this item 45, include the additional \$12 in deductions in Schedule RC-R, Part I, item 24 (and in Schedule RC-R, Part I, item 17, in the case of insufficient “Additional tier 1 capital before deductions” in Schedule RC-R, Part I, item 23, from which to make the deduction in Schedule RC-R, Part I, item 24), and report \$0 in Schedule RC-R, Part I, item 46.a, “Tier 2 capital.”

Advanced approaches institutions with insufficient tier 2 capital for deductions will make the following adjustments: an advanced approaches institution will make deductions on this schedule under the generally applicable rules that apply to all institutions. It will use FFIEC 101, Schedule A, to calculate its capital requirements under the advanced approaches. Therefore, in the case of an advanced approaches institution with insufficient tier 2 capital to make tier 2 deductions, it will use the corresponding deduction approach and the generally applicable rules to take excess tier 2 deductions from additional tier 1 capital in Schedule RC-R, Part I, item 24, and if necessary from common equity tier 1 capital in Schedule RC-R, Part I, item 17. It will use the advanced approaches rules to take deductions on the FFIEC 101 form.

For example, assume tier 2 capital is \$100 under the advanced approaches and \$98 under the generally applicable rules (due to the difference between the amount of eligible credit reserves includable in tier 2 capital under the advanced approaches, and the amount of the allowance for loan and lease losses or adjusted allowances for credit losses, as applicable,

Part I. (cont.)**Item No. Caption and Instructions**

45 includable in tier 2 capital under the standardized approach). If the required deduction from tier 2 capital is \$110, then the advanced approaches institution would add \$10 to the required additional tier 1 capital deductions (on FFIEC 101, Schedule A, item 42, and FFIEC 101, Schedule A, item 27, if necessary), and would add \$12 to its required additional tier 1 capital deductions for the calculation of the standardized approach regulatory capital ratios in this schedule (Schedule RC-R, Part I, item 24, and Schedule RC-R, Part I, item 17, if necessary).

(cont.)

(i) Non-advanced approaches institutions:¹

(1) Investments in own tier 2 capital instruments. Report the institution's investments in (including any contractual obligation to purchase) its own tier 2 instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

- (i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
- (ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
- (iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

(2) Reciprocal cross-holdings in the capital of financial institutions. Include investments in the tier 2 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal crossholdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

(3) Investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold to be deducted from tier 2 capital. Report the total amount of investments in the capital of unconsolidated financial institutions in the form of tier 2 capital that exceeds the 25 percent threshold. Calculate this amount as follows:

- (1) Determine the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs.
- (2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12, (column A on the FFIEC 031,) report the difference across Schedule RC-R, Part I, item 13 on the FFIEC 041, item 13.a on the FFIEC 031; item 24; or item 45, depending on the tier of capital for which the investments in the capital of

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of reporting additional tier 1 capital deductions in this item 45.

Part I. (cont.)**Item No. Caption and Instructions**

- 45**
(cont.) unconsolidated financial institutions qualify. The institution can elect which investments it must deduct and which it must risk weight. The institution's election and the component of capital for which the underlying instrument would qualify will determine if it will be deducted and reported in item 13 or item 13.a, as applicable, or be deducted and reported in item 24 or item 45.
- (3) If the amount in (1) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12, (column A on the FFIEC 031,) no deduction is needed.

See Schedule RC-R, Part I, item 13 on the FFIEC 041, item 13.a on the FFIEC 031, for an example of how to deduct amounts of investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold.

- (4) Other adjustments and deductions.** Include any other applicable adjustments and deductions applied to tier 2 capital in accordance with the regulatory capital rules of the primary federal supervisor.

(ii) Advanced approaches institutions:¹

- (1) Investments in own tier 2 capital instruments.** Report the institution's investments in (including any contractual obligation to purchase) its own tier 2 instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

- (i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
- (ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
- (iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

- (2) Reciprocal cross-holdings in the capital of financial institutions.** Include investments in the tier 2 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal crossholdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 Call Report and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of reporting additional tier 1 capital deductions in this item 45. In addition, such non-advanced approaches institutions should apply the instructions below for the transition provisions for investments in the capital of unconsolidated financial institutions for the March 31, 2020, report date only.

Part I. (cont.)**Item No. Caption and Instructions**

- 45** **(3) Non-significant investments in tier 2 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments.**
(cont.)

Calculate this amount as follows (similar to Schedule RC-R, Part I, item 11):

- (1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.
- (2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.
- (3) If (1) is greater than the ten percent threshold for non-significant investments (Schedule RC-R, Part I, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item.
- (4) If (1) is less than the ten percent threshold for non-significant investments, enter zero.

For example, assume an institution has a total of \$200 in non-significant investments (step 1), including \$40 in the form of tier 2 capital (step 2), and its ten percent threshold for non-significant investments is \$100 (as calculated in Schedule RC-R, Part I, item 11, step 4). Since the aggregate amount of non-significant investments exceed the ten percent threshold for non-significant investments by \$100 (\$200-\$100), the institution would multiply \$100 by the ratio of 40/200 (step 3). Thus, the institution would need to deduct \$20 from its tier 2 capital

FFIEC 031 only: Transition provisions for investments in capital instruments for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

Follow the transition provisions for such non-advanced approaches institutions in the instructions for Schedule RC-R, Part I, item 11 (that is, apply 80 percent of the deduction and assign the applicable risk weight to the portion of the investments not deducted).

- (4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from tier 2 capital.** Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.

FFIEC 031 only: Transition provisions for investments in capital instruments for the March 31, 2020, report date only for non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020):

Follow the transition provisions for such non-advanced approaches institutions in the instructions for Schedule RC-R, Part I, item 11 (that is, apply 80 percent of the deduction and a 100 percent risk weight to the portion of the investments not deducted).

- (5) Other adjustments and deductions.** Include any other applicable adjustments and deductions applied to tier 2 capital in accordance with the regulatory capital rules of the primary federal supervisor.

Part I. (cont.)**FFIEC 041 FFIEC 031****Item No. Item No. Caption and Instructions**

- 46 46.a **Tier 2 capital.** On the FFIEC 041, report the greater of Schedule RC-R, Part I, item 44 minus item 45, or zero. On the FFIEC 031, report the greater of Schedule RC-R, Part I, item 44.a minus item 45, or zero.

NOTE: On the FFIEC 031, item 46.b is to be completed only by advanced approaches institutions that exit parallel run. Item 46.b is not applicable to institutions that file the FFIEC 041.

- 46.b **Advanced approaches institutions that exit parallel run only: Tier 2 capital.** Report the greater of Schedule RC-R, Part I, item 44.b minus item 45, or zero.

Total Capital

- 47 47.a **Total capital.** On the FFIEC 041, report the sum of Schedule RC-R, Part I, items 26 and 46. On the FFIEC 031, report the sum of Schedule RC-R, Part I, items 26 and 46.a.

NOTE: On the FFIEC 031, item 47.b is to be completed only by advanced approaches institutions that exit parallel run. Item 47.b is not applicable to institutions that file the FFIEC 041.

- 47.b **Advanced approaches institutions that exit parallel run only: Total capital.** Report the sum of Schedule RC-R, Part I, items 26 and 46.b.

Total Risk-Weighted Assets

- 48 48.a **Total risk-weighted assets.** Report the amount of total risk-weighted assets using the standardized approach (as reported in Schedule RC-R, Part II, item 31).

NOTE: On the FFIEC 031, item 48.b is to be completed only by advanced approaches institutions that exit parallel run. Item 48.b is not applicable to institutions that file the FFIEC 041.

- 48.b **Advanced approaches institutions that exit parallel run only: Total risk-weighted assets using advanced approaches rule.** Report the amount from FFIEC 101, Schedule A, item 60.

Risk-Based Capital Ratios**FFIEC 041 and****FFIEC 031****Item No. Caption and Instructions**

- 49 **Common equity tier 1 capital ratio.** Report the institution's common equity tier 1 risk-based capital ratio as a percentage, rounded to four decimal places.

On the FFIEC 041: Divide Schedule RC-R, Part I, item 19 by item 48.

On the FFIEC 031:

- Column A: Divide Schedule RC-R, Part I, item 19, column A or B, as applicable, by item 48.a.
- Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, Part I, item 19, column B, by item 48.b. The lower of the reported capital ratios in this item 49, column A and column B, will apply for prompt corrective action purposes.

Part I. (cont.)**Item No. Caption and Instructions**

- 50** **Tier 1 capital ratio.** Report the institution's tier 1 risk-based capital ratio as a percentage, rounded to four decimal places.

On the FFIEC 041: Divide Schedule RC-R, Part I, item 26 by item 48.

On the FFIEC 031:

- Column A: Divide Schedule RC-R, Part I, item 26 by item 48.a.
- Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, Part I, item 26 by item 48.b. The lower of the reported capital ratios in this item 50, column A and column B, will apply for prompt corrective action purposes.

- 51** **Total capital ratio.** Report the institution's total risk-based capital ratio as a percentage, rounded to four decimal places.

On the FFIEC 041: Divide Schedule RC-R, Part I, item 47 by item 48.

On the FFIEC 031:

- Column A: Divide Schedule RC-R, Part I, item 47.a by item 48.a.
- Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, Part I, item 47.b by item 48.b. The lower of the reported capital ratios in this item 51, column A and column B, will apply for prompt corrective action purposes.

Capital Buffer**General Instructions for Schedule RC-R, Part I, item 52.**

For all institutions: In order to avoid limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements.

The amount reported in Schedule RC-R, Part I, item 52.a, must be greater than the capital conservation buffer of 2.50 percent (plus any other applicable capital buffers if the institution is an advanced approaches institution or Category III institution¹). Otherwise, the institution will face limitations on distributions and certain discretionary bonus payments and will be required to complete Schedule RC-R, Part I, items 53 and 54.

Item No. Caption and Instructions

- 52.a** **Capital conservation buffer.** Report the institution's capital conservation buffer as a percentage, rounded to four decimal places. Except as described below, the capital conservation buffer is equal to the lowest of ratios (1), (2), and (3) below.

For example, the capital conservation buffer to be reported in this item 52.a for the March 31, 2020, report date would be based on the capital ratios reported in Schedule RC-R, Part I, of the Call Report for March 31, 2020.

¹ Advanced approaches institutions, including those that have not exited parallel run, and Category III institutions will need to consult the regulatory capital rules if the countercyclical buffer is in place or if the institution is subject to countercyclical buffers in other jurisdictions. Any other applicable capital buffers applicable to an advanced approaches institution or Category III institution should be reported in Schedule RC-R, Part I, item 52.b, in order for that institution to determine if it will need to complete Schedule RC-R, Part I, items 53 and 54.

Part I. (cont.)**Item No. Caption and Instructions****52.a For all institutions, except advanced approaches institutions that exit parallel run:**
(cont.)

- (1) Schedule RC-R, Part I, item 49, column A, less 4.5000 percent, which is the minimum common equity tier 1 capital ratio requirement under section 10 of the regulatory capital rules;
- (2) Schedule RC-R, Part I, item 50, column A, less 6.0000 percent, which is the minimum tier 1 capital ratio requirement under section 10 of the regulatory capital rules; and
- (3) Schedule RC-R, Part I, item 51, column A, less 8.0000 percent, which is the minimum total capital ratio requirement under section 10 of the regulatory capital rules.

However, if any of the three ratios calculated above is less than zero (i.e., is negative), the institution's capital conservation buffer is zero.

For advanced approaches institutions that exit parallel run only:

- (1) The lower of Schedule RC-R, Part I, item 49, column A and column B, less 4.5000 percent, which is the minimum common equity tier 1 capital ratio requirement under section 10 of the regulatory capital rules;
- (2) The lower of Schedule RC-R, Part I, item 50, column A and column B, less 6.0000 percent, which is the minimum tier 1 capital ratio requirement under section 10 of the regulatory capital rules; and
- (3) The lower of Schedule RC-R, Part I, item 51, column A and column B, less 8.0000 percent, which is the minimum total capital ratio requirement under section 10 of the regulatory capital rules.

However, if any of the three ratios calculated above is less than zero (i.e., is negative), the institution's capital conservation buffer is zero.

52.b Advanced approaches institutions (FFIEC 031) and institutions subject to Category III capital standards (FFIEC 031 and FFIEC 041) only: Total applicable capital buffer.
Report the total applicable capital buffer as specified in the capital rule.

NOTE: Institutions must complete Schedule RC-R, Part I, item 53, if the amount reported in Schedule RC-R, Part I, item 52.a, is less than or equal to the applicable minimum capital conservation buffer of 2.5000 percent. An advanced approaches institution or a Category III institution will need to consider any other applicable capital buffers and should use Schedule RC-R, Part I, item 52.b.

Item No. Caption and Instructions**53 Eligible retained income.** Report the amount of eligible retained income as the net income attributable to the institution for the four calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income. (See the instructions for Schedule RC-R, Part I, item 54, for the definition of "distributions" from section 2 of the regulatory capital rules.)

For example, the amount of eligible retained income to be reported in this item 53 for the December 31, 2019, report date would be based on the net income attributable to the institution for the four calendar quarters ending on December 31, 2019. This net income amount would equal the net income attributable to the institution most recently reported in Schedule RI, item 14, for December 31, 2019 (i.e., after adjustments for amended Consolidated Reports of Income).

Part I. (cont.)**Item No. Caption and Instructions**

53 This net income amount would next be reduced by any distributions and associated tax effects not already reflected in net income; the resulting amount would be the eligible retained income to be reported in this item 53. Thus, if the institution had declared dividends on its common stock during each calendar quarter in 2019 and had no other distributions during 2019, the institution would reduce its net income amount by the total amount of the dividends declared in 2019 and report the resulting amount as its eligible net income in this item 53.

(cont.)

As an additional example, the amount of eligible retained income to be reported in this item 53 for the March 31, 2020, report date would be based on the net income attributable to the institution for the four calendar quarters ending on March 31, 2020. This net income amount would be calculated by:

- (1) Subtracting the net income attributable to the institution most recently reported in Schedule RI, item 14, for March 31, 2019 (i.e., after adjustments for amended Consolidated Reports of Income), from the net income attributable to the institution most recently reported in Schedule RI, item 14, for December 31, 2019 (i.e., after adjustments for amended Consolidated Reports of Income), and
- (2) Adding the result from (1) above to the net income attributable to the institution most recently reported in Schedule RI, item 14, for March 31, 2020 (i.e., after adjustments for amended Consolidated Reports of Income).

This net income amount would next be reduced by any distributions and associated tax effects not already reflected in net income (e.g., dividends declared on the institution's common stock between April 1, 2019, and March 31, 2020); the resulting amount would be the eligible retained income to be reported in this item 53.

NOTE: Institutions must complete Schedule RC-R, Part I, item 54, to report the amount of distributions and discretionary bonus payments made during the calendar quarter ending on the report date if the amount of its capital conservation buffer as of the end of the previous calendar quarter report date was less than its applicable required buffer percentage on that previous calendar quarter report date.

Item No. Caption and Instructions

54 **Distributions and discretionary bonus payments during the quarter.** An institution must complete this item if the amount of its capital conservation buffer as of the end of the previous calendar quarter report date was less than its applicable required buffer percentage on that previous calendar quarter report date. Report the amount of distributions and discretionary bonus payments during the calendar quarter ending on the report date.

For example, report the amount of distributions and discretionary bonus payments made during the calendar quarter ending March 30, 2020, if the amount of its capital conservation buffer as of the end of the December 31, 2019, was less than its applicable required buffer percentage on December 31, 2019.

As defined in section 2 of the regulatory capital rules, "distribution" means:

- (1) A reduction of tier 1 capital through the repurchase of a tier 1 capital instrument or by other means, except when an institution, within the same quarter when the repurchase is announced, fully replaces a tier 1 capital instrument it has repurchased by issuing another capital instrument that meets the eligibility criteria for:

Part I. (cont.)**Item No. Caption and Instructions**

- 54**
(cont.)
- (i) A common equity tier 1 capital instrument if the instrument being repurchased was part of the institution's common equity tier 1 capital, or
 - (ii) A common equity tier 1 or additional tier 1 capital instrument if the instrument being repurchased was part of the institution's tier 1 capital;
 - (2) A reduction of tier 2 capital through the repurchase, or redemption prior to maturity, of a tier 2 capital instrument or by other means, except when an institution, within the same quarter when the repurchase or redemption is announced, fully replaces a tier 2 capital instrument it has repurchased by issuing another capital instrument that meets the eligibility criteria for a tier 1 or tier 2 capital instrument;
 - (3) A dividend declaration or payment on any tier 1 capital instrument;
 - (4) A dividend declaration or interest payment on any tier 2 capital instrument if the institution has full discretion to permanently or temporarily suspend such payments without triggering an event of default; or
 - (5) Any similar transaction that the institution's primary federal regulator determines to be in substance a distribution of capital.

As defined in section 2 of the regulatory capital rules, "discretionary bonus payment" means a payment made to an executive officer of an institution, where:

- (1) The institution retains discretion as to whether to make, and the amount of, the payment until the payment is awarded to the executive officer;
- (2) The amount paid is determined by the institution without prior promise to, or agreement with, the executive officer; and
- (3) The executive officer has no contractual right, whether express or implied, to the bonus payment.

As defined in section 2 of the regulatory capital rules, "executive officer" means a person who holds the title or, without regard to title, salary, or compensation, performs the function of one or more of the following positions: president, chief executive officer, executive chairman, chief operating officer, chief financial officer, chief investment officer, chief legal officer, chief lending officer, chief risk officer, or head of a major business line, and other staff that the board of directors of the institution deems to have equivalent responsibility.

Supplementary Leverage Ratio**Item No. Caption and Instructions**

NOTE: Schedule RC-R, Part I, items 55.a and 55.b, are to be completed only by advanced approaches institutions, including those that have not exited parallel run, and institutions subject to Category III capital standards. All other institutions should leave Schedule RC-R, Part I, items 55.a and 55.b, blank.

- 55** **Advanced approaches institutions (FFIEC 031) and institutions subject to Category III capital standards (FFIEC 031 and FFIEC 041): Supplementary leverage ratio information.** Report in the appropriate subitem the institution's total leverage exposure and its supplementary leverage ratio.

Part I. (cont.)**Item No. Caption and Instructions**

55.a **Total leverage exposure.** Report the institution's total leverage exposure as measured in accordance with section 10(c)(4) of the regulatory capital rules.

An institution that has adopted [FASB Accounting Standards Update No. 2016-13](#), which governs the accounting for credit losses and introduces the current expected credit losses methodology (CECL), and has elected to apply the CECL transition provision (CECL electing institution) should increase its total leverage exposure by its applicable CECL transitional amount, in accordance with section 301(c)(2)(i) of the regulatory capital rules. For example, a CECL electing institution should increase its total leverage exposure for purposes of the supplementary leverage ratio by 75 percent of its CECL transitional amount during the first year of the transition period, 50 percent of its CECL transitional amount during the second year of the transition period, and 25 percent of its CECL transitional amount during the third year of the transition period.

55.b **Supplementary leverage ratio.** Report the institution's supplementary leverage ratio as a percentage, rounded to four decimal places. Divide Schedule RC-R, Part I, item 26, "Tier 1 capital," by Schedule RC-R, Part I, item 55.a, "Total leverage exposure."

Part II. Risk-Weighted Assets**Contents – Part II. Risk-Weighted Assets**

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Capital Simplifications Rule

As discussed on pages RC-R-1 and RC-R-2 of these instructions for Schedule RC-R, non-advanced approaches institutions can elect whether to implement the simpler regulatory capital requirements in the banking agencies' [capital simplifications rule](#) in the quarter beginning January 1, 2020 (i.e., for the reporting period ending March 31, 2020), or in the quarter beginning April 1, 2020 (i.e., for the reporting period ending June 30, 2020). All non-advanced approaches institutions must implement the capital simplifications rule no later than the reporting period ending on June 30, 2020.

The capital simplifications rule affects both the measurement of regulatory capital in Part I of Schedule RC-R and the risk weighting of certain assets in Part II of Schedule RC-R. Therefore, when completing Parts I and II of Schedule RC-R as of the March 31, 2020, report date, non-advanced approaches institutions should ensure that they consistently apply the capital treatment for mortgage servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions, and the calculation of minority interest under the capital simplifications rule or under the previous capital rule.

In addition, regardless of whether a non-advanced approaches institution chooses to early adopt, or elects to wait to adopt, the capital simplifications rule, a non-advanced approaches institution that has a community bank leverage ratio (CBLR) framework election in effect as of the March 31, 2020, report date (i.e., entered "1" for Yes in Schedule RC-R, Part I, item 31.a) should not complete Schedule RC-R, Part II, as of the March 31, 2020, report date.

Non-advanced approaches institutions that do not have a CBLR framework election in effect as of the March 31, 2020, report date should complete Schedule RC-R, Part II, in the FFIEC 031 or the FFIEC 041 Call Report, as applicable, for March 31, 2020, as follows:

- Non-advanced approaches institutions that choose to early adopt the capital simplifications rule in the quarter beginning January 1, 2020, should follow the revised instructions for Schedule RC-R, Part II, in this FFIEC 031-FFIEC 041 Call Report instruction book (updated as of March 2020) that are applicable to non-advanced approaches institutions.
- Non-advanced approaches institutions that file the FFIEC 041 and choose to wait to implement the capital simplifications rule until the reporting period ending June 30, 2020, should refer to the instructions for Schedule RC-R, Part II, in the separate standalone instructions for Schedule RC-R that will be posted on the [FFIEC Reporting Forms](#) webpage and the [FDIC Bank Financial Reports](#) webpage and are applicable for the March 31, 2020, report date only.
- Non-advanced approaches institutions that file the FFIEC 031 and choose to wait to implement the capital simplifications rule until the reporting period ending June 30, 2020, should follow the instructions for advanced approaches institutions in Schedule RC-R, Part II (unless otherwise indicated), in this FFIEC 031-FFIEC 041 Call Report instruction book (updated as of March 2020) when completing Schedule RC-R, Part II, items 2.a, 2.b, 7, 8, and 26 for the March 31, 2020, report date only.

Part II. (cont.)**Community Bank Leverage Ratio Framework**

A qualifying community banking organization that decides to opt into the community bank leverage ratio (CBLR) framework (i.e., has a CBLR framework election in effect as of the quarter-end report date, as reported in Schedule RC-R, Part I, item 31.a) should not complete Schedule RC-R, Part II. All other institutions should complete Schedule RC-R, Part II. A qualifying institution can opt out of the community bank leverage ratio framework by completing Schedule RC-R, Parts I and II, excluding Schedule RC-R, Part I, items 32 through 38.c. Please refer to the General Instructions for Schedule RC-R, Part I, for information on the reporting requirements that apply when an institution ceases to have a leverage ratio greater than 9 percent or fails to meet any of the qualifying criteria and is no longer in the grace period.

General Instructions for Schedule RC-R, Part II.

The instructions for Schedule RC-R, Part II, items 1 through 22, provide general directions for the allocation of bank balance sheet assets, credit equivalent amounts of derivatives and off-balance sheet items, and unsettled transactions to the risk-weight categories in columns C through Q (and, for items 1 through 10 only, to the adjustments to the totals in Schedule RC-R, Part II, column A, to be reported in column B). In general, the aggregate amount allocated to each risk-weight category is then multiplied by the risk weight associated with that category. The resulting risk-weighted values from each of the risk categories are added together, and generally this sum is the bank's total risk-weighted assets, which comprises the denominator of the risk-based capital ratios.

These instructions should provide sufficient guidance for most banks for risk weighting their balance sheet assets and credit equivalent amounts. However, these instructions do not address every type of exposure. Banks should review the regulatory capital rules of their primary federal supervisory authority for the complete description of capital requirements.

General Instructions for Schedule RC-R, Part II. (cont.)

Exposure Amount Subject to Risk Weighting

In general, banks need to risk weight the exposure amount. The exposure amount is defined in §.2 of the regulatory capital rules as follows:

- (1) For the on-balance sheet component of an exposure,¹ the bank's carrying value of the exposure.
- (2) For a security² classified as AFS or HTM where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, the carrying value of the exposure (including net accrued but uncollected interest and fees)³ less any net unrealized gains on the exposure plus any net unrealized losses on the exposure included in AOCI.
- (3) For AFS preferred stock classified as an equity security under GAAP where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, the carrying value less any net unrealized gains that are reflected in such carrying value, but are excluded from the bank's regulatory capital components.
- (4) For the off-balance sheet component of an exposure,⁴ the notional amount of the off-balance sheet component multiplied by the appropriate credit conversion factor in §.33 of the regulatory capital rules.
- (5) For an exposure that is an OTC derivative contract, the exposure amount determined under §.34 or §.132 of the regulatory capital rules.
- (6) For an exposure that is a derivative contract that is a cleared transaction, the exposure amount determined under §.35 or §.133 of the regulatory capital rules.

For derivatives that have matured, but have associated unsettled receivables or payables that are reported as assets or liabilities, respectively, on the balance sheet as of the quarter-end report date, a banking organization does not need to report such notional amounts for derivatives that have matured for purposes of Schedule RC-R, Part II.

- (7) For an exposure that is an eligible margin loan or repo-style transaction (including a cleared transaction) for which the bank calculates the exposure amount as provided in §.37, the exposure amount determined under §.37 of the regulatory capital rules.

¹ Not including: (1) an available-for-sale (AFS) or held-to-maturity (HTM) security where the bank has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a, (2) an over-the-counter (OTC) derivative contract, (3) a repo-style transaction or an eligible margin loan for which the bank determines the exposure amount under §.37 of the regulatory capital rules, (4) a cleared transaction, (5) a default fund contribution, or (6) a securitization exposure.

² Not including: (1) a securitization exposure, (2) an equity exposure, or (3) preferred stock classified as an equity security under generally accepted accounting principles (GAAP).

³ Where the bank has made the AOCI opt-out election, accrued but uncollected interest and fees reported in Schedule RC, item 11, "Other assets," associated with AFS or (HTM) debt securities that are not securitization exposures should be reported in Schedule RC-R, Part II, item 8, "All other assets."

⁴ Not including: (1) an OTC derivative contract, (2) a repo-style transaction or an eligible margin loan for which the bank calculates the exposure amount under §.37 of the regulatory capital rules, (3) a cleared transaction, (4) a default fund contribution, or (5) a securitization exposure.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

- (8) For an exposure that is a securitization exposure, the exposure amount determined under §.42 of the regulatory capital rules.

As indicated in the definition in §.2 of the regulatory capital rules, *carrying value* means with respect to an asset, the value of the asset on the balance sheet of the bank determined in accordance with GAAP.

Amounts to Report in Column B

The amount to report in column B will vary depending upon the nature of the particular item.

For items 1 through 8 and 11 of Schedule RC-R, Part II, column B should include the amount of the reporting bank's on-balance sheet assets that are deducted or excluded (not risk weighted) in the determination of risk-weighted assets. Column B should include assets that are deducted from capital such as:

- Goodwill;
- Other intangible assets (other than mortgage servicing assets (MSAs));
- Gain on sale of securitization exposures;
- For non-advanced approaches institutions,¹ threshold deductions above the 25 percent individual limits for (1) deferred tax assets (DTAs) arising from temporary differences that could not be realized through net operating loss carrybacks, (2) MSAs, net of associated deferred tax liabilities (DTLs), and (3) investments in the capital of unconsolidated financial institutions;
- For advanced approaches institutions,² threshold deductions above the 10 percent individual or 15 percent combined limits for (1) DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, (2) MSAs, net of associated DTLs, and (3) significant investments in the capital of unconsolidated financial institutions in the form of common stock;
- For advanced approaches institutions,³ non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that exceed the 10 percent threshold for non-significant investments; and
- Any other assets that must be deducted in accordance with the requirements of a bank's primary federal supervisory authority.

Column B should also include items that are excluded from the calculation of risk-weighted assets, such as the allowance for loan and lease losses or allowances for credit losses, as applicable; allocated transfer risk reserves; and certain on-balance sheet asset amounts associated with derivative contracts that are included in the calculation of the credit equivalent amounts of the derivative contracts. In addition, for items 1 through 8 and 11 of Schedule RC-R, Part II, column B should include any difference between the balance sheet amount of an on-balance sheet asset and its exposure amount as described above under "Exposure Amount Subject to Risk Weighting." *Note: For items 1 through 8 and 11 of Schedule RC-R, Part II, the sum of columns B through R must equal the balance sheet asset amount reported in column A.*

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of determining threshold deductions.

² For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of determining threshold deductions.

³ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for non-significant investments in the capital of unconsolidated financial institutions in the form of common stock.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

For items 9.a through 9.d of Schedule RC-R, Part II, the amount a reporting bank should report in column B will depend upon the risk-weighting approach it uses to risk weight its securitization exposures and whether the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. For each of items 9.a through 9.d, a mathematical relationship similar to the one described above will hold true, such that the sum of columns B through Q must equal the balance sheet asset amount reported in column A.

- If a bank uses the 1,250 percent risk weight approach to risk weight an on-balance sheet securitization exposure, the bank will report in column B the difference between the carrying value of the exposure and the exposure amount that is to be risk weighted. For example, if a bank has a securitization exposure that is an AFS debt security with a \$105 carrying value (i.e., fair value) including a \$5 unrealized gain (in other words, a \$100 amortized cost), the bank would report the following:
 - If the bank has not made (or cannot make) the AOCI opt-out election, the bank would report zero in item 9.b, column B. The bank would report the \$105 exposure amount to be risk weighted in item 9.b, column Q—1250% risk weight.
 - If the bank has made the AOCI opt-out election, the bank would report any unrealized gain as a positive number in item 9.b, column B, and any unrealized loss as a negative number in item 9.b, column B. Therefore, in this example, the bank would report \$5 in item 9.b, column B. Because the bank reverses out the unrealized gain for regulatory capital purposes because it has made the AOCI opt-out election, it does not have to risk weight the gain. (Note: The bank also would report the \$100 exposure amount to be risk weighted in item 9.b, column Q—1250% risk weight.)
- If the bank uses the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach to risk weight an on-balance sheet securitization exposure, the bank will report in column B the same amount that it reported in column A.

For item 10 of Schedule RC-R, Part II, the amount a reporting bank should report in column B also will depend upon the risk-weighting approach it uses to risk weight its securitization exposures. If a bank uses the 1,250 percent risk weight approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B any difference between the notional amount of the off-balance sheet securitization exposure that is reported in column A and its exposure amount. If the bank uses the SSFA or the Gross-Up Approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B the same amount that it reported in column A. An example is presented in the instructions for Schedule RC-R, Part II, item 10. For item 10 of Schedule RC-R, Part II, the sum of columns B through Q must equal the amount of the off-balance sheet securitization exposures reported in column A.

For items 12 through 21 of Schedule RC-R, Part II, column B should include the credit equivalent amounts of the reporting bank's derivative contracts and off-balance sheet items that are covered by the regulatory capital rules. For the off-balance sheet items in items 12 through 19, the credit equivalent amount to be reported in column B is calculated by multiplying the face, notional, or other amount reported in column A by the appropriate credit conversion factor. The credit equivalent amounts in column B are to be allocated to the appropriate risk-weight categories in columns C through J (or to the securitization exposure collateral category in column R, if applicable). For items 12 through 21 of Schedule RC-R, Part II, the sum of columns C through J (plus column R, if applicable) must equal the credit equivalent amount reported in column B.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)****Treatment of Collateral and Guarantees****a. Collateralized Transactions**

The rules for recognition of collateral are in §.37 and pertinent definitions in §.2 of the regulatory capital rules. The regulatory capital rules define qualifying financial collateral as cash on deposit, gold bullion, investment grade long- and short-term debt exposures (that are not resecuritization exposures), publicly traded equity securities and convertible bonds, and money market fund or other mutual fund shares with prices that are publicly quoted on a daily basis.

Banks may apply one of two approaches, as outlined in §.37, to recognize the risk-mitigating effects of qualifying financial collateral:

- (1) Simple Approach: Can be used for any type of exposure. Under this approach, banks may apply a risk weight to the portion of an exposure that is secured by the fair value of the financial collateral based on the risk weight assigned to the collateral under §.32. However, under this approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent, unless one of the following exceptions applies:
 - *Zero percent risk weight:* May be assigned to an exposure to an over-the-counter (OTC) derivative contract that is marked-to-market on a daily basis and subject to a daily margin requirement, to the extent that the contract is collateralized to cash on deposit; to the portion of an exposure collateralized by cash on deposit; to the portion of an exposure collateralized by an exposure to a sovereign that qualifies for the zero percent risk weight under §.32 and the bank has discounted the fair value of the collateral by 20 percent.
 - *10 percent risk weight:* May be assigned to an exposure to an OTC derivative contract that is marked-to-market on a daily basis and subject to a daily margin requirement, to the extent that the contract is collateralized by an exposure to a sovereign that qualified for a zero percent risk weight under §.32.
- (2) Collateral Haircut Approach: Can be used only for repo-style transactions, eligible margin loans, collateralized derivative transactions, and single-product netting sets of such transactions. Under this approach, banks would apply either standard supervisory haircuts or own internal estimates for haircuts to the value of the collateral. See §.37(c) of the regulatory capital rules for a description of the calculation of the exposure amount, standard supervisory market price volatility haircuts, and requirements for using own internal estimates for haircuts.

Banks may use any approach described in §.37 that is valid for a particular type of exposure or transaction; however, they must use the same approach for similar transactions or exposures.

If an exposure is partially secured, that is, the market value (or in cases of using the Collateral Haircut Approach, the adjusted market value) of the financial collateral is less than the face amount of an asset or off-balance sheet exposure, only the portion that is covered by the market value of the collateral is to be reported in the risk-weight category item appropriate to the type of collateral. The uncovered portion of the exposure continues to be assigned to the initial risk-weight category item appropriate to the exposure. The face amount of an exposure secured by multiple types of qualifying collateral is to be reported in the risk-weight category items appropriate to the collateral types, apportioned according to the market value of the types of collateral.

Exposures collateralized by deposits at the reporting institution

The portion of any exposure collateralized by deposits at the reporting institution would be eligible for a zero percent risk weight. The remaining portion of the exposure that is not collateralized by deposits should be risk-weighted according to the regulatory capital rules.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)****b. Guarantees and Credit Derivatives**

The rules for recognition of guarantees and credit derivatives are in §.36 and pertinent definitions are in §.2 of the regulatory capital rules. A bank may recognize the credit risk mitigation benefits of an eligible guarantee or eligible credit derivative by substituting the risk weight associated with the protection provider for the risk weight assigned to the exposure. Please refer to the definitions of *eligible guarantee*, *eligible guarantor*, and *eligible credit derivative* in §.2 of the regulatory capital rules. Note that in the definition of eligible guarantee, where the definition discusses contingent guarantees, only contingent guarantees of the U.S. government or its agencies are recognized.

The coverage amount provided by an eligible guarantee or eligible credit derivative will need to be adjusted downward if:

- The residual maturity of the credit risk mitigant is less than that of the hedged exposure (maturity mismatch adjustment), see §.36(c);
- The credit risk mitigant does not include as a credit event a restructuring of the hedged exposure involving forgiveness or postponement of principal, interest, or fees that results in a credit loss event (that is, a charge-off, specific provision, or other similar debit to the profit and loss account), see §.36(d); or
- The credit risk mitigant is denominated in a currency different from that in which the hedged exposure is denominated (currency mismatch adjustment, see §.36(e).

Exposures covered by Federal Deposit Insurance Corporation (FDIC) loss-sharing agreements

The portion of any exposure covered by an FDIC loss-sharing agreement would be eligible for a 20 percent risk weight. The remaining uncovered portion of the exposure should be risk weighted according to the regulatory capital rules.

Treatment of Equity Exposures

The treatment of equity exposures are outlined in §.51 through §.53 of the regulatory capital rules. Banks must use different methodologies to determine risk weighted assets for their equity exposures:

- The Simple Risk Weight Approach, which must be used for all types of equity exposures that are not equity exposures to a mutual fund or other investment fund, and
- Full look-through, simple modified look-through, and alternative modified look-through approaches for equity exposures to mutual funds and other investment funds.

Treatment of stable value protection

The regulatory capital rules define stable value protection (SVP) in §.51(a)(3).

A bank that purchases SVP on an investment in a separate account must treat the portion of the carrying value of the investment attributable to the SVP as an exposure to the provider of the protection. The remaining portion of the carrying value of the investment must be treated as an equity exposure to an investment fund.

A bank that provides SVP must treat the exposure as an equity derivative with an adjusted carrying value equal to the sum of the on-balance and off-balance sheet adjusted carrying value.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)***Adjusted carrying value*

The adjusted carrying value of an equity exposure is equal to:

- **On-balance sheet equity exposure:** The carrying value of the exposure.
- **On-balance sheet equity exposure that is classified as AFS where the bank has made the AOCI opt-out election:** The carrying value of the exposure less any net unrealized gains on the exposure that are reflected in the carrying value but excluded from regulatory capital.
- **Off-balance sheet portion of an equity exposure (that is not an equity commitment):** The effective notional principal amount¹ of the exposure minus the adjusted carrying value of the on-balance sheet component of the exposure.

For an equity commitment (a commitment to purchase an equity exposure), the effective notional principal amount must be multiplied by the following credit conversion factors: 20 percent for conditional equity commitments with an original maturity of one year or less, 50 percent for conditional equity commitments with an original maturity of more than one year, and 100 percent for unconditional equity commitments.

Equity exposure risk weighting methodologies

(1) Simple Risk Weight Approach: Must be used for all types of equity exposures that are not equity exposures to a mutual fund or other investment fund. Under this approach, banks must determine the risk weighted asset amount of an individual equity exposure by multiplying (1) the adjusted carrying value of the exposure or (2) the effective portion and ineffective portion of a hedge pair by the lowest possible risk weight below:

- *Zero percent risk weight:* An equity exposure to a sovereign, Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, the European Stability Mechanism, the European Financial Stability Facility, a multilateral development bank (MDB), and any other entity whose credit exposures receive a zero percent risk weight under §.32 of the regulatory capital rules.
- *20 percent risk weight:* An equity exposure to a public sector entity, Federal Home Loan Bank, and the Federal Agricultural Mortgage Corporation (Farmer Mac).
- *100 percent risk weight:* Equity exposures to:
 - Certain qualified community development investments,
 - The effective portion of hedge pairs,
 - For non-advanced approaches institutions:² Equity exposures, to the extent that the aggregate carrying value of the exposures does not exceed 10 percent of total capital. To utilize this risk weight, the bank must aggregate the following equity exposures: unconsolidated small business investment companies or held through consolidated small business investment companies; publicly traded (including those held indirectly through mutual funds or other investment funds); and non-publicly traded (including those held indirectly through mutual funds or other investment funds), and

¹ The regulatory capital rules define the “effective notional principal amount” as an exposure of equivalent size 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.

² For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) with respect to which equity exposures are assigned a 100 percent risk weight when the aggregate carrying value of the exposures does not exceed 10 percent of total capital.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

- For advanced approaches institutions:¹ Non-significant equity exposures, to the extent that the aggregate carrying value of the exposures does not exceed 10 percent of total capital. To utilize this risk weight, the bank must aggregate the following equity exposures: unconsolidated small business investment companies or held through consolidated small business investment companies; publicly traded (including those held indirectly through mutual funds or other investment funds); and non-publicly traded (including those held indirectly through mutual funds or other investment funds).
 - *250 percent risk weight:* For advanced approaches institutions only: Significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital.
 - *300 percent risk weight:* Publicly traded equity exposures.
 - *400 percent risk weight:* Equity exposures that are not publicly traded.
 - *600 percent risk weight:* An equity exposure to an investment firm, provided that the investment firm would (1) meet the definition of *traditional securitization* in §.2 of the regulatory capital rules were it not for the application of paragraph (8) of the definition and (2) has greater than immaterial leverage.
- (2) Full look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks calculate the aggregate risk-weighted asset amounts of the carrying value of the exposures held by the fund as if they were held directly by the bank multiplied by the bank's proportional ownership share of the fund.
- (3) Simple modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, risk-weighted assets for an equity exposure is equal to the exposure's adjusted carrying value multiplied by the highest risk weight that applies to any exposure the fund is permitted to hold under the prospectus, partnership agreement, or similar agreement that defines the funds permissible investments.
- (4) Alternative modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks may assign the adjusted carrying value on a pro rata basis to different risk-weight categories based on the limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments.

Treatment of Sales of 1-4 Family Residential First Mortgage Loans with Credit-Enhancing Representations and Warranties

When a bank transfers mortgage loans with credit-enhancing representations and warranties in a transaction that qualifies for sale accounting under GAAP, the bank will need to report and risk weight those exposures. The definition of *credit-enhancing representations and warranties* (CERWs) is found in §.2 of the regulatory capital rules. Many CERWs should be treated as securitization exposures for

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions (and not the instructions for non-advanced approaches institutions) with respect to which equity exposures are assigned a 100 percent risk weight when the aggregate carrying value of the exposures does not exceed 10 percent of total capital. In addition, such non-advanced approaches institutions must apply a 100 percent risk weight to significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital for the March 31, 2020, report date only.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

purposes of risk weighting. However, those CERWs that do not qualify as securitization exposures receive a 100 percent credit conversion factor as indicated in §.33 of the regulatory capital rules. For example, if the bank has agreed to repurchase the loans that it has sold, it will generally need to risk weight those loans in Schedule RC-R, Part II, item 17, until the warranties expire. Note that CERWs do not include certain early default clauses and similar warranties that permit the return of, or premium refund clauses covering, 1-4 family residential mortgage loans that qualify for a 50 percent risk weight provided the warranty period does not exceed 120 days from the date of transfer.

Example: A bank sells \$100 in qualifying 1-4 family residential first mortgage loans and agrees to repurchase them in case of early default for up to 180 days. This warranty exceeds the 120-day limit, and therefore the full \$100 should be reported in Schedule RC-R, Part II, item 17, until the warranty expires.

If the bank has made a CERW that is limited or capped (e.g., a warranty to cover first losses on loans up to a set amount that is less than the full loan amount), such warranties are regarded as securitization exposures under the regulatory capital rules as they represent a transaction that has been separated into at least two tranches reflecting different levels of seniority for credit risk. (Refer to the definitions of *securitization exposure*, *synthetic securitization*, *traditional securitization*, and *tranche* in §.2 of the regulatory capital rules). The bank will need to report and risk weight these warranties in Schedule RC-R, Part II, item 10, as off-balance sheet securitization exposures.

Example: A bank sells \$100 in qualifying 1-4 family residential first mortgage loans and agrees to compensate the buyer for losses up to \$2 if the loans default during the first 12 months. Twelve months exceeds the 120-day limit and therefore the agreement is a CERW. The CERW is also a securitization exposure because the \$2 is effectively a first loss tranche on a \$100 transaction.

For purposes of reporting this transaction in Schedule RC-R, Part II, item 10, the bank should report \$100 in column A, an adjustment of \$98 in column B, and then \$2 in column Q as an exposure amount that is risk weighted by applying a 1,250 percent risk weight (if the bank does not use the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach for purposes of risk weighting its securitization exposures). The bank will not need to report any amount in columns T or U of Schedule RC-R, Part II, item 10, unless it uses the SSFA or Gross-Up approach for calculating the risk-weighted asset amount for this transaction.

If the bank uses either the SSFA or Gross-Up Approach to risk weight the \$2 exposure, the bank should report \$100 in both column A and column B. In column T or U, it would report the risk-weighted asset amount calculated by using the SSFA or Gross-Up Approach, respectively.

Treatment of Exposures to Sovereign Entities and Foreign Banks

These instructions contain several references to Country Risk Classifications (CRC) used by the Organization for Economic Cooperation and Development (OECD). The CRC methodology classifies countries into one of eight risk categories (0-7), with countries assigned to the zero category having the lowest possible risk assessment and countries assigned to the 7 category having the highest possible risk assessment. The OECD regularly updates CRCs for more than 150 countries and makes the assessments publicly available on its website.¹ The OECD does not assign a CRC to every country; for example, it does not assign a CRC to a number of major economies; it also does not assign a CRC to many smaller countries. As such, the table below also provides risk weights for countries with no CRC based on whether or not those particular countries are members of the OECD. In addition, there is a higher risk weight of 150 percent for any country that has defaulted on its sovereign debt within the past 5 years, regardless of the CRC rating.

¹ See <http://www.oecd.org/trade/xcred/crc.htm>.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

Risk weights for reported balance sheet (items 1 through 8) and off-balance sheet and other (items 12 through 22) exposures are to be assigned based upon the tables below:

- Exposures to foreign central governments (including foreign central banks):

		Risk Weight (%)
Home Country CRC	0-1	0
	2	20
	3	50
	4-6	100
	7	150
OECD Member with No CRC		0
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- Exposures to foreign banks:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- General obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- Revenue obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	50
	2-3	100
	4-7	150
OECD Member with No CRC		50
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)*****All risk-weight categories pertaining to exposures to central foreign governments:***

- All exposures to foreign central governments may be assigned a lower risk weight if the following conditions are met: (1) the exposures are denominated in the particular foreign country's local currency; (2) the bank has at least equivalent liabilities in that currency; and (3) the risk weight is not lower than the risk weight that particular foreign country allows under its jurisdiction to assign to the same exposures to that country.

Summary of Risk Weights for Exposures to Government and Public Sector Entities

The following are some of the most common exposures to government and public sector entities and the risk weights that apply to them:

Column C – 0% risk weight:

- All exposures (defined broadly to include securities, loans, and leases) that are direct exposures to, or the portion of exposures that are directly and unconditionally guaranteed by, the U.S. Government or U.S. Government agencies. This includes the portions of deposits insured by the FDIC or the National Credit Union Administration (NCUA).
- Exposures that are collateralized by cash on deposit in the reporting bank.
- Exposures that are collateralized by securities issued or guaranteed by the U.S. Government, or other sovereign governments that qualify for the zero percent risk weight. Collateral value must be adjusted under §.37 of the regulatory capital rules.
- Exposures to, and the portions of exposures guaranteed by, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, the European Stability Mechanism, the European Financial Stability Facility, or a multilateral development bank (as specifically defined in §.2 of the regulatory capital rules).

Column G – 20% risk weight:

- The portion of exposures that are conditionally guaranteed by the U.S. Government or U.S. Government agencies. This includes exposures, or the portions of exposures, conditionally guaranteed by the FDIC or the NCUA.
- The portion of exposures that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government or U.S. Government agencies that are not included in zero percent column.
- General obligation exposures to states, municipalities, and other political subdivisions of the United States.
- Exposures to U.S. government-sponsored entities (GSEs) other than equity exposures or preferred stock, and risk sharing securities.

Column H – 50% risk weight:

- Revenue obligation exposures to states, municipalities, and other political subdivisions of the United States.

Column I – 100% risk weight:

- Preferred stock of U.S. GSEs.

Risk-Weighted Assets for Securitization Exposures

Under the agencies' regulatory capital rules, three separate approaches are available for setting the regulatory capital requirements for *securitization exposures*, as defined in §.2 of the regulatory capital rules. Securitization exposures include asset-backed and mortgage-backed securities, other positions in

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

securitization transactions, re-securitizations, and structured finance programs¹ (except credit-enhancing interest-only (CEIO) strips). Include as a securitization exposure for risk-weighted asset purposes any amount reported in Schedule RC, item 11, “Other assets,” for accrued interest receivable on an on-balance sheet securitization exposure. In general, under each of the three approaches, the risk-based capital requirement for a position in a securitization or structured finance program (hereafter referred to collectively as a securitization) is computed by multiplying the calculated amount of the position (including any accrued interest receivable on the position) by the appropriate risk weight. The three approaches to determining the proper risk weight for a securitization exposure are the Simplified Supervisory Formula Approach (SSFA), the Gross-Up Approach, or the 1,250 Percent Risk Weight Approach.

If a securitization exposure is not an after-tax gain-on-sale resulting from a securitization that requires deduction, or the portion of a CEIO strip that does not constitute an after-tax gain-on-sale,² a bank may assign a risk weight to the securitization exposure using the SSFA if certain requirements are met. If a bank is not subject to Subpart F (the market risk capital rule) of the regulatory capital rules, it may instead choose to assign a risk weight to the securitization exposure using the Gross-Up Approach if certain requirements are met. However, the bank must apply either the SSFA or the Gross-Up Approach consistently across all of its securitization exposures. However, if the bank cannot, or chooses not to, apply the SSFA or the Gross-Up Approach to an individual securitization exposure, the bank must assign a 1,250 percent risk weight to that exposure.

Both traditional and synthetic securitizations must meet certain operational requirements before applying either the SSFA or the Gross-Up Approach. Furthermore, banks must complete certain due diligence requirements and satisfactorily demonstrate a comprehensive understanding of the features of the securitization exposure that would materially affect the performance of the exposure. If these due diligence requirements are not met, the bank must assign the securitization exposure a risk weight of 1,250 percent. The bank’s analysis must be commensurate with the complexity of the securitization exposure and the materiality of the exposure in relation to its capital. Banks should refer to §.41 of the regulatory capital rules to review the details of these operational and due diligence requirements.

For example, a bank not subject to the market risk capital rule has 12 securitization exposures. The operational and due diligence requirements have been met for 10 of the exposures, to which the bank applies the Gross-Up Approach. The bank then assigns a 1,250 percent risk weight to the other two exposures. Alternatively, the bank could assign a 1,250 percent risk weight to all 12 securitization exposures.

a. Exposure Amount Calculation

The exposure amount of an on-balance sheet securitization exposure that is not an available-for-sale or held-to-maturity security where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, a repo-style transaction, an eligible margin loan, an over-the-counter (OTC) derivative contract, or a cleared transaction is equal to the carrying value of the exposure (including any accrued interest receivable on the exposure reported in Schedule RC, item 11, “Other assets”).

The exposure amount of an on-balance sheet securitization exposure that is an available-for-sale or held-to-maturity security where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, is equal to the carrying value of the exposure (including any accrued interest receivable on the

¹ Structured finance programs include, but are not limited to, collateralized debt obligations.

² Consistent with the regulatory capital rules, a bank must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from a securitization and must apply a 1,250 percent risk weight to the portion of a CEIO strip that does not constitute an after-tax gain-on-sale.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

exposure reported in Schedule RC, item 11), less any net unrealized gains on the exposure and plus any net unrealized losses on the exposure.

The exposure amount of an off-balance sheet securitization exposure that is not a repo-style transaction, an eligible margin loan, a cleared transaction (other than a credit derivative), an OTC derivative contract (other than a credit derivative), or an exposure to an asset-backed commercial paper (ABCP) program is the notional amount of the exposure.

For an off-balance sheet securitization exposure to an ABCP program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the bank could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets). An exposure amount of an eligible ABCP liquidity facility for which the SSFA does not apply is calculated by multiplying the notional amount of the exposure by a credit conversion factor (CCF) of 50 percent. An exposure amount of an eligible ABCP liquidity facility for which the SSFA does apply is calculated by multiplying the notional amount of the exposure by a CCF of 100 percent.

The exposure amount of a securitization exposure that is a repo-style transaction, eligible margin loan, or derivative contract (other than a credit derivative) is the exposure amount of the transaction as calculated using the instructions for calculating the exposure amount of OTC derivatives or collateralized transactions outlined in §.34, §.132, or §.37 of the regulatory capital rules.

If a bank has multiple securitization exposures that provide duplicative coverage to the underlying exposures of a securitization, the bank is not required to hold duplicative risk-based capital against the overlapping position. Instead, the bank may apply to the overlapping position the applicable risk-based capital treatment that results in the highest risk-based capital requirement.

If a bank provides support to a securitization in excess of the bank's contractual obligation to provide credit support to the securitization (implicit support) it must include in risk-weighted assets all of the underlying exposures associated with the securitization as if the exposures had not been securitized and must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from the securitization.

b. Simplified Supervisory Formula Approach

To use the SSFA to determine the risk weight for a securitization exposure, a bank must have data that enables it to accurately assign the parameters. The data used to assign the parameters must be the most currently available data and no more than 91 calendar days old. A bank that does not have the appropriate data to assign the parameters must assign a risk weight of 1,250 percent to the exposure. See the operational requirements outlined in §.43 of the regulatory capital rules for further instructions.

To calculate the risk weight for a securitization exposure using the SSFA, a bank must have accurate information on the following five inputs to the SSFA calculation:

- Parameter K_G is the weighted-average total capital requirement for *all* underlying exposures calculated using the standardized approach (with unpaid principal used as the weight for each exposure). Parameter K_G is expressed as a decimal value between zero and one (e.g., an average risk weight of 100 percent represents a value of K_G equal to .08). "Underlying exposures" is defined in the regulatory capital rules to mean one or more exposures that have been securitized in a securitization transaction. In this regard, underlying exposures means all exposures, including performing and nonperforming exposures. Thus, for example, for a pool of underlying corporate exposures that have been securitized, where 95 percent of the pool is performing (and qualify for a risk weight of 100 percent) and 5 percent of the pool is past due

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

exposures that are not guaranteed and are unsecured (and thus are assigned a risk weight of 150 percent), the weighted risk weight for the pool would be 102.5 percent [$102.5\% = (95\% * 100\%) + (5\% * 150\%)$] and the total capital requirement K_G would be equal to 0.082 (102.5% divided by 1,250%). This treatment is consistent with the regulatory capital rules.

- Parameter W is the ratio of the sum of the dollar amounts of any underlying exposures within the securitized pool to the ending balance, measured in dollars, of underlying exposures, that meet any of the following criteria: (1) 90 days or more past due; (2) subject to a bankruptcy or insolvency proceeding; (3) in the process of foreclosure; (4) held as real estate owned; (5) has contractually deferred interest payments for 90 days or more (other than in the case of deferrals on federally guaranteed student loans and certain consumer loans deferred according to provisions in the contract); or (6) is in default. Parameter W is expressed as a decimal value between zero and one.

As a result, past due exposures that also meet one or more of the criteria in parameter W are to be factored into the measure of both parameters K_G and W for purposes of calculating the regulatory capital requirement for securitization exposures using the SSFA.

- Parameter A is the attachment point for the exposure, which represents the threshold at which credit losses will first be allocated to the exposure. Parameter A equals the ratio of the current dollar amount of underlying exposures that are subordinated to the exposure of the bank to the current dollar amount of underlying exposures. Any reserve account funded by the accumulated cash flows from the underlying exposures that is subordinated to the bank's securitization exposure may be included in the calculation of parameter A to the extent that cash is present in the account. Parameter A is expressed as a decimal value between zero and one.
- Parameter D is the detachment point for the exposure, which represents the threshold at which credit losses of principal allocated to the exposure would result in a total loss of principal. Parameter D equals parameter A plus the ratio of the current dollar amount of the securitization exposures that are pari passu with the exposure (that is, have equal seniority with respect to credit risk) to the current dollar amount of the underlying exposures. Parameter D is expressed as a decimal value between zero and one.
- A supervisory calibration parameter, p, is equal to 0.5 for securitization exposures that are not resecuritization exposures and equal to 1.5 for resecuritization exposures.

There are three steps to calculating the risk weight for a securitization using the SSFA. First, a bank must complete the following equations using the previously described parameters:

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$

$$a = -\frac{1}{p \cdot K_A}$$

$$u = D - K_A$$

$$l = \max(A - K_A, 0)$$

$e = 2.71828$, the base of the natural logarithms

Second, using the variables calculated in first step, find the value of K_{SSFA} using the formula below:

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

Third, the risk weight of any particular securitization exposure (expressed as a percent) will be equal to:

$$K_{SSFA} \times 1,250$$

To determine the risk-based capital requirement under the SSFA, multiply the exposure amount (including any accrued interest receivable on the exposure) by the higher of either (1) the calculated risk weight or (2) a 20 percent risk weight.

For purposes of reporting in Schedule RC-R, Part II, items 9 and 10, a bank would report in column T the risk-weighted asset amount calculated under the SSFA for its securitization exposures.

c. Gross-Up Approach

A bank that is not subject to the market risk capital rule (Subpart F) in the regulatory capital rules may apply the Gross-Up Approach instead of the SSFA to determine the risk weight of its securitization exposures, provided that it applies the Gross-Up Approach consistently to all of its securitization exposures.

To calculate the risk weight for a securitization exposure using the Gross-Up Approach, a bank must calculate the following four inputs:

- (1) Pro rata share, which is the par value of the bank's securitization exposure as a percent of the par value of the tranche in which the securitization exposure resides.
- (2) Enhanced amount, which is the par value of the tranches that are more senior to the tranche in which the bank's securitization resides.
- (3) Exposure amount of the bank's securitization exposure (including any accrued interest receivable on the exposure).
- (4) Risk weight, which is the weighted-average risk weight of underlying exposures in the securitization pool.

The bank would calculate the credit equivalent amount which is equal to the sum of the exposure amount of the bank's securitization exposure (3) and the pro rata share (1) multiplied by the enhanced amount (2).

A bank must assign the higher of the weighted-average risk weight (4) or a 20 percent risk weight to the securitization exposure using the Gross-Up Approach.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

To determine the risk-based capital requirement under the gross-up approach, multiply the higher of the two risk weights by the credit equivalent amount. These steps are outlined in the worksheet below:

Gross-Up Approach Worksheet to Calculate the Capital Charge for a Securitization Exposure that is Not a Senior Exposure¹

- (a) Currently outstanding par value of the bank’s non-senior securitization exposure divided by the currently outstanding par value of the entire tranche (e.g., 60%²) _____
- (b) Currently outstanding par value of the more senior positions in the securitization that are supported by the tranche in which the bank owns a non-senior securitization exposure _____
- (c) Pro rata share of the more senior positions currently outstanding in the securitization that are supported by the bank’s non-senior securitization exposure: enter (b) multiplied by (a) _____
- (d) Exposure amount of the bank’s non-senior securitization exposure _____
- (e) Enter the sum of (c) and (d) _____
- (f) Enter the weighted-average risk weight applicable to the assets underlying the securitization _____
- (g) Risk-weighted asset amount of the bank’s non-senior securitization exposure: enter the higher of:
 - (d) multiplied by 20%, or
 - (e) multiplied by (f)

- (h) Capital charge for the risk-weighted asset amount of the bank’s non-senior securitization exposure: enter (g) multiplied by 8% _____

For purposes of reporting its non-senior securitization exposures in Schedule RC-R, Part II, items 9 and 10, a bank would report in column U the risk-weighted asset amount calculated in line (g) on the Gross-Up Approach worksheet. For a senior securitization exposure, a bank would report in column U the exposure amount of its exposure multiplied by the weighted-average risk weight of the securitization’s underlying exposures, subject to a 20 percent risk-weight floor.

Reporting in Schedule RC-R, Part II, When Using the Gross-Up Approach:

If the bank’s non-senior security is an HTM securitization exposure, the amortized cost of this security is included on the Consolidated Report of Condition balance sheet in Schedule RC, item 2.a, “Held-to-maturity securities,” and on the regulatory capital schedule in columns A and B of Schedule RC-R, Part II, item 9.a, “On-balance sheet securitization exposures – Held-to-maturity securities.” The risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule RC-R, Part II, item 9.a.

If the bank’s security is an AFS securitization exposure, the fair value of this security is included on the Consolidated Report of Condition balance sheet in Schedule RC, item 2.b, “Available-for-sale securities,”

¹ A senior securitization exposure means a securitization exposure that has a first priority claim on the cash flows from the underlying exposures, without considering amounts due under interest rate or currency contracts, fees or other similar payments due. Time tranching (that is, maturity differences) also is not considered when determining whether a securitization exposure is a senior securitization exposure.

² For example, if the currently outstanding par value of the entire tranche is \$100 and the currently outstanding par value of the bank’s subordinated security is \$60, then the bank would enter 60% in (a).

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

and on the regulatory capital schedule in column A of Schedule RC-R, Part II, item 9.b, “On-balance sheet securitization exposures – Available-for-sale securities.” For further information on the reporting of AFS securitization exposures in column B, refer to the instructions for Schedule RC-R, Part II, item 9.b, because the amount reported in column B depends on whether the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. For non-senior AFS securitization exposures, the risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule RC-R, Part II, item 9.b.

If the bank’s non-senior security is a trading securitization exposure, the fair value of this security is included on the Consolidated Report of Condition balance sheet in Schedule RC, item 5, “Trading assets,” and on the regulatory capital schedule in column A of Schedule RC-R, Part II, item 9.c, “On-balance sheet securitization exposures – Trading assets.” A trading security is risk-weighted using its fair value if the bank is not subject to the market risk capital rule. The risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule RC-R, Part II, item 9.c.

d. 1,250 Percent Risk Weight Approach

If the bank cannot, or chooses not to, apply the SSFA or the Gross-Up Approach to the securitization exposure, the bank must assign a 1,250 percent risk weight to the exposure (including any accrued interest receivable on the exposure).

Securitization exposure reporting in Schedule RC-R, Part II

Securitization exposure reporting depends on the methodology the bank will use to risk weight the exposure.

For example, if a bank plans to apply the 1,250 percent risk weight to its securitization exposures, the amount reported in column Q should match the amount reported in column A (plus or minus any adjustments reported in column B, such as that for an allocated transfer risk reserve (ATTR)). For any securitization exposure risk weighted using the 1,250 percent risk weight, the sum of columns B and Q should equal column A.

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q)	(Column T)	(Column U)	
			Exposure Amount	Total Risk-Weighted Asset Amount by Calculation Methodology		
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
a. Held-to-maturity securities	\$100	\$0	\$100	\$0	\$0	9.a.

In addition, when a bank applies the 1,250 percent risk weight to an on-balance sheet securitization exposure, the bank should include in column A of Schedule RC-R, Part II, item 9.d, any amount reported in Schedule RC, item 11, “Other assets,” for accrued interest receivable on the securitization exposures, regardless of where the securitization exposure is reported on the balance sheet in Schedule RC. The amount reported in column Q should match the amount reported in column A

If a bank – regardless of whether it makes the AOCI opt-out election – is applying the SSFA or Gross-Up Approach, the reporting is significantly different due to the fact that the bank reports the risk-weighted asset amount in columns T or U.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

In the case where a bank has a securitization exposure with a balance sheet value of \$100, it would report \$100 in both columns A and B. If the bank applies the SSFA and calculates a risk-weighted asset exposure of \$20 for that securitization, the bank would report \$20 in column T. Since it is using the SSFA for all its securitization exposures, the bank must report \$0 in column U.

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q)	(Column T)	(Column U)	
			Exposure Amount	Total Risk-Weighted Asset Amount by Calculation Methodology		
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
a. Held-to-maturity securities	\$100	\$100	\$0	\$20	\$0	9.a.

A bank, at its discretion, could also use both the 1,250 percent risk weight for some securitization exposures and either the SSFA or Gross-Up Approach for other securitization exposures. For example, Bank Z has three securitization exposures, each valued at \$100 on the balance sheet. Bank Z chooses to apply the 1,250 percent risk weight to one exposure and use the Gross-Up Approach to calculate risk-weighted assets for the other two exposures. Assume that the risk-weighted asset amount under the Gross-Up Approach is \$20 for each exposure.

The bank would report the following:

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q)	(Column T)	(Column U)	
			Exposure Amount	Total Risk-Weighted Asset Amount by Calculation Methodology		
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
a. Held-to-maturity securities	\$300	\$200	\$100	\$0	\$40	9.a.

The \$200 reported under column B reflects the balance sheet amounts of the two securitization exposures risk weighted using the Gross-Up Approach. This ensures that the sum of columns B and Q continues to equal the amount reported in column A. The \$40 under column U reflects the risk-weighted asset amount of the sum of the two securitization exposures that were risk weighted using the Gross-Up Approach. This \$40 is included in risk-weighted assets before deductions in item 28 of Schedule RC-R, Part II.

Banks That Are Subject to the Market Risk Capital Rule

The banking agencies' regulatory capital rules require all banks with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a bank is subject to the market risk capital rule if its consolidated trading activity, defined as the sum of trading assets and liabilities as reported in its Call Report for the previous quarter, equals: (1) 10 percent or more of the bank's total assets as reported in its Call Report for the previous quarter, or (2) \$1 billion or more. However, a bank's primary federal supervisory authority may exempt or include the bank if necessary or appropriate for safe and sound banking practices.

A bank that is subject to the market risk capital rule must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC-D, that is held for any of the following reasons:

- (1) For the purpose of short-term resale;
- (2) With the intent of benefiting from actual or expected short-term price movements;
- (3) To lock in arbitrage profits; or
- (4) To hedge another covered position.

Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. Covered positions generally should not be risk weighted as part of the bank's credit risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter derivatives as well as cleared transactions and unsettled transactions continue to have a counterparty credit risk capital charge. Those positions are included in both risk-weighted assets for credit risk and the bank's covered positions for market risk.

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank must be able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions).

A covered position does not include:

- (1) An intangible asset (including any servicing asset);
- (2) A hedge of a trading position that is outside the scope of the bank's hedging strategy (required by the market risk capital rule);
- (3) Any position that, in form or substance, acts as a liquidity facility that provides support to ABCP;
- (4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the regulatory capital rules for credit risk;
- (5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity);
- (6) A position held with the intent to securitize; or
- (7) A direct real estate holding.

A bank subject to the market risk capital rule must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital and Tier 2 capital, net of all deductions) to the sum of risk-weighted assets and market risk-weighted assets. Banks should refer to the regulatory capital rules of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

Adjustments for Financial Subsidiaries

Section 121 of the [Gramm-Leach-Bliley Act](#) allows national banks and insured state banks to establish entities known as financial subsidiaries. (Savings associations are not authorized under the Gramm-Leach-Bliley Act to have financial subsidiaries.) One of the statutory requirements for establishing a financial subsidiary is that a national bank or insured state bank must deduct any investment in a financial subsidiary from the bank's assets and tangible equity. Therefore, under the revised regulatory capital rules, a bank must deduct the aggregate amount of its outstanding equity investment in a financial subsidiary, including the retained earnings of the subsidiary, from its common equity tier 1 capital elements in Schedule RC-R, Part I, item 10.b. In addition, the assets and liabilities of the subsidiary may not be consolidated with those of the parent bank for regulatory capital purposes.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

If a financial subsidiary has not been consolidated into the bank for purposes of the bank's balance sheet, as reported in Schedule RC, the bank must adjust its assets, as reported in Schedule RC-R, Part II, for its equity investment in the financial subsidiary (accounted for under the equity method of accounting). Accordingly, the amount at which the bank's equity investment in the financial subsidiary is included in the bank's "All other assets" as reported in Schedule RC-R, Part II, item 8, column A, should be reported as an adjustment in item 8, column B.

If a financial subsidiary has been consolidated into the bank for purposes of the bank's balance sheet, as reported in Schedule RC, the bank must adjust its consolidated assets, as reported in Schedule RC-R, Part II, items 1 through 9, column A, for the assets of the financial subsidiary that are included in column A. Accordingly, the amount at which the financial subsidiary's assets are included in the bank's consolidated assets in column A should be reported, by balance sheet asset category, as adjustments in column B. For example, if a bank's \$100 million in HTM securities, as reported in Schedule RC-R, Part II, item 2.a, column A, includes its financial subsidiary's \$10 million in HTM securities, the bank should report \$10 million as an adjustment in item 2.a, column B.

In addition, if a financial subsidiary has been consolidated into the bank for purposes of the bank's off-balance sheet securitization exposures, derivatives, off-balance sheet items, and other items subject to risk weighting as reported in Schedules RC-L, RC-S, and RC, the bank must adjust its consolidated exposures for the exposures of its financial subsidiary when the bank completes the items for derivatives, off-balance sheet exposures, and other items subject to risk weighting in Schedule RC-R, Part II. Thus, the bank should exclude the off-balance sheet securitization exposures and off-balance sheet items (including repo-style transactions) of its financial subsidiary from the amounts it reports in Schedule RC-R, Part II, items 10 and 12 through 19, column A. The bank also should exclude the derivatives of its financial subsidiary from the calculation of the credit equivalent amount of derivatives the bank reports in Schedule RC-R, Part II, items 20 and 21, column B, and from the current credit exposure amount and notional principal amounts reported in Schedule RC-R, Part II, Memorandum items 1 through 3.

If a financial subsidiary has been consolidated into the bank for purposes of the bank's balance sheet, as reported in Schedule RC, and the bank's consolidated allowance for loan and lease losses or consolidated allowances for credit losses, as applicable, or its consolidated allowance for credit losses on off-balance sheet credit exposures includes such an allowance attributable to the financial subsidiary, the bank must adjust its consolidated allowances for those attributable to the financial subsidiary. Accordingly, the bank must exclude the portion of its consolidated allowance for loan and lease losses or consolidated allowances for credit losses, as applicable, and its consolidated allowance for credit losses on off-balance sheet credit exposures attributable to its financial subsidiary when the bank determines the amount of its allowance for loan and lease losses or adjusted allowances for credit losses, as applicable, includable in tier 2 capital (reported in Schedule RC-R, Part I, item 42 on the FFIEC 041; item 42.a on the FFIEC 031) and its excess allowance for loan and lease losses or excess adjusted allowances for credit losses, as applicable (reported in Schedule RC-R, Part II, item 29).

Treatment of Embedded Derivatives

If a bank has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank's assets on Schedule RC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule RC-R, Part II (items 1 to 8). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral. All derivative exposures should be risk weighted in the derivative items of Schedule RC-R, Part II, as appropriate (items 20 or 21).

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)****Reporting Exposures Hedged with Cleared Eligible Credit Derivatives**

Institutions are able to obtain full or partial protection for (i.e., “hedge”) on-balance sheet assets or off-balance sheet items using credit derivatives that are cleared through a qualified central counterparty (QCCP) or a central counterparty (CCP) that is not a QCCP. In some cases, a cleared credit derivative used for this purpose meets the definition of an eligible credit derivative in §.2 of the regulatory capital rules. In these cases, under §.36 of the regulatory capital rules, an institution that is a clearing member or a clearing member client may recognize the credit risk mitigation benefits of the eligible credit derivative. More specifically, the risk weight of the underlying exposure (e.g., 20 percent, 50 percent, or 100 percent) may be replaced with the risk weight of the CCP or QCCP as the protection provider if the credit derivative is an eligible credit derivative, is cleared through a CCP or a QCCP, and meets the applicable requirements under §.35 and §.36 of the regulatory capital rules. The risk weight for an eligible credit derivative cleared through a QCCP is 2 percent or 4 percent, based on conditions set forth in the rules. The risk weight for an eligible credit derivative cleared through a CCP is determined according to §.32 of the regulatory capital rules. In addition, the coverage amount provided by an eligible credit derivative must be adjusted downward under certain conditions as described in §.36 of the regulatory capital rules.

If a clearing member bank or clearing member client bank has obtained full or partial protection for an on-balance sheet asset or off-balance sheet item using a cleared eligible credit derivative cleared through a QCCP, the institution may, but is not required to, recognize the benefits of this eligible credit derivative in determining the risk-weighted asset amount for the hedged exposure in Schedule RC-R, Part II, by reporting the protected exposure amounts and credit equivalent amounts in the 2 percent or 4 percent risk-weight category, as appropriate under the regulatory capital rules. Any amount of the exposure that is not covered by the eligible credit derivative should be reported in the risk-weight category corresponding to the risk weight of the underlying exposure. For example, for an asset with a \$200 exposure amount fully covered by an eligible credit derivative cleared through a QCCP that qualifies for a 2 percent risk weight, the institution would report the \$200 exposure amount in Column D–2% risk weight for the appropriate asset category.

Treatment of Certain Centrally Cleared Derivative Contracts

In August 2017, the banking agencies issued [supervisory guidance on the regulatory capital treatment of certain centrally cleared derivative contracts](#), which are reported in Schedule RC-R, Part II, item 21, in light of revisions to the rulebooks of certain central counterparties. Under the previous requirements of these central counterparties’ rulebooks, variation margin transferred to cover the exposure that arises from marking cleared derivative contracts, and netting sets of such contracts, to fair value was considered collateral pledged by one party to the other, with title to the collateral remaining with the posting party. These derivative contracts are referred to as collateralized-to-market contracts. Under the revised rulebooks of certain central counterparties, variation margin for certain centrally cleared derivative contracts, and certain netting sets of such contracts, is considered a settlement payment for the exposure that arises from marking these derivative contracts and netting sets to fair value, with title to the payment transferring to the receiving party. In these circumstances, the derivative contracts and netting sets are referred to as settled-to-market contracts.

Irrespective of the classification discussed above, under the standardized approach for counterparty credit risk (SA-CCR), a banking organization may elect to treat settled-to-market derivative contracts as collateralized-to-market derivative contracts subject to a variation margin agreement and apply the maturity factor for derivative contracts subject to a variation margin agreement. A banking organization that elects to apply this treatment must apply the maturity factor applicable to margined derivative contracts.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

Under the agencies' regulatory capital rules, in general, an institution must calculate the trade exposure amount for a cleared derivative contract, or a netting set of such contracts, by using the methodology described in §.34 of the rules to determine (i) the current credit exposure and (ii) the potential future exposure (PFE) of the derivative contract or netting set of such contracts for purposes of the standardized approach risk-based capital calculation and the supplementary leverage ratio calculation when using the Current Exposure Method (CEM) or by using the methodology described in §.132 of the regulatory capital rules to determine (i) the replacement cost and (ii) the PFE of the derivative contract or netting set of such contracts for purposes of the standardized approach risk-based capital calculation and the supplementary leverage ratio calculations when using SA-CCR. The risk-weighted asset calculations under the advanced approaches capital framework have similar requirements. Under CEM, current credit exposure is determined by reference to the fair value of each derivative contract as measured under U.S. GAAP. PFE is determined, in part, by multiplying each derivative contract's notional principal amount by a conversion factor. The conversion factors vary by the category (for example, interest rate, equity) and remaining maturity of the derivative contract.¹

Under SA-CCR, the determination of the replacement cost depends on whether the counterparty to a banking organization is required to post variation margin. The replacement cost for a netting set that is not subject to a variation margin agreement is equal to the greater of (1) the sum of the fair values (after excluding any valuation adjustments) of the derivative contracts within the netting set, less the net independent collateral amount applicable to such derivative contracts, or (2) zero. For a netting set that is subject to a variation margin agreement where the counterparty is required to post variation margin, replacement cost is equal to the greater of (1) the sum of the fair values (after excluding any valuation adjustments) of the derivative contracts within the netting set, less the sum of the net independent collateral amount and the variation margin amount applicable to such derivative contracts; (2) the sum of the variation margin threshold and the minimum transfer amount applicable to the derivative contracts within the netting set, less the net independent collateral amount applicable to such derivative contracts; or (3) zero. The SA-CCR PFE is equal to the product of the PFE multiplier and the aggregated amount. To determine the aggregated amount, a banking organization is required to determine the hedging set amounts for the derivative contracts within a netting set, where a hedging set is comprised of derivative contracts that share similar risk factors based on asset class (e.g., interest rate, exchange rate, credit, equity, and commodity).

The regulatory capital rules provide that, for a derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the fair value of the contract is zero, the remaining maturity equals the time until the next reset date.

For the purpose of the regulatory capital rules, the August 2017 supervisory guidance states that if, after accounting and legal analysis, an institution determines that (i) the variation margin payment on a centrally cleared settled-to-market contract settles any outstanding exposure on the contract, and (ii) the terms are reset so that the fair value of the contract is zero, the remaining maturity on such a contract would equal the time until the next exchange of variation margin on the contract. In conducting its legal analysis to determine whether variation margin may be considered settlement of outstanding exposure under the regulatory capital rules, an institution should evaluate whether the transferor of the variation margin has relinquished all legal claims to the variation margin and whether the payment of variation margin constitutes settlement under the central counterparty's rulebook, any other applicable agreements governing the derivative contract, and applicable law. Among other requirements, a central counterparty's rulebook may require an institution to satisfy additional obligations, such as payment of other expenses and fees, in order to recognize payment of variation margin as satisfying settlement under the rulebook. The legal and accounting analysis performed by the institution should take all such requirements into account.

¹ See the instructions for Schedule RC-R, Part II, item 21, "Centrally cleared derivatives," for a chart of the conversion factors.

Part II. (cont.)**General Instructions for Schedule RC-R, Part II. (cont.)**

When using the SA-CCR method, a banking organization may elect to treat settled-to-market derivatives contracts as subject to a variation margin agreement and receive the benefits of netting with collateralized-to-market derivative contracts. If a banking organization elects to treat settled-to-market derivative contracts as subject to a variation margin agreement, it must apply the maturity factor to such contracts under §.132(c)(9)(iv)(A) of the rules. The maturity factor of a derivative contract that is subject to a variation margin agreement, excluding derivative contracts that are subject to a variation margin agreement under which the counterparty is not required to post variation margin, is determined by the following formula:

$$\text{Maturity factor} = \frac{3}{2} \sqrt{\frac{MPOR}{250}},$$

where MPOR refers to the period from the most recent exchange of collateral under a variation margin agreement with a defaulting counterparty until the derivative contracts are closed out and the resulting market risk is re-hedged.

Institutions should refer to the August 2017 supervisory guidance in its entirety for purposes of determining the appropriate regulatory capital treatment of settled-to-market contracts under the regulatory capital rules.

Treatment of FDIC Loss-Sharing Agreements

Loss-sharing agreements entered into by the FDIC with acquirers of assets from failed institutions are considered conditional guarantees for risk-based capital purposes due to contractual conditions that acquirers must meet. The guaranteed portion of assets subject to a loss-sharing agreement may be assigned a 20 percent risk weight. Because the structural arrangements for these agreements vary depending on the specific terms of each agreement, institutions should consult with their primary federal regulator to determine the appropriate risk-based capital treatment for specific loss-sharing agreements.

Allocated Transfer Risk Reserve (ATRR)

If the reporting bank is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, the ATRR should be reported in Schedule RC-R, Part II, item 30. The ATRR is not eligible for inclusion in either tier 1 or tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule RC, item 4.c, "Allowance for loan and lease losses," and separately disclosed in Schedule RI-B, part II, Memorandum item 1. However, if the bank must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule RC. In this situation, the ATRR should be reported as a negative number (i.e., with a minus (-) sign) in column B, "Adjustments to totals reported in Column A," of the corresponding asset category in Schedule RC-R, Part II, items 1 through 4 and 7 through 9. The amount to be risk weighted for this asset in columns C through Q, as appropriate, would be its net carrying value plus the ATRR. For example, a bank has an HTM security issued by a foreign commercial company against which it has established an ATRR of \$20. The security, net of the ATRR, is included in Schedule RC, item 2.a, "Held-to-maturity securities," at \$80. The security should be included in Schedule RC-R, Part II, item 2.a, column A, at \$80. The bank should include \$-20 in Schedule RC-R, item 2.a, column B, and \$100 in item 2.a, column I.

Part II. (cont.)**Item Instructions for Schedule RC-R, Part II.****Balance Sheet Asset Categories****Item No. Caption and Instructions**

- 1 Cash and balances due from depository institutions.** Report in column A the amount of cash and balances due from depository institutions reported in Schedule RC, sum of items 1.a and 1.b, excluding those balances due from depository institutions that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The amount of those balances due from depository institutions reported in Schedule RC, items 1.a and 1.b, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.

- *In column C—0% risk weight, include:*
 - The amount of currency and coin reported in Schedule RC, item 1.a;
 - Any balances due from Federal Reserve Banks reported in Schedule RC, item 1.b; and
 - The insured portions of deposits in FDIC-insured depository institutions and NCUA-insured credit unions reported in Schedule RC, items 1.a and 1.b.
- *In column G—20% risk weight, include:*
 - Any balances due from depository institutions and credit unions that are organized under the laws of the United States or a U.S. state reported in Schedule RC, items 1.a and 1.b, in excess of any applicable FDIC or NCUA deposit insurance limits for deposit exposures or where the depository institutions are not insured by either the FDIC or the NCUA;
 - Any balances due from Federal Home Loan Banks reported in Schedule RC, items 1.a and 1.b; and
 - The amount of cash items in the process of collection reported in Schedule RC, item 1.a.
- *In column I—100% risk weight, include all other amounts that are not reported in columns C through H and J.*
- Cash and balances due from depository institutions that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
 - The amounts reported in Schedule RC, items 1.a and 1.b, composed of balances due from foreign banks; and
 - Any balances due from foreign central banks.

If the reporting bank is the correspondent bank in a pass-through reserve balance relationship, report in column C the amount of its own reserves as well as those reserve balances actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions.

If the reporting bank is the respondent bank in a pass-through reserve balance relationship, report in column C the amount of the bank's reserve balances due from its correspondent bank that its correspondent has actually passed through to a Federal Reserve Bank on the reporting bank's behalf, i.e., for purposes of this item, treat these balances as balances due

Part II. (cont.)**Item No. Caption and Instructions**

1
(cont.) from a Federal Reserve Bank. This treatment differs from that required in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S.," which treats pass-through reserve balances held by a bank's correspondent as balances due from a depository institution as opposed to balances due from the Federal Reserve.

If the reporting bank is a participant in an excess balance account at a Federal Reserve Bank, report in column C the bank's balance in this account.

If the reporting bank accounts for any holdings of certificates of deposit (CDs) like available-for-sale debt securities that do not qualify as securitization exposures, report in column A the fair value of such CDs. If the bank has made the Accumulated Other Comprehensive Income opt-out election in Schedule RC-R, Part I, item 3.a, include in column B the difference between the fair value and amortized cost of these CDs. When fair value exceeds amortized cost, report the difference as a positive number in column B. When amortized cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in column B. Risk weight the amortized cost of these CDs in columns C through J, as appropriate.

2 **Securities.** Do not include securities that qualify as securitization exposures in items 2.a and 2.b below; instead, report these securities in Schedule RC-R, Part II, items 9.a and 9.b. In general, under the regulatory capital rules, securitizations are exposures that are "tranching" for credit risk. Refer to the definitions of *securitization*, *traditional securitization*, *synthetic securitization* and *tranche* in §.2 of the regulatory capital rules.

2.a **Held-to-maturity securities.** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a, excluding those HTM securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The amount of those HTM securities reported in Schedule RC, item 2.a, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.a, column A. The sum of Schedule RC-R, Part II, items 2.a and 9.a, column A, must equal Schedule RC, item 2.a.

Exposure amount to be used for purposes of risk weighting – bank cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:

For a security classified as HTM where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security, which is the value of the asset reported (a) on the balance sheet of the bank determined in accordance with GAAP and (b) in Schedule RC-R, Part II, item 2.a, column A.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:

For a security classified as HTM where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security reported (a) on the balance sheet of the bank and (b) in Schedule RC-R, Part II, item 2.a, column A, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI. For purposes of determining the exposure amount of an HTM security, an unrealized gain (loss), if any, on such a security that is included in AOCI is (i) the unamortized balance of the unrealized gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available-for-sale category, or (ii) the unaccreted portion of other-than-temporary impairment losses on an HTM debt security that was not recognized in

Part II. (cont.)**Item No. Caption and Instructions**

2.a
(cont.) earnings in accordance with ASC Topic 320, Investments-Debt Securities (formerly FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”). Thus, for an HTM security with such an unrealized gain (loss), report in column B any difference between the carrying value of the security reported in column A of this item and its exposure amount reported under the appropriate risk weighting column C through J.

- *In column B for non-advanced approaches institutions,*¹ include the amount of:
 - Investments in the capital of unconsolidated financial institutions in the form of tier 2 capital that are reported in Schedule RC, item 2.a, and have been deducted from capital in Schedule RC-R, Part I, item 45.
- *In column B for advanced approaches institutions,*² include the amount of:
 - Non-significant investments in tier 2 capital of unconsolidated financial institutions that are reported in Schedule RC, item 2.a, and have been deducted from capital in Schedule RC-R, Part I, item 45.
 - Significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital that are reported in Schedule RC, item 2.a, and have been deducted from capital in Schedule RC-R, Part I, item 45.
- For an institution that has adopted the current expected credit losses methodology (CECL), include as a negative number in column B:
 - The portion of Schedule RI-B, Part II, item 7, column B, “Balance end of current period” for HTM debt securities that relates to HTM securities reported in column A of this item, less
 - The portion of Schedule RC-R, Part II, Memorandum item 4.b, “Amount of allowances for credit losses on purchased credit-deteriorated assets” for HTM debt securities that relates to purchased credit-deteriorated HTM securities reported in column A of this item.

For example, if an institution reports \$100 in Schedule RI-B, Part II, item 7, column B, and \$10 in Schedule RC-R, Part II, Memorandum item 4.b, the institution would report (\$90) in this column B.
- *In column C—0% risk weight.* The zero percent risk weight applies to exposures to the U.S. government, a U.S. government agency, or a Federal Reserve Bank, and those exposures otherwise unconditionally guaranteed by the U.S. government. Include exposures to or unconditionally guaranteed by the FDIC or the NCUA. Certain foreign government exposures and certain entities listed in §.32 of the regulatory capital rules may also qualify for the zero percent risk weight. Include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the zero percent risk weight. Such securities may include portions of, but may not be limited to:

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of determining the investments in the capital of unconsolidated financial institutions to be included in column B.

² For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of determining the investments in the capital of unconsolidated financial institutions to be included in column B.

Part II. (cont.)**Item No. Caption and Instructions**

- 2.a**
(cont.)
- Item 1, "U.S. Treasury securities,"
 - Item 2, those obligations issued by U.S. Government agencies,
 - Item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA,"
 - Item 4.b.(1), those other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies, such as GNMA exposures,
 - Item 4.c.(1)(a), those commercial mortgage-backed securities (MBS) "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent GNMA securities, and
 - Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent GNMA securities.
 - The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G—20% risk weight.* The 20 percent risk weight applies to general obligations of U.S. states, municipalities, and U.S. public sector entities. It also applies to exposures to U.S. depository institutions and credit unions, exposures conditionally guaranteed by the U.S. government, as well as exposures to U.S. government-sponsored enterprises. Certain foreign government and foreign bank exposures may qualify as indicated in §.32 of the regulatory capital rules. Include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the 20 percent risk weight. Such securities may include portions of, but may not be limited to:
 - Item 2, those obligations issued by U.S. Government-sponsored agencies,
 - Item 3, "Securities issued by states and political subdivisions in the U.S." that represent general obligation securities,
 - Item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC,"
 - Item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies,"
 - Item 4.c.(1)(a), those commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent FHLMC and FNMA securities,
 - Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent FHLMC and FNMA securities,
 - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," and
 - Any securities categorized as "structured financial products" on Schedule RC-B that are not securitization exposures and qualify for the 20 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets.
 - The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
 - *In column H—50% risk weight,* include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the 50 percent risk weight. Such securities may include portions of, but may not be limited to:
 - Item 3, "Securities issued by states and political subdivisions in the U.S.," that represent revenue obligation securities,
 - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for 50 percent risk weight. (Pass-through securities that do not qualify for the 50 percent risk weight should be assigned to the 100 percent risk-weight category.)

Part II. (cont.)**Item No. Caption and Instructions**

- 2.a**
(cont.)
- Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (excluding portions subject to an FDIC loss-sharing agreement and interest-only securities) that represent residential mortgage exposures that qualify for 50 percent risk weight, and
 - Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 50 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS portions that are tranching for credit risk; those must be reported as securitization exposures in Schedule RC-R, Part II, item 9.a. Exclude interest-only securities.
 - The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such securities may include portions of, but may not be limited to:
 - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for the 100 percent risk weight,
 - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (excludes portions subject to an FDIC loss-sharing agreement), that represent residential mortgage exposures that qualify for the 100 percent risk weight,
 - Item 4.b.(3), "All other residential MBS," Include only those MBS that qualify for the 100 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. (Note: Do not include MBS that are tranching for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.a.),
 - Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
 - Item 4.c.(2)(b), "All other commercial MBS,"
 - Item 5.a, "Asset-backed securities," and
 - Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures and qualify for the 100 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets.
 - The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - Also include all other HTM securities that do not qualify as securitization exposures reported in Schedule RC, item 2.a, that are not included in columns C through H and J.
 - *In column J–150% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column A, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
 - HTM securities that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include the exposure amounts of those securities*

Part II. (cont.)**Item No. Caption and Instructions**

2.a
(cont.) reported in Schedule RC-B, column A, that are directly and unconditionally guaranteed by foreign central governments or are exposures to foreign banks that do not qualify as securitization exposures. Such securities may include portions of, but may not be limited to:

- Item 4.a.(3), "Other [residential mortgage] pass-through securities,"
- Item 4.b.(3), "All other residential MBS,"
- Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
- Item 4.c.(2)(b), "All other commercial MBS,"
- Item 5.a, "Asset-backed securities,"
- Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets, and
- Item 6.b, "Other foreign debt securities."

2.b **Available-for-sale debt securities and equity securities with readily determinable fair values not held for trading.** For institutions that have not adopted FASB [Accounting Standards Update No. 2016-01](#) (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investments in mutual funds, and eliminates the concept of available-for-sale (AFS) equity securities (see the Note preceding the instructions for Schedule RC, item 2.c), report in column A the fair value of AFS debt and equity securities reported in Schedule RC, item 2.b, excluding those AFS securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The fair value of those AFS securities reported in Schedule RC, item 2.b, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.b, column A. The sum of Schedule RC-R, Part II, items 2.b and 9.b, column A, must equal Schedule RC, item 2.b.

For institutions that have adopted ASU 2016-01, report in column A the sum of:

- (1) The fair value of AFS debt securities reported in Schedule RC, item 2.b; and
 - (2) The fair value of equity securities with readily determinable fair values not held for trading reported in Schedule RC, item 2.c;
- excluding those debt and equity securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

Exposure amount to be used for purposes of risk weighting by a bank that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:

For a security reported in Schedule RC-R, Part II, item 2.b, column A, where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is:

- **For a debt security:** the carrying value, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP (i.e., the fair value of the AFS debt security) and in column A.
- **For equity securities and preferred stock classified as an equity under GAAP:** the adjusted carrying value.¹

¹ Adjusted carrying value applies only to equity exposures and is defined in §.51 of the regulatory capital rules. In general, it includes an on-balance sheet amount as well as application of conversion factors to determine on-balance sheet equivalents of any off-balance sheet commitments to acquire equity exposures. For institutions that cannot or have not made the AOCI opt-out election, the on-balance sheet component is equal to the carrying value. Refer to §.51 for the precise definition.

Part II. (cont.)**Item No. Caption and Instructions**

- 2.b**
(cont.) Exposure amount to be used for purposes of risk weighting by a bank that has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
- For institutions that have not adopted ASU 2016-01, for a security classified as AFS where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is:
 - **For a debt security:** the carrying value, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI.
 - **For equity securities and preferred stock classified as an equity under GAAP:** the carrying value less any net unrealized gains that are reflected in such carrying value but are excluded from the bank's regulatory capital components.
 - For institutions that have adopted ASU 2016-01, for a security reported in Schedule RC-R, Part II, item 2.b, column A, where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is:
 - **For a debt security:** the carrying value, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI.
 - **For equity securities and preferred stock classified as an equity under GAAP with readily determinable fair values:** the adjusted carrying value.¹
 - *In column B*, a bank that has made the AOCI opt-out election should include the difference between the fair value and amortized cost of those AFS debt securities that do not qualify as securitization exposures. This difference equals the amounts reported in Schedule RC-B, items 1 through 6, column D, minus items 1 through 6, column C, for those AFS debt securities included in these items that are not securitization exposures.
 - When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, Part II, item 2.b, column B.
 - When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule RC-R, Part II, item 2.b, column B.
 - *In column B*, for a bank that has made the AOCI opt-out election and has not adopted ASU 2016-01:
 - If AFS equity securities with readily determinable fair values have a net unrealized gain (i.e., Schedule RC-B, item 7, column D, exceeds item 7, column C), the portion of the net unrealized gain (55 percent) not included in Tier 2 capital should be included in Schedule RC-R, Part II, item 2.b, column B. The portion that is not included in Tier 2 capital equals Schedule RC-B, item 7, column D minus column C, minus Schedule RC-R, Part I, item 43.

Example: A bank reports an AFS debt security that is not a securitization exposure on its balance sheet in Schedule RC, item 2.b, at a carrying value (i.e., fair value) of \$105. The amortized cost of the debt security is \$100. The bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. The AFS debt security has a \$5 unrealized gain that is included in AOCI. In Schedule RC-R, Part II, item 2.b, the bank would report in Schedule RC-R, Part II, item 2.b:

¹ Adjusted carrying value applies only to equity exposures and is defined in §.51 of the regulatory capital rules. In general, it includes an on-balance sheet amount as well as application of conversion factors to determine on-balance sheet equivalents of any off-balance sheet commitments to acquire equity exposures. For institutions that have made the AOCI opt-out election, the adjusted carrying value of an on-balance sheet equity exposure, such as an equity security with a readily determinable fair value not held for trading, is equal to the carrying value of the equity exposure, i.e., the value of the asset on the balance sheet determined in accordance with U.S. GAAP. Refer to §.51 for the precise definition.

Part II. (cont.)**Item No. Caption and Instructions**

- 2.b**
(cont.)
- a. \$105 in column A. This is the carrying value of the AFS debt security on the bank's balance sheet.
 - b. \$5 in column B. This is the difference between the carrying value (i.e., fair value) of the debt security and its exposure amount that is subject to risk weighting. For a bank that has made the AOCI opt-out election, column B will typically represent the amount of the unrealized gain or unrealized loss on the security. Gains are reported as positive numbers; losses as negative numbers. (Note: If the bank has not made or cannot make the opt-out election, there will be no adjustment to be reported in column B.)
 - c. \$100 is the exposure amount subject to risk weighting. This amount will be reported under the appropriate risk weight associated with the exposure (columns C through J). For a bank that has made the opt-out election, the exposure amount typically will be the carrying value (i.e., fair value) of the debt security excluding any unrealized gain or loss.
- *In column B*, for a bank that has made the AOCI opt-out election and has adopted ASU 2016-01, no amount should be included for equity securities and preferred stock classified as an equity under GAAP with readily determinable fair values that are reported in Schedule RC-R, Part II, item 2.b, column A.
 - *In column B for non-advanced approaches institutions*,¹ include the amount of investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or item 2.c (for a bank that has adopted ASU 2016-01), and have been deducted from capital in Schedule RC-R, Part I, item 13.a, item 24, and item 45 on the FFIEC 031; item 13, item 17, item 24, and item 45 on the FFIEC 041.
 - *In column B for advanced approaches institutions*,² include the amount of:
 - Non-significant investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or item 2.c (for a bank that has adopted ASU 2016-01), and have been deducted from capital in Schedule RC-R, Part I, item 11, item 24, and item 45 on the FFIEC 031.
 - Significant investments in the capital of unconsolidated financial institutions not in the form of common stock that are reported in Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or item 2.c (for a bank that has adopted ASU 2016-01), and have been deducted from capital in Schedule RC-R, Part I, item 24 and item 45 on the FFIEC 031.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of determining the investments in the capital of unconsolidated financial institutions to be included in column B.

² For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of determining the investments in the capital of unconsolidated financial institutions to be included in column B.

Part II. (cont.)**Item No. Caption and Instructions**

- 2.b**
(cont.)
- Significant investments in the capital of unconsolidated financial institutions in the form of common stock reported in Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or item 2.c (for a bank that has adopted ASU 2016-01), that are subject to the 10 percent and 15 percent common equity tier 1 capital threshold limitations and have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13.b and 16, column B, on the FFIEC 031.
 - *In column C—0% risk weight*, the zero percent risk weight applies to exposures to the U.S. government, a U.S. government agency, or a Federal Reserve Bank, and those exposures otherwise unconditionally guaranteed by the U.S. government. Include exposures to or unconditionally guaranteed by the FDIC or the NCUA. Certain foreign government exposures and certain entities listed in §.32 of the regulatory capital rules may also qualify for zero percent risk weight. Include the exposure amounts of those debt securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the zero percent risk weight. Such debt securities may include portions of, but may not be limited to:
 - Item 1, "U.S. Treasury securities,"
 - Item 2, those obligations issued by U.S. Government agencies,
 - Item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA,"
 - Portions of item 4.b.(1), Other residential mortgage-backed securities (MBS) "Issued or guaranteed by U.S. Government agencies or sponsored agencies," such as GNMA exposures,
 - Item 4.c.(1)(a), certain portions of commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent GNMA securities, and
 - Item 4.c.(2)(a), certain portions of commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent GNMA securities.
 - The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
 - *In column G—20% risk weight*, the 20 percent risk weight applies to general obligations of U.S. states, municipalities, and U.S. public sector entities. It also applies to exposures to U.S. depository institutions and credit unions, exposures conditionally guaranteed by the U.S. government, as well as exposures to U.S. government sponsored enterprises. Certain foreign government and foreign bank exposures may qualify for the 20 percent risk weight as indicated in §.32 of the regulatory capital rules. Include the exposure amounts of those debt securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the 20 percent risk weight. Such debt securities may include portions of, but may not be limited to:
 - Item 2, those obligations issued by U.S. Government-sponsored agencies (exclude interest-only securities),
 - Item 3, "Securities issued by states and political subdivisions in the U.S." that represent general obligation securities,
 - Item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC" (exclude interest-only securities),
 - Item 4.b.(1), Other residential MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies," (exclude interest-only securities),
 - Item 4.c.(1)(a), those commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent FHLMC and FNMA securities (exclude interest-only securities),
 - Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent FHLMC and FNMA securities (exclude interest-only securities),

Part II. (cont.)**Item No. Caption and Instructions**

- 2.b**
(cont.)
- Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude interest-only securities), and
 - Any securities categorized as "structured financial products" on Schedule RC-B that are not securitization exposures and qualify for the 20 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets. Exclude interest-only securities.
 - The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H—50% risk weight*, include the exposure amounts of those debt securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the 50 percent risk weight. Such debt securities may include portions of, but may not be limited to:
 - Item 3, "Securities issued by states and political subdivisions in the U.S.," that represent revenue obligation securities,
 - Item 4.a.(3), "Other [residential mortgage] pass-through securities," (that represent residential mortgage exposures that qualify for the 50 percent risk weight. (Pass-through securities that do not qualify for the 50 percent risk weight should be assigned to the 100 percent risk weight category.)
 - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude portions subject to an FDIC loss-sharing agreement and interest-only securities) that represent residential mortgage exposures that qualify for the 50 percent risk weight, and
 - Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 50 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS that are tranching for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.b. Do not include interest-only securities.
 - The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
 - *In column I—100% risk weight*, include the exposure amounts of those debt securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such debt securities may include portions of, but may not be limited to:
 - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for the 100 percent risk weight,
 - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (excluding portions subject to an FDIC loss-sharing agreement) that represent residential mortgage exposures that qualify for the 100 percent risk weight,
 - Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 100 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS portions that are tranching for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.b.
 - Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
 - Item 4.c.(2)(b), "All other commercial MBS,"
 - Item 5.a, "Asset-backed securities,"

Part II. (cont.)**Item No. Caption and Instructions**

- 2.b**
(cont.)
- Any securities reported as “structured financial products” in Schedule RC-B, item 5.b, that are not securitization exposures and qualify for the 100 percent risk weight.
Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets.
 - The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - All other AFS debt securities that do not qualify as securitization exposures reported in Schedule RC, item 2.b, that are not included in columns C through H, J through N, or R.

For non-advanced approaches institutions,¹ also include in *column I–100% risk weight* the exposure amounts of publicly traded equity exposures with readily determinable fair values and equity exposures to investment funds with readily determinable fair values (including mutual funds) reported in Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or item 2.c (for a bank that has adopted ASU 2016-01), to the extent that the aggregate carrying value of the bank’s equity exposures does not exceed 10 percent of total capital. If the bank’s aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report the exposure amount of its equity exposures to investments funds with readily determinable fair values (including mutual funds) in column R (and the risk-weighted asset amount of such equity exposures in column S) and the exposure amount of its other equity exposures with readily determinable fair values in either columns L or N, as appropriate.

For advanced approaches institutions,² also include in *column I–100% risk weight* non-significant equity exposures, to the extent that the aggregate carrying value of the exposures does not exceed 10 percent of total capital. To utilize this risk weight, the bank must aggregate the following equity exposures: unconsolidated small business investment companies or held through consolidated small business investment companies; publicly traded (including those held indirectly through mutual funds or other investment funds); and non-publicly traded (including those held indirectly through mutual funds or other investment funds).

- *In column J–150% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column C, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) with respect to which equity exposures are assigned a 100 percent risk weight when the aggregate carrying value of the exposures does not exceed 10 percent of total capital.

² For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions (and not the instructions above for non-advanced approaches institutions) with respect to which equity exposures are assigned a 100 percent risk weight when the aggregate carrying value of the exposures does not exceed 10 percent of total capital. In addition, such non-advanced approaches institutions must apply a 100 percent risk weight to the adjusted carrying value of exposures that are significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital for the March 31, 2020, report date only.

Part II. (cont.)**Item No. Caption and Instructions**

- 2.b**
(cont.)
- *In column K—250% risk weight*, for advanced approaches institutions only, include the portion that does not qualify as a securitization exposure of Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or item 2.c (for a bank that has adopted ASU 2016-01), that represents the adjusted carrying value of exposures that are significant investments in the common stock of unconsolidated financial institutions that are not deducted from capital. For further information on the treatment of equity exposures, refer to §.51 to §.53 of the regulatory capital rules.
 - *In column L—300% risk weight*,
 - For a bank that has not adopted ASU 2016-01, for publicly traded AFS equity securities with readily determinable fair values reported in Schedule RC-B, item 7 (except equity securities to investment firms), include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their adjusted carrying value (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in tier 2 capital (as reported in Schedule RC-R, Part I, item 43).
 - For a bank that has adopted ASU 2016-01, for publicly traded equity securities with readily determinable fair values reported in Schedule RC, item 2.c (except equity securities to investment firms), include the fair value of these equity securities as reported in Schedule RC, item 2.c.
 - *In column N—600% risk weight*,
 - For a bank that has not adopted ASU 2016-01, for AFS equity securities to investment firms with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their adjusted carrying value (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in tier 2 capital (as reported in Schedule RC-R, Part I, item 43).
 - For a bank that has adopted ASU 2016-01, for equity securities to investment firms with readily determinable fair values reported in Schedule RC, item 2.c, include the fair value of these equity securities as reported in Schedule RC, item 2.c.
 - *In columns R and S—Application of Other Risk-Weighting Approaches*, include the bank's equity exposures to investment funds with readily determinable fair values (including mutual funds) reported in Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or item 2.c (for a bank that has adopted ASU 2016-01), if the aggregate carrying value of the bank's equity exposures is greater than 10 percent of total capital. Report in column R the exposure amount of these equity exposures to investment funds. Report in column S the risk-weighted asset amount of these equity exposures to investment funds as measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach described in §.53 of the regulatory capital rules. All three of these approaches require a minimum risk weight of 20 percent. For further information, refer to the discussion of "Treatment of Equity Exposures" in the General Instructions for Schedule RC-R, Part II.
 - Available-for-sale debt securities and equity securities with readily determinable fair values not held for trading that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to

Part II. (cont.)**Item No. Caption and Instructions**

- 2.b**
(cont.) *risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include the exposure amounts of those securities reported in Schedule RC, item 2.b (for a bank that has not adopted ASU 2016-01) or items 2.b and 2.c (for a bank that has adopted ASU 2016-01), that are directly and unconditionally guaranteed by foreign central governments or are exposures to foreign banks that do not qualify as securitization exposures. Such securities may include portions of, but may not be limited to:
- Schedule RC-B, item 4.a.(3), "Other [residential mortgage] pass-through securities,"
 - Schedule RC-B, item 4.b.(3), "All other residential MBS,"
 - Schedule RC-B, item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
 - Schedule RC-B, item 4.c.(2)(b), "All other commercial MBS,"
 - Schedule RC-B, item 5.a, "Asset-backed securities,"
 - Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures. Note: Many structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets,
 - Schedule RC-B, item 6.b, "Other foreign debt securities," and
 - Schedule RC-B, item 7, "Investments in mutual funds and other equity securities with readily determinable fair values" (for a bank that has not adopted ASU 2016-01) or Schedule RC, item 2.c, "Equity securities with readily determinable fair values not held for trading" (for a bank that has adopted ASU 2016-01).

3 Federal funds sold and securities purchased under agreements to resell:

- 3.a Federal funds sold (in domestic offices).** Report in column A the amount of federal funds sold reported in Schedule RC, item 3.a, excluding those federal funds sold that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those federal funds sold reported in Schedule RC, items 3.a, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.d, column A.

- *In column C—0% risk weight*, include the portion of Schedule RC, item 3.a, that is directly and unconditionally guaranteed by U.S. Government agencies. Also include the portion of any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G—20% risk weight*, include exposures to U.S. depository institution counterparties. Also include the portion of any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H – 50% risk weight*, include any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I—100% risk weight*, include exposures to non-depository institution counterparties that lack qualifying collateral (refer to the regulatory capital rules for specific criteria). Also include the amount of federal funds sold reported in Schedule RC, item 3.a, that are not included in columns C through H and J. Also include the portion of any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

Part II. (cont.)**Item No. Caption and Instructions**

- 3.a**
(cont.)
- Federal funds sold that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
 - The portion of Schedule RC, item 3.a, that is directly and unconditionally guaranteed by foreign central governments and exposures to foreign banks.
- 3.b**
- Securities purchased under agreements to resell.** Report in columns A and B the amount of securities purchased under agreements to resell (securities resale agreements, i.e., reverse repos) reported in Schedule RC, item 3.b, excluding those securities resale agreements that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those securities resale agreements reported in Schedule RC, item 3.b, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.d, column A.
- Note: For purposes of risk weighting, please distribute on-balance sheet securities purchased under agreements to resell reported in Schedule RC, item 3.b, within the risk-weight categories in Schedule RC-R, Part II, item 16, “Repo-style transactions.” Banks should report their securities purchased under agreements to resell in item 16 in order for institutions to calculate their exposure, and thus risk-weighted assets, based on master netting set agreements covering repo-style transactions.
- 4**
- Loans and leases held for sale.** Report in column A of the appropriate subitem the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a, excluding those HFS loans and leases that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.
- The carrying value of those HFS loans and leases reported in Schedule RC, item 4.a, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.
- The sum of the amounts reported in column A for items 4.a through 4.d of Schedule RC-R, Part II, plus the carrying value of HFS loans and leases that qualify as securitization exposures and are reported in column A of item 9.d of Schedule RC-R, Part II, must equal Schedule RC, item 4.a.

Part II. (cont.)**Item No. Caption and Instructions**

- 4.a Residential mortgage exposures.** Report in column A the carrying value of loans held for sale (HFS) reported in Schedule RC, item 4.a, that meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*¹ in §.2 of the regulatory capital rules. Include in column A the carrying value of:
- HFS loans secured by first or subsequent liens on 1-4 family residential properties (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b), and
 - HFS loans secured by first or subsequent liens on multifamily residential properties with an original and outstanding amount of \$1 million or less (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, item 1.d, as these HFS loans would meet the regulatory capital rules' definition of *residential mortgage exposure*.

¹ Statutory multifamily mortgage means a loan secured by a multifamily residential property that meets the requirements under Section 618(b)(1) of the [Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991](#), and that meets the following criteria:

- (1) The loan is made in accordance with prudent underwriting standards;
- (2) The principal amount of the loan at origination does not exceed 80 percent of the value of the property (or 75 percent of the value of the property if the loan is based on an interest rate that changes over the term of the loan) where the value of the property is the lower of the acquisition cost of the property or the appraised (or, if appropriate, evaluated) value of the property;
- (3) All principal and interest payments on the loan must have been made on a timely basis in accordance with the terms of the loan for at least one year prior to applying a 50 percent risk weight to the loan, or in the case where an existing owner is refinancing a loan on the property, all principal and interest payments on the loan being refinanced must have been made on a timely basis in accordance with the terms of the loan for at least one year prior to applying a 50 percent risk weight to the loan;
- (4) Amortization of principal and interest on the loan must occur over a period of not more than 30 years and the minimum original maturity for repayment of principal must not be less than 7 years;
- (5) Annual net operating income (before making any payment on the loan) generated by the property securing the loan during its most recent fiscal year must not be less than 120 percent of the loan's current annual debt service (or 115 percent of current annual debt service if the loan is based on an interest rate that changes over the term of the loan) or, in the case of a cooperative or other not-for-profit housing project, the property must generate sufficient cash flow to provide comparable protection to the institution; and
- (6) The loan is not more than 90 days past due, or on nonaccrual.

A loan that meets the requirements of Section 618(b)(1) of the [Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991](#) is a loan:

- (i) secured by a first lien on a residence consisting of more than 4 dwelling units;
- (ii) under which
 - (I) the rate of interest does not change over the term of the loan, (b) the principal obligation does not exceed 80 percent of the appraised value of the property, and (c) the ratio of annual net operating income generated by the property (before payment of any debt service on the loan) to annual debt service on the loan is not less than 120 percent; or
 - (II) the rate of interest changes over the term of the loan, (b) the principal obligation does not exceed 75 percent of the appraised value of the property, and (c) the ratio of annual net operating income generated by the property (before payment of any debt service on the loan) to annual debt service on the loan is not less than 115 percent;
- (iii) under which
 - (I) amortization of principal and interest occurs over a period of not more than 30 years;
 - (II) the minimum maturity for repayment of principal is not less than 7 years; and
 - (III) timely payment of all principal and interest, in accordance with the terms of the loan, occurs for a period of not less than 1 year; and
- (iv) that meets any other underwriting characteristics that the appropriate Federal banking agency may establish, consistent with the purposes of the minimum acceptable capital requirements to maintain the safety and soundness of financial institutions.

Part II. (cont.)**Item No. Caption and Instructions**

- 4.a** Exclude from this item:
- (cont.) • HFS loans secured by multifamily residential properties included in Schedule RC-C, Part I, item 1.d, that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage* and are not securitization exposures, and
- HFS 1-4 family residential construction loans reported in Schedule RC-C, Part I, item 1.a.(1), that are not securitization exposures.
- These HFS loans should be reported in Schedule RC-R, Part II, item 4.c, if they are past due 90 days or more or on nonaccrual. Otherwise, these HFS loans should be reported in Schedule RC-R, Part II, item 4.d.
- *In column C—0% risk weight*, include the portion of any exposure that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.a, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include loans collateralized by deposits at the reporting institution.
 - *In column G—20% risk weight*, include the carrying value of the guaranteed portion of HFS Federal Housing Administration (FHA) and Veterans Administration (VA) mortgage loans included in Schedule RC-C, Part I, item 1.c.(2)(a). Also include the portion of any exposure that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.a, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of such an exposure covered by an FDIC loss-sharing agreement.
 - *In column H—50% risk weight*, include the carrying value of HFS loans secured by 1-4 family residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans); qualifying loans from Schedule RC-C, Part I, items 1.c.(2)(a) and 1.d; and those loans that meet the definition of a *residential mortgage exposure* and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules. For residential mortgage exposures, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family residential properties (regardless of the original and outstanding amount of the loan) or multifamily residential properties (with an original and outstanding amount of \$1 million or less), not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury’s Home Affordable Mortgage Program (HAMP)). Also include loans that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Also include the portion of any exposure that meets the definition of *residential mortgage exposure* reported in Schedule RC, item 4.a, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

Notes:

1. Refer to the definition of “*residential mortgage exposure*” in §.2 of the regulatory capital rules, and refer to the requirements for risk weighting residential mortgage loans in §.32 of the regulatory capital rules.
2. A residential mortgage loan may receive a 50 percent risk weight if it meets the qualifying criteria in §.32(g) of the regulatory capital rules:
 - A property is owner-occupied or rented;
 - The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral.
 - The loan is not 90 days or more past due or on nonaccrual;

Part II. (cont.)**Item No. Caption and Instructions**

- 4.a**
(cont.)
- *The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury’s HAMP).*
 - *If the bank holds the first lien and junior lien(s) on a residential mortgage exposure, and no other party holds an intervening lien, the bank must combine the exposures and treat them as a single first-lien residential mortgage exposure.*
 - 3. *A first lien home equity line (HELOC) may qualify for 50 percent risk weight if it meets the qualifying criteria in §.32(g) listed above.*
 - 4. *A residential mortgage loan of \$1 million or less on a property of more than 4 units may qualify for 50 percent risk weight if it meets the qualifying criteria in §.32(g) listed above.*
- *In column I–100% risk weight, include the carrying value of HFS loans that are residential mortgage exposures reported in Schedule RC, item 4.a, that are not included in columns C, G, H, or R. Include HFS loans that are junior lien residential mortgage exposures if the bank does not hold the first lien on the property, except the portion of any junior lien residential mortgage exposure that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 percent risk weight. Include HFS loans that are residential mortgage exposures that have been restructured or modified, except:*
 - *Those loans restructured or modified solely pursuant to the U.S. Treasury’s HAMP, and*
 - *The portion of any restructured or modified residential mortgage exposure that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 percent risk weight.*
 - *In columns R and S–Application of Other Risk-Weighting Approaches, include the portion of any HFS exposure reported in Schedule RC, item 4.a, that meets the definition of residential mortgage exposure or statutory multifamily mortgage and is secured by qualifying financial collateral that meets the definition of a securitization exposure in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.*
 - *Include in column R the carrying value of the portion of an HFS exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.*
 - *Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through I, as appropriate.*
- For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)**Item No. Caption and Instructions**

- 4.b High volatility commercial real estate exposures.** Report in column A the carrying value of loans held for sale (HFS) reported in Schedule RC, item 4.a, that are high volatility commercial real estate (HVCRE) exposures,¹ including HVCRE exposures that are 90 days or more past due or in nonaccrual status.
- *In column C—0% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of HVCRE exposures collateralized by deposits at the reporting institution.
 - *In column G—20% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of any HVCRE exposure covered by an FDIC loss-sharing agreement.

¹ HVCRE exposure means a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction (ADC) of real property, unless the facility finances:

- (1) One- to four-family residential properties;
- (2) Real property that:
 - (i) would qualify as an investment in community development under 12 U.S.C. 338a or 12 U.S.C. 24 (Eleventh), as applicable, or as a “qualified investment” under [12 CFR part 25 (national bank), 12 CFR part 195 (federal savings association) (OCC); 12 CFR part 228 (Board); 12 CFR part 345 (FDIC)], and
 - (ii) is not an ADC loan to any entity described in [12 CFR part 25.12(g)(3) (national banks) and 12 CFR 195.12(g)(3) (federal savings associations) (OCC); 12 CFR 208.22(a)(3) or 228.12(g)(3) (Board); 12 CFR 345.12(g)(3) (FDIC)], unless it is otherwise described in paragraph (1), (2)(i), (3) or (4) of this definition;
- (3) The purchase or development of agricultural land, which includes all land known to be used or usable for agricultural purposes (such as crop and livestock production), provided that the valuation of the agricultural land is based on its value for agricultural purposes and the valuation does not take into consideration any potential use of the land for non-agricultural commercial development or residential development; or
- (4) Commercial real estate projects in which:
 - (i) the loan-to-value ratio is less than or equal to the applicable maximum supervisory loan-to-value ratio in the real estate lending standards at [12 CFR part 34, subpart D (national banks) and 12 CFR part 160, subparts A and B (federal savings associations) (OCC); 12 CFR part 208, appendix C (Board); 12 CFR part 365, subpart A (state nonmember banks) and 12 CFR 390.264 and 390.265 (state savings associations) (FDIC)];
 - (ii) The borrower has contributed capital to the project in the form of cash or unencumbered readily marketable assets (or has paid development expenses out-of-pocket) of at least 15 percent of the real estate’s appraised “as completed” value; and
 - (iii) The borrower contributed the amount of capital required by paragraph (4)(ii) of this definition before the bank advances funds under the credit facility, and the capital contributed by the borrower, or internally generated by the project, is contractually required to remain in the project throughout the life of the project. The life of a project concludes only when the credit facility is converted to permanent financing or is sold or paid in full. Permanent financing may be provided by the bank that provided the ADC facility as long as the permanent financing is subject to the bank’s underwriting criteria for long-term mortgage loans.

Alternatively, consistent with the July 6, 2018 [Interagency statement regarding the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act \(EGRRCPA\)](#), a depository institution may assign a heightened risk weight to an HVCRE exposure if such exposure is an “HVCRE ADC Loan,” as defined in section 214 of EGRRCPA. Accordingly, an institution is permitted to risk weight at 150 percent only those commercial real estate exposures it believes meet the statutory definition of HVCRE ADC Loan. When reporting HVCRE exposures in Schedule RC-R, Part II, institutions may use available information to reasonably estimate and report only HVCRE ADC Loans. Institutions may refine these estimates in good faith as they obtain additional information but will not be required to amend previously filed regulatory reports as these estimates are adjusted.

Part II. (cont.)**Item No. Caption and Instructions**

- 4.b**
(cont.)
- *In column H–50% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
 - *In column I–100% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - *In column J–150% risk weight*, include the carrying value of HVCRE exposures, as defined in §.2 of the regulatory capital rules, included in Schedule RC, item 4.a, excluding those portions of the carrying value that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
 - *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any HVCRE exposure included in loans and leases HFS reported in Schedule RC, item 4.a, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
 - o Include in column R the carrying value of the portion of an HFS HVCRE exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure that is secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- 4.c**
- Exposures past due 90 days or more or on nonaccrual.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a., that are 90 days or more past due or in nonaccrual status according to the requirements set forth in §.32(k) of the regulatory capital rules. Do not include HFS sovereign exposures or HFS residential mortgage exposures, as described in §.32(a) and §.32(g), respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule RC-R, Part II, item 4.d and item 4.a, respectively). Also do not include HFS high volatility commercial real estate exposures that are 90 days or more past due or in nonaccrual status (report such exposures in Schedule RC-R, Part II, item 4.b).
- *In column C–0% risk weight*, include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases HFS collateralized by deposits at the reporting institution.

Part II. (cont.)**Item No. Caption and Instructions**

- 4.c**
(cont.)
- *In column G–20% risk weight*, include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of HFS loans covered by an FDIC loss-sharing agreement.
 - *In column H–50% risk weight*, include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
 - *In column I–100% risk weight*, include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - *In column J–150% risk weight*, include the carrying value of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
 - *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
 - Include in column R the carrying value of the portion of an HFS loan or lease that is 90 days or more past due or in nonaccrual status that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure that is secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)**Item No. Caption and Instructions**

- 4.d All other exposures.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a, that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above.
- *In column C—0% risk weight*, include the carrying value of the unconditionally guaranteed portion of HFS Small Business Administration (SBA) “Guaranteed Interest Certificates” purchased in the secondary market that are included in Schedule RC-C, Part I. Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases HFS collateralized by deposits at the reporting institution.
 - *In column G—20% risk weight*, include the carrying value of HFS loans to and acceptances of other U.S. depository institutions that are reported in Schedule RC-C, Part I, item 2, plus the carrying value of the guaranteed portion of HFS SBA loans originated and held by the reporting bank included in Schedule RC-C, Part I, and the carrying value of the portion of HFS student loans reinsured by the U.S. Department of Education included in Schedule RC-C, Part I, item 6.d, “Other consumer loans.” Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases HFS covered by FDIC loss-sharing agreements.
 - *In column H—50% risk weight*, include the carrying value of HFS loans that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 50 percent risk weight. Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
 - *In column I—100% risk weight*, include the carrying value of HFS loans and leases reported in Schedule RC, item 4.a, that are not included in columns C through H, J, or R. This item would include 1-4 family construction loans reported in Schedule RC-C, Part I, item 1.a.(1) and loans secured by multifamily residential properties reported in Schedule RC-C, Part I, item 1.d, with an original amount of more than \$1 million. Also include the carrying value of HFS loans that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 100 percent risk weight. Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of any HFS loans and leases, including HFS eligible margin loans, reported in Schedule RC, item 4.a, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach, or the collateral margin approach for eligible margin loans, outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
 - Include in column R the carrying value of the portion of such an HFS loan or lease that is secured by the fair value or adjusted fair value of securitization exposure or

Part II. (cont.)**Item No. Caption and Instructions**

- 4.d**
(cont.) mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all eligible margin loans. In addition, if the bank applies the Simple Approach, it must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
- Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure that is secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- All other HFS loans and leases that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II:*
 - The carrying value of other loans and leases held for sale reported in Schedule RC, item 4.a, that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above.

- 5** **Loans and leases held for investment.** Report in column A of the appropriate subitem the carrying value of loans and leases held for investment (HFI) reported in Schedule RC, item 4.b, excluding those loans and leases HFI that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The carrying value of those loans and leases HFI that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.

The sum of the amounts reported in column A for items 5.a through 5.d of Schedule RC-R, Part II, plus the carrying value of loans and leases HFI that qualify as securitization exposures and are reported in column A of item 9.d of Schedule RC-R, Part II, must equal Schedule RC, item 4.b.

- 5.a** **Residential mortgage exposures.** Report in column A the carrying value of loans HFI reported in Schedule RC, item 4.b, that meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*¹ in §.2 of the regulatory capital rules. Include in column A the carrying value of:
- Loans HFI secured by first or subsequent liens on 1-4 family residential properties (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b), and
 - Loans HFI secured by first or subsequent liens on multifamily residential properties with an original and outstanding amount of \$1 million or less (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, item 1.d, as these loans would meet the regulatory capital rules’ definition of *residential mortgage exposure*.

¹ See the instructions for Schedule RC-R, Part II, item 4.a, above for the definition of statutory multifamily mortgage.

Part II. (cont.)**Item No. Caption and Instructions**

- 5.a** Exclude from this item:
- (cont.) • Loans HFI secured by multifamily residential properties included in Schedule RC-C, Part I, item 1.d, that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage* and are not securitization exposures, and
- 1-4 family residential construction loans HFI reported in Schedule RC-C, Part I, item 1.a.(1), that are not securitization exposures,
- These loans should be reported in Schedule RC-R, Part II, item 5.c, if they are past due 90 days or more or on nonaccrual. Otherwise, these HFI loans should be reported in Schedule RC-R, Part II, item 5.d.
- *In column B*, an institution that has adopted the current expected credit losses methodology (CECL) should include as a positive number the portion of Schedule RC-R, Part II, Memorandum item 4.a, “Amount of allowances for credit losses on purchased credit-deteriorated assets” for loans and leases held for investment that are applicable to purchased credit-deteriorated residential mortgage exposures.
 - *In column C—0% risk weight*, include the portion of any HFI exposure that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include loans HFI collateralized by deposits at the reporting institution.
 - *In column G—20% risk weight*, include the carrying value of the guaranteed portion of FHA and VA mortgage loans HFI included in Schedule RC-C, Part I, item 1.c.(2)(a). Also include the portion of any loan HFI which meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans HFI covered by an FDIC loss-sharing agreement.
 - *In column H—50% risk weight*, include the carrying value of loans HFI secured by 1-4 family residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans); qualifying loans from Schedule RC-C, Part I, items 1.c.(2)(a) and 1.d; and those loans that meet the definition of a *residential mortgage exposure* and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules. For residential mortgage exposures, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family residential properties (regardless of the original and outstanding amount of the loan) or multifamily residential properties (with an original and outstanding amount of \$1 million or less), not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury’s Home Affordable Mortgage Program (HAMP)). Also include loans HFI that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Also include the portion of any loan HFI which meets the definition of *residential mortgage exposure* reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

Notes:

1. Refer to the definition of “residential mortgage exposure” in §.2 of the regulatory capital rules, and refer to the requirements for risk weighting residential mortgage loans in §.32 of the regulatory capital rules.

Part II. (cont.)**Item No. Caption and Instructions**

- 5.a**
(cont.)
2. *A residential mortgage loan may receive a 50 percent risk weight if it meets the qualifying criteria in §.32(g) of the regulatory capital rules:*
 - *A property is owner-occupied or rented;*
 - *The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral.*
 - *The loan is not 90 days or more past due or on nonaccrual;*
 - *The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury's HAMP).*
 - *If the bank holds the first lien and junior lien(s) on a residential mortgage exposure, and no other party holds an intervening lien, the bank must combine the exposures and treat them as a single first-lien residential mortgage exposure.*
 3. *A first lien home equity line (HELOC) may qualify for 50 percent risk weight if it meets the qualifying criteria in §.32(g) listed above.*
 4. *A residential mortgage loan of \$1 million or less on a property of more than 4 units may qualify for 50 percent risk weight if it meets the qualifying criteria in §.32(g) listed above.*
- *In column I–100% risk weight, include the carrying value of loans HFI related to residential mortgages exposures reported in Schedule RC, item 4.b, that are not included in columns C, G, H, or R. Include loans HFI that are junior lien residential mortgage exposures if the bank does not hold the first lien on the property, except the portion of any junior lien residential mortgage exposure that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 percent risk weight. Also include loans HFI that are residential mortgage exposures that have been restructured or modified, except*
 - *Those loans restructured or modified solely pursuant to the U.S. Treasury's HAMP, and*
 - *The portion of any restructured or modified residential mortgage exposure that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 percent risk weight.*
 - *In columns R and S–Application of Other Risk-Weighting Approaches, include the portion of any loan HFI reported in Schedule RC, item 4.b, that meets the definition of residential mortgage exposure or statutory multifamily mortgage and is secured by qualifying financial collateral that meets the definition of a securitization exposure in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.*
 - *Include in column R the carrying value of the portion of an HFI loan exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.*
 - *Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFI loan exposure secured*

Part II. (cont.)**Item No. Caption and Instructions**

5.a by such collateral. Any remaining portion of the HFI loan exposure that is
(cont.) uncollateralized or collateralized by other qualifying collateral would be reported in
 columns C through I, as appropriate.
 For further information, see the discussions of “Treatment of Collateral and Guarantees”
 and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for
 Schedule RC-R, Part II.

- 5.b** **High volatility commercial real estate exposures.** Report in column A the portion of the
 carrying value of loans HFI reported in Schedule RC, item 4.b, that are high volatility
 commercial real estate (HVCRE) exposures,¹ including HVCRE exposures that are 90 days
 or more past due or in nonaccrual status.
- *In column B*, an institution that has adopted the current expected credit losses methodology (CECL) should include as a positive number the portion of Schedule RC-R, Part II, Memorandum item 4.a, “Amount of allowances for credit losses on purchased credit-deteriorated assets” for loans and leases held for investment that are applicable to purchased credit-deteriorated high volatility commercial real estate exposures.
 - *In column C—0% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFI that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of HVCRE loans HFI collateralized by deposits at the reporting institution.
 - *In column G—20% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFI which is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of any HVCRE exposure covered by an FDIC loss-sharing agreement.
 - *In column H—50% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFI which is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight
 - *In column I—100% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFI which is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - *In column J—150% risk weight*, include the carrying value of HFI HVCRE exposures, as defined in §.2 of the regulatory capital rules, included in Schedule RC, item 4.b, excluding those portions of the carrying value that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
 - *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of any HVCRE exposure included in loans and leases HFI reported in Schedule RC, item 4.b, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.

¹ See the instructions for Schedule RC-R, Part II, item 4.b, above for the definition of HVCRE exposure.

Part II. (cont.)**Item No. Caption and Instructions**

- 5.b**
(cont.)
- Include in column R the carrying value of the portion of an HFI HVCRE exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFI HVCRE exposure that is secured by such collateral. Any remaining portion of the HFI exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- 5.c** **Exposures past due 90 days or more or on nonaccrual.** Report in column A the carrying value of loans and leases HFI reported in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status according to the requirements set forth in §.32(k) of the regulatory capital rules. Do not include sovereign exposures or residential mortgage exposures, as described in §.32(a) and §.32(g), respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule RC-R, Part II, items 5.d and 5.a, respectively). Also do not include high volatility commercial real estate exposures that are 90 days or more past due or in nonaccrual status (report such exposures in Schedule RC-R, Part II, item 5.b).

- *In column B*, an institution that has adopted the current expected credit losses methodology (CECL) should include as a positive number the portion of Schedule RC-R, Part II, Memorandum item 4.a, “Amount of allowances for credit losses on purchased credit-deteriorated assets” for loans and leases held for investment that are applicable to purchased credit-deteriorated exposures past due 90 days or more or on nonaccrual.
- *In column C—0% risk weight*, include the portion of loans and leases HFI included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases HFI collateralized by deposits at the reporting institution.
- *In column G—20% risk weight*, include the portion of loans and leases HFI included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases HFI covered by an FDIC loss-sharing agreement.
- *In column H—50% risk weight*, include the portion of loans and leases HFI included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I—100% risk weight*, include the portion of loans and leases HFI included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

Part II. (cont.)**Item No. Caption and Instructions**

- 5.c** • *In column J—150% risk weight*, include the carrying value of loans and leases HFI included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
- (cont.)
- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases HFI included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
- o Include in column R the carrying value of the portion of a loan or lease HFI that is 90 days or more past due or in nonaccrual status that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
- o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan or lease HFI that is secured by such collateral. Any remaining portion of the HFI loan or lease exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.
- For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

5.d • **All other exposures.** Report in column A the carrying value of loans and leases HFI reported in Schedule RC, item 4.b., that are not reported in items 5.a through 5.c above.

- *In column B*, an institution that has adopted the current expected credit losses methodology (CECL) should include as a positive number the portion of Schedule RC-R, Part II, Memorandum item 4.a, “Amount of allowances for credit losses on purchased credit-deteriorated assets” for loans and leases held for investment that are applicable to all purchased credit-deteriorated exposures not reported in items 5.a through 5.c above.
- *In column C—0% risk weight*, include the carrying value of the unconditionally guaranteed portion of HFI SBA “Guaranteed Interest Certificates” purchased in the secondary market that are included in Schedule RC-C, Part I, net of unearned income. Also include the portion of any loans and leases HFI not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases HFI collateralized by deposits at the reporting institution.
- *In column G—20% risk weight*, include the carrying value of HFI loans to and acceptances of other U.S. depository institutions that are reported in Schedule RC-C, Part I, item 2 (excluding the carrying value of any long-term exposures to non-OECD banks), plus the

Part II. (cont.)**Item No. Caption and Instructions**

5.d
(cont.) carrying value of the HFI guaranteed portion of SBA loans originated and held by the reporting bank included in Schedule RC-C, Part I, and the carrying value of the portion of HFI student loans reinsured by the U.S. Department of Education included in Schedule RC-C, Part I, item 6.d, "Other consumer loans." Also include the portion of any loans and leases HFI not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases HFI covered by FDIC loss-sharing agreements.

- *In column H—50% risk weight*, include the carrying value of loans and leases HFI that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 50 percent risk weight. Also include the portion of any loans and leases HFI not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I—100% risk weight*, include the carrying value of loans and leases HFI reported in Schedule RC, item 4.b, that is not included in columns C through H, J, or R (excluding loans that are assigned a higher than 100 percent risk weight, such as HVCRE loans and past due loans). This item would include 1-4 family construction loans and leases HFI reported in Schedule RC-C, Part I, item 1.a.(1) and the portion of loans HFI secured by multifamily residential property reported in Schedule RC-C, Part I, item 1.d, with an original amount of more than \$1 million. Also include the carrying value of loans HFI that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 100 percent risk weight. Also include the portion of any loans and leases HFI not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases HFI including eligible margin loans, reported in Schedule RC, item 4.b, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach, or the collateral margin approach for eligible margin loans, outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
 - Include in column R the carrying value of the portion of such a loan or lease HFI that is secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all eligible margin loans. In addition, if the bank applies the Simple Approach, it must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan or lease HFI that is secured by such collateral. Any remaining portion of the HFI loan or lease exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of "Treatment of Collateral and Guarantees" and "Risk-Weighted Assets for Securitization Exposures" in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)**Item No. Caption and Instructions**

- 5.d**
(cont.)
- All other loans and leases HFI that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II:*
 - The carrying value of other loans and leases HFI reported in Schedule RC, item 4.b, that are not reported in Schedule RC-R, Part II, items 5.a through 5.c above.

- 6** **LESS: Allowance for loan and lease losses.** Report in columns A and B the balance of the allowance for loan and lease losses or the allowance for credit losses on loans and leases, as applicable, reported in Schedule RC, item 4.c.

- 7** **Trading assets.** Report in column A the fair value of trading assets reported in Schedule RC, item 5, excluding those trading assets that are securitization exposures, as defined in §.2 of the regulatory capital rules.

The fair value of those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.c, column A. The sum of Schedule RC-R, Part II, items 7 and 9.c, column A, must equal Schedule RC, item 5.

If the bank is subject to the market risk capital rule, include in column B the fair value of all trading assets that are covered positions as defined in Schedule RC-R, Part II, item 27 (except those trading assets that are both securitization exposures and covered positions, which are excluded from column A of this item 7 and are to be reported instead in Schedule RC-R, Part II, item 9.c, column A). The bank will report its standardized market risk-weighted assets in Schedule RC-R, Part II, item 27.

For banks not subject to the market risk capital rule and for those trading assets reported in column A that are held by banks subject to the market risk capital rule and do not meet the definition of a covered position:

- *In column B*, if the bank completes Schedule RC-D, include the fair value of derivative contracts that are reported as assets in Schedule RC-D, item 11. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of derivative contracts that are assets. **Exclude** from column B those derivative contracts reported in these items that qualify as securitization exposures. For purposes of risk weighting, include the credit equivalent amounts of these derivatives, determined in accordance with the regulatory capital rules, in the risk-weight categories in Schedule RC-R, Part II, items 20 and 21, as appropriate. Do not risk weight these derivatives in this item.

In column B for non-advanced approaches institutions,¹ include the amount of:

- Investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 5, and have been deducted from capital in Schedule RC-R, Part I, item 13.a, item 17, item 24, and item 45 on the FFIEC 031; item 13, item 17, item 24, and item 45 on the FFIEC 041.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of determining the investments in the capital of unconsolidated financial institutions to be included in column B.

Part II. (cont.)**Item No. Caption and Instructions**

- 7**
(cont.)
- In column B for advanced approaches institutions,¹ include the amount of:*
- Non-significant investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 5, and have been deducted from capital in Schedule RC-R, Part I, item 11, item 24, and item 45 on the FFIEC 031.
 - Significant investments in the capital of unconsolidated financial institutions not in the form of common stock that are reported in Schedule RC, item 5, and have been deducted from capital in Schedule RC-R, Part I, item 24 and item 45 on the FFIEC 031.
 - Significant investments in the capital of unconsolidated financial institutions in the form of common stock reported in Schedule RC, item 5, that are subject to the 10 percent and 15 percent common equity tier 1 capital threshold limitations and have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13.b and 16, column B, on the FFIEC 031.

Also include in column B the fair value of any unsettled transactions (failed trades) that are reported as trading assets in Schedule RC, item 5. For purposes of risk weighting, unsettled transactions are to be reported in Schedule RC-R, Part II, item 22.

- *In column C—0% risk weight, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the zero percent risk weight. Such trading assets may include portions of, but may not be limited to:*
 - Item 1, "U.S. Treasury securities,"
 - The portion of the amount reported in item 2 that represents the fair value of securities issued by U.S. Government agencies, and
 - The portion of the amounts reported in item 4 that represents the fair value of mortgage-backed securities (MBS) guaranteed by GNMA.
 - If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of securities. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
 - Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of trading assets collateralized by deposits at the reporting institution.
- *In column G—20% risk weight, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the 20 percent risk weight. Such trading assets may include portions of, but may not be limited to:*
 - The portion of the amount reported in item 2 that represents the fair value of securities issued by U.S. Government-sponsored agencies,
 - The portion of the amount reported in item 3 that represents the fair value of general obligations issued by states and political subdivisions in the United States,
 - The portion of the amount reported in item 4 that represents the fair value of MBS issued by FNMA and FHLMC,

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of determining the investments in the capital of unconsolidated financial institutions to be included in column B.

Part II. (cont.)**Item No. Caption and Instructions**

- 7**
(cont.)
- The fair value of those asset-backed securities, structured financial products, and other debt securities reported in item 5, "Other debt securities," that represent exposures to U.S. depository institutions,
 - The portion of the amount reported in item 6.d, "Other loans," that represents loans to and acceptances of U.S. depository institutions, and
 - The portion of the amount reported in item 9, "Other trading assets," that represents the fair value of certificates of deposit.
 - If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
 - Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of trading assets covered by FDIC loss-sharing agreements.
- *In column H–50% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the 50 percent risk weight. Such trading assets may include portions of, but may not be limited to:
 - The portion of the amount reported in item 3 that represents the fair value of revenue obligations issued by states and political subdivisions in the United States, and
 - The fair value of those MBS reported in item 4, "Mortgage-backed securities."
 - If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
 - Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
 - *In column I–100% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such trading assets may include portions of, but may not be limited to:
 - The fair value of those MBS reported in item 4, "Mortgage-backed securities," and
 - Item 5, "Other debt securities," that represent exposures to corporate entities and special purpose vehicles (SPVs).
 - If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
 - Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - Also include the fair value of trading assets reported in Schedule RC, item 5, that is not included in columns C through H, J through N, and R. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.

Part II. (cont.)**Item No. Caption and Instructions**

- 7**
(cont.)
- For non-advanced approaches institutions,¹ also include the fair value of publicly traded and not publicly traded equity exposures and equity exposures to investment funds (including mutual funds) reported in Schedule RC, item 5, to the extent that the aggregate carrying value of the bank's equity exposures does not exceed 10 percent of total capital. If the bank's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report its trading equity exposures in columns L, M, or N, as appropriate.
 - For advanced approaches institutions,² also include the fair value of non-significant equity exposures reported in Schedule RC, item 5, to the extent that the aggregate carrying value of the exposures does not exceed 10 percent of total capital. To utilize this risk weight, the bank must aggregate the following equity exposures: unconsolidated small business investment companies or held through consolidated small business investment companies; publicly traded (including those held indirectly through mutual funds or other investment funds); and non-publicly traded (including those held indirectly through mutual funds or other investment funds).
- *In column J–150% risk weight*, include the exposure amounts of trading assets reported in Schedule RC, item 5, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
 - *In column K–250% risk weight, for advanced approaches institutions only*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent exposures that are significant investments in the common stock of unconsolidated financial institutions that are not deducted from capital. For further information on the treatment of equity exposures, refer to §.51 to .53 of regulatory capital rules. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.
 - *In column L–300% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent publicly traded equity securities with readily determinable fair values. (NOTE: Certain investments in mutual funds reported in

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) with respect to which equity exposures are assigned a 100 percent risk weight when the aggregate carrying value of the exposures does not exceed 10 percent of total capital.

² For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions (and not the instructions above for non-advanced approaches institutions) with respect to which equity exposures reported in Schedule RC, item 5, are assigned a 100 percent risk weight when the aggregate carrying value of the exposures does not exceed 10 percent of total capital. In addition, such non-advanced approaches institutions must apply a 100 percent risk weight to the adjusted carrying value of exposures reported in Schedule RC, item 5, that are significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital for the March 31, 2020, report date only.

Part II. (cont.)**Item No. Caption and Instructions**

- 7**
(cont.) Schedule RC-D, item 9, may be risk weighted using the simple risk-weight and look-through approaches as described in §.51 to .53 of the regulatory capital rules.) If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.
- *In column M—400% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent equity securities (other than those issued by investment firms) that do not have readily determinable fair values. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.
 - *In column N—600% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent equity exposures to investment firms. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.
 - *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of any trading assets reported in Schedule RC, item 5, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
 - Include in column R the fair value of the portion of a trading asset that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the trading asset secured by such collateral. Any remaining portion of the trading asset that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J. For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.
 - *In columns R and S—Application of Other Risk-Weighting Approaches*, also include the bank’s equity exposures to investment funds (including mutual funds) reported as trading assets in Schedule RC, item 5, if the aggregate carrying value of the bank’s equity exposures is greater than 10 percent of total capital. Report in column R the exposure amount of these equity exposures to investment funds. Report in column S the risk-weighted asset amount of these equity exposures to investment funds as measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach described in §.53 of the regulatory capital rules. All three of these approaches require a minimum risk weight of 20 percent. For further information, refer to the discussion of “Treatment of Equity Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)**Item No. Caption and Instructions**

- 7** • Trading assets that must be risk-weighted according to the Country Risk Classification (CRC) methodology
- (cont.) ○ *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include the portions of those exposures reported in Schedule RC-D that are directly and unconditionally guaranteed by foreign central governments or are exposures to foreign banks that do not qualify as securitization exposures. Such exposures may include portions of, but may not be limited to:*
- The fair value of those MBS reported in Schedule RC-D, item 4, "Mortgage-backed securities," and other debt securities reported in Schedule RC-D, Item 5, "Other debt securities," issued by foreign banks and foreign sovereign units.
- If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
- 8** **All other assets.** Report in column A the sum of the amounts reported in Schedule RC, item 6, "Premises and fixed assets"; item 7, "Other real estate owned"; item 8, "Investments in unconsolidated subsidiaries and associated companies"; item 9, "Direct and indirect investments in real estate ventures"; item 10, "Intangible assets"; and item 11, "Other assets," excluding those assets reported in Schedule RC, items 6 through 11, that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those assets reported in Schedule RC, items 6 through 11, that qualify as securitization exposures (as well as the amount reported in Schedule RC, item 11, for accrued interest receivable on on-balance sheet securitization exposures, regardless of where the securitization exposures are reported on the balance sheet in Schedule RC) must be reported in Schedule RC-R, Part II, item 9.d, column A.

The sum of item 8, columns B through R (including items 8.a and 8.b, column R), must equal item 8, column A. Amounts reported in Schedule RC-R, Part II, items 8.a and 8.b, column R, should not also be reported in Schedule RC-R, Part II, item 8, column R.

Treatment of Defined Benefit Postretirement Plan Assets – Applicable Only to Banks That Have Made the Accumulated Other Comprehensive Income (AOCI) Opt-Out Election in Schedule RC-R, Part I, item 3.a

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Topic 715, Compensation-Retirement Benefits (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"), the institution should adjust the asset amount reported in column A of this item for any amounts included in Schedule RC, item 26.b, "Accumulated other comprehensive income," affecting assets as a result of the initial and subsequent application of the funded status and measurement date provisions of ASC Topic 715. The adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, Part I, item 9.d) is to reverse the effects on AOCI of applying ASC Topic 715 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Topic 715 should be reported as an adjustment to assets in column B of this item. For example, the derecognition of an asset recorded as an offset to

Part II. (cont.)**Item No. Caption and Instructions**

8
(cont.) AOCI as part of the initial incremental effect of applying ASC Topic 715 should be reported in this item as a negative amount in column B and as a positive amount in column I. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b, as an increase to AOCI and in column A of this item should be excluded from risk-weighted assets by reporting the amount as a positive number in column B of this item.

- *In column B for all institutions*, include the amount of:
 - Any goodwill reported in Schedule RC-M, item 2.b, without regard to any associated DTLs;
 - Intangible assets (other than goodwill and mortgage servicing assets (MSAs)) reported as a deduction from common equity tier 1 capital in Schedule RC-R, Part I, item 7, without regard to any associated DTLs;
 - Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs reported in Schedule RC-R, Part I, item 8;
 - The fair value of over-the-counter derivative contracts (as defined in §.2 of the regulatory capital rules) and derivative contracts that are cleared transactions (as described in §.2 of the regulatory capital rules) that are reported as assets in Schedule RC, item 11 (banks should risk weight the credit equivalent amount of these derivative contracts in Schedule RC-R, Part II, item 20 or 21, as appropriate); and
 - **Note:** The fair value of derivative contracts reported as assets in Schedule RC, item 11, that are neither over-the-counter derivative contracts nor derivative contracts that are cleared transactions under §.2 of the regulatory capital rules should not be reported in column B. Such derivative contracts include written option contracts, including so-called “derivative loan commitments,” i.e., a lender’s commitment to originate a mortgage loan that will be held for resale. The fair value of such derivative contracts should be reported in the appropriate risk-weight category in this item 8.
 - Unsettled transactions (failed trades) that are reported as “Other assets” in Schedule RC, item 11. For purposes of risk weighting, unsettled transactions are to be reported in Schedule RC-R, Part II, item 22.
- *In column B for non-advanced approaches institutions,¹* also include the amount of:
 - Investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 8 or item 11, and have been deducted from capital in Schedule RC-R, Part I, item 13.a, item 24, and item 45 on the FFIEC 031; item 13, item 24, and item 45 on the FFIEC 041; and
 - Items subject to the 25 percent common equity tier 1 capital threshold limitation that have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13.a, 14.a, and 15.a on the FFIEC 031; items 13 through 15 on the FFIEC 041. These excess amounts pertain to three items:
 - Investments in the capital of unconsolidated financial institutions;
 - MSAs; and
 - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances.

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow the instructions below for advanced approaches institutions (and not these instructions for non-advanced approaches institutions) for purposes of determining the investments in the capital of unconsolidated financial institutions and the items subject to common equity tier 1 capital threshold limitations to be included in column B.

Part II. (cont.)**Item No. Caption and Instructions**

- 8**
(cont.)
- *In column B for advanced approaches institutions,¹* also include the amount of:
 - Non-significant investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 8 or item 11, and have been deducted from capital in Schedule RC-R, Part I, item 11, item 24, and item 45 on the FFIEC 031;
 - Significant investments in the capital of unconsolidated financial institutions not in the form of common stock that are reported in Schedule RC, item 8 or item 11, and have been deducted from capital in Schedule RC-R, Part I, item 24 and item 45 on the FFIEC 031; and
 - Items subject to the 10 percent and 15 percent common equity tier 1 capital threshold limitations that have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13.b, 14.b, 15.b, and 16 on the FFIEC 031. These excess amounts pertain to three items:
 - Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
 - MSAs; and
 - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances.

An institution that has adopted the current expected credit losses methodology (CECL) should report as a negative number in column B:

- The portion of Schedule RI-B, Part II, Memorandum item 6, “Allowance for credit losses on other financial assets measured at amortized cost,” that relates to assets reported in column A of this item, less
- The portion of Schedule RC-R, Part II, Memorandum item 4.c, “Amount of allowances for credit losses on purchased credit-deteriorated assets” for other financial assets measured at amortized cost that relates to assets reported in column A of this item.

For example, if an institution reports \$100 in Schedule RI-B, Part II, Memorandum item 6 (and the entire amount relates to assets reported in this item 8, column A), and \$10 in Schedule RC-R, Part II, Memorandum item 4.c (and the entire amount relates to assets reported in this item 8, column A), the institution would report (\$90) in this column B.

An institution that has adopted CECL and has elected to apply the CECL transition provision (CECL electing institution) should report as a positive number in column B its applicable DTA transitional amount from temporary difference DTAs, in accordance with section 301 of the regulatory capital rules. Specifically, a CECL electing institution reduces its temporary difference DTAs by 75 percent of its DTA transitional amount during the first year of the transition period, 50 percent of its DTA transitional amount during the second year of the transition period, and 25 percent of its DTA transitional amount during the third year of the transition period.

Report as a negative number in column B the amount of default fund contributions in the form of commitments made by a clearing member to a central counterparty’s mutualized loss-sharing arrangement.

- *In column C—0% risk weight, include:*
 - The carrying value of Federal Reserve Bank stock included in Schedule RC-F, item 4;

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), must follow these instructions for advanced approaches institutions for purposes of determining the investments in the capital of unconsolidated financial institutions and the items subject to common equity tier 1 capital threshold limitations to be included in column B.

Part II. (cont.)**Item No. Caption and Instructions**

- 8**
(cont.)
- Accrued interest receivable on assets included in the zero percent risk weight category (column C of Schedule RC-R, Part II, items 1 through 7);
 - The carrying value of gold bullion not held for trading that is held in the bank's own vault or in another bank's vault on an allocated basis, and exposures that arise from the settlement of cash transactions (such as equities, fixed income, spot foreign exchange, and spot commodities) with a central counterparty where there is no assumption of ongoing credit risk by the central counterparty after settlement of the trade and associated default fund contributions; and
 - The portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of these assets collateralized by deposits in the reporting institution.
- *In column G—20% risk weight, include:*
 - The carrying value of Federal Home Loan Bank stock included in Schedule RC-F, item 4;
 - Accrued interest receivable on assets included in the 20 percent risk weight category (column G of Schedule RC-R, Part II, items 1 through 7);
 - The portion of customers' acceptance liability reported in Schedule RC, item 11, that has been participated to other depository institutions; and
 - The portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of these assets covered by FDIC loss-sharing agreements.
- *In column H—50% risk weight, include accrued interest receivable on assets included in the 50 percent risk weight category (column H of Schedule RC-R, Part II, items 1 through 7). Also include the portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.*
- *In column I—100% risk weight, include:*
 - Accrued interest receivable on assets included in the 100 percent risk weight category (column I of Schedule RC-R, Part II, items 1 through 7);
 - Publicly traded and not publicly traded equity exposures, equity exposures without readily determinable fair values, and equity exposures to investment funds, to the extent that the aggregate carrying value of the bank's equity exposures does not exceed 10 percent of total capital. If the bank's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report its equity exposures reported in Schedule RC, items 6 through 11, in either columns L, M, or N, as appropriate;
 - The portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight; and
 - The amount of all other assets reported in column A that is not included in columns C through H, J through N, or R.
- *In column J—150% risk weight, include accrued interest receivable on assets included in the 150 percent risk weight category (column J of Schedule RC-R, Part II, items 1 through 7). Also include the portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 150 percent risk weight.*

Part II. (cont.)**Item No. Caption and Instructions**

- 8**
(cont.)
- *In column K–250% risk weight*, include the amounts of items that do not exceed the applicable common equity tier 1 capital deduction thresholds and are included in capital, as described in §.22 of the regulatory capital rules.¹ These amounts pertain to three items:
 - Significant investments in the capital of unconsolidated financial institutions in the form of common stock (for advanced approaches institutions only);
 - MSAs (for all institutions); and
 - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances (for all institutions).
 - *In column L–300% risk weight*, include the fair value of publicly traded equity securities with readily determinable fair values that are reported in Schedule RC, items 8 and 9.
 - *In column M–400% risk weight*, include the historical cost of equity securities (other than those issued by investment firms) that do not have readily determinable fair values that are reported in Schedule RC-F, item 4.
 - *In column N–600% risk weight*, include the historical cost of equity securities issued by investment firms that do not have readily determinable fair values that are reported in Schedule RC-F, item 4.
 - *In columns R and S of item 8–Application of Other Risk-Weighting Approaches*, include the portion of any asset reported in Schedule RC, items 6 through 11 (except separate account bank-owned life insurance and default fund contributions to central counterparties, which are to be reported in columns R and S of items 8.a and 8.b, respectively), that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
 - Include in column R the carrying value of the portion of an asset that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the asset secured by such collateral. Any remaining portion of the asset that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

¹ For the March 31, 2020, report date only, the 250 percent risk weight is not applicable to non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020). Such institutions must apply a 100 percent risk weight to the amounts of items that do not exceed the applicable common equity tier 1 capital deduction thresholds and report these amounts in *column I–100% risk weight*.

Part II. (cont.)**Item No. Caption and Instructions**

- 8**
(cont.)
- *In columns R and S of item 8—Application of Other Risk-Weighting Approaches*, also include the bank’s equity exposures to investment funds (including mutual funds) reported in Schedule RC, item 8 or 11 (except separate account bank-owned life insurance and default fund contributions to central counterparties, which are to be reported in columns R and S of items 8.a and 8.b, respectively), if the aggregate carrying value of the bank’s equity exposures is greater than 10 percent of total capital. Report in column R the exposure amount of these equity exposures to investment funds. Report in column S the risk-weighted asset amount of these equity exposures to investment funds as measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach described in §.53 of the regulatory capital rules. All three of these approaches require a minimum risk weight of 20 percent. For further information, refer to the discussion of “Treatment of Equity Exposures” in the General Instructions for Schedule RC-R, Part II.
 - *In columns R and S of item 8.a—Separate Account Bank-Owned Life Insurance*, include the bank’s investments in separate account life insurance products, including hybrid separate account life insurance products. Exclude from columns R and S any investment in bank-owned life insurance that is solely a general account insurance product (report such general account insurance products in *column I—100 percent risk weight*). Report in column R the carrying value of the bank’s investments in separate account life insurance products, including hybrid separate account products. Report in column S the risk-weighted asset amount of these insurance products. When a bank has a separate account policy, the portion of the carrying value that represents general account claims on the insurer, including items such as deferred acquisition costs (DAC) and mortality reserves realizable as of the balance sheet date, and any portion of the carrying value attributable to a Stable Value Protection (SVP) contract should be risk weighted at the 100 percent risk weight as claims on the insurer or the SVP provider. The remaining portion of the investment in separate account life insurance products is an equity exposure to an investment fund that should be measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach, all three of which require a minimum risk weight of 20 percent. For further information, refer to the discussion of “Treatment of Equity Exposures” in the General Instructions for Schedule RC-R, Part II.
 - *In columns R and S of item 8.b—Default Fund Contributions to Central Counterparties*

Note: Item 8.b only applies to banks that are clearing members, and therefore will not be applicable to the vast majority of banks. Banks must report the aggregate on-balance sheet amount of default fund contributions to central counterparties (CCPs) in column A. Banks must report the aggregate off-balance sheet amount, if any, of default fund contributions to CCPs as a negative amount in column B of item 8. Banks must report the aggregate on- and off-balance sheet amount of such contributions in column R. See §.35(d) of the regulatory capital rules for more details.

Clearing Member Banks must report in column S the total amount of risk-weighted assets for a clearing member bank’s default fund contributions to CCPs. This will be the sum of:

- Component A: the sum of risk-weighted assets for a clearing member bank’s default fund contributions to all non-qualifying CCPs; and,
- Component B: the sum of risk-weighted assets for a clearing member bank’s default fund contributions to all qualifying central counterparties (QCCPs).

Report the sum of Components A and B in Schedule RC-R, Part II, item 8.b, column S.

Part II. (cont.)**Item No. Caption and Instructions**

8
(cont.)

Component A: Risk-weighted asset amount for default fund contributions to non-qualifying CCPs

As required by §.35(d)(2) of the regulatory capital rules, a clearing member bank's risk-weighted asset amount for default fund contributions to CCPs that are not QCCPs equals the sum of such default fund contributions multiplied by 1,250 percent, or an amount determined by the bank's federal supervisor based on factors such as size, structure and membership characteristics of the CCP and riskiness of its transactions, in cases where such default fund contributions may be unlimited. Therefore, unless otherwise advised by its supervisor or through agency-issued guidance, a bank will sum each of its non-QCCP default fund contributions, and multiply the total by 1,250 percent, and add any additional risk-weighted asset amount determined by the agency, if any. This will be Component A above.

Component B: Risk-weighted asset amount for default fund contributions to QCCPs

A clearing member bank's risk-weighted asset amount for default fund contributions to QCCPs equals the sum of its capital requirement, K_{CM} for each QCCP, as calculated under the methodology set forth in §.35(d)(3) or §.133(d) of the regulatory capital rules.

When a bank uses the Current Exposure Method (CEM) to determine default fund contributions, the regulatory capital rules provide two methods to determine the capital requirement for a clearing member bank's default fund contributions to a QCCP. A clearing member bank may use either method. A clearing member bank's risk-weighted asset amount for default fund contributions to a QCCP equals the sum of its capital requirement, K_{CM} , for each QCCP as calculated under Method 1 multiplied by 1,250 percent, or under Method 2.

Method 1: The bank calculates the capital charge for a clearing member in a 3-step process, depending on the funded status of the QCCP. The process is summarized briefly below:

- Step 1: The bank must calculate the hypothetical capital requirement of all the trades conducted through the QCCP as if the QCCP were a bank. This depends on the type of trade and netting sets with each counterparty. Alternately, the QCCP may provide this number to the clearing member.
- Step 2: The bank compares the hypothetical capital requirement (calculated in Step 1) to the funded default fund of the QCCP to include the internally funded resources of the QCCP. This step determines the aggregate capital requirement for all clearing members assuming a default of two average clearing members.
- Step 3: The aggregate capital requirement of all clearing members (assuming the default of two members) is then allocated back to the individual clearing member firm and converted to a risk-weighted asset amount.

Using the 3-step process and formulas provided in the regulatory capital rules, the bank will determine a dollar capital requirement for its default fund contribution for each QCCP (K_{CMi}). The bank must then multiply each K_{CMi} by 1,250 percent to calculate the risk-weighted asset amount. The bank must sum the risk-weighted assets calculated for each QCCP default fund contribution to produce a total risk-weighted asset amount for all QCCP default fund contributions for which the bank uses this method. For example, the total risk-weight asset amount for a bank with default fund contributions to two QCCPs will be the sum of K_{CMi} for QCCP A and K_{CMi} for QCCP B. This sum will be included in Component B above for all QCCPs for which the bank uses Method 1.

Part II. (cont.)**Item No. Caption and Instructions**

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(cont.) Method 2: Under Method 2, the risk-weighted assets for a clearing member's default fund contribution is the minimum of:

- 1,250 percent times the bank's funded contributions to the QCCP default fund, or
- 18 percent times the total trade exposures of the member to the QCCP.

A bank will make this calculation for each QCCP for which it uses Method 2. The sum of risk-weighted assets for all QCCP contributions for which the bank uses Method 2 will be included in Component B above.

When a bank uses SA-CCR to determine default fund contributions, the regulatory capital rules provide that a clearing member bank first calculates the hypothetical capital requirement of the QCCP (K_{CCP}), unless the QCCP has already disclosed it, in which case the bank must rely on that disclosed figure. In either case, a bank may choose to use a higher amount of K_{CCP} than the minimum calculated under the formula or disclosed by the QCCP if the bank has concerns about the nature, structure, or characteristics of the QCCP.

For purposes of calculating K_{CCP} , the PFE multiplier includes collateral held by a QCCP in which the QCCP has a legal claim in the event of the default of the member or client, including default fund contributions of that member. In addition, the QCCP must use a margin period of risk of 10 days in the maturity factor adjustment. Notwithstanding §.133(d)(5) and (6)(ii) of the regulatory capital rules, with the prior approval of the regulator, a bank may rely on a hypothetical capital requirement of a QCCP based on a methodology other than SA-CCR for calculating the exposure amount of a clearing member of a QCCP to the QCCP.

A banking organization that elects to use SA-CCR is allowed to continue to use method 1 or method 2 under CEM to calculate the risk-weighted asset amount for default fund contributions until January 1, 2022.

- The portion of Schedule RC, items 6 through 11, that must be risk-weighted according to the Country Risk Classification (CRC) methodology:
 - *In column C—0% risk weight; column G—20% risk weight, column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include the portions of those exposures described above in the instructions for Schedule RC-R, Part II, item 8, that are exposures to sovereigns or foreign banks that do not qualify as securitization exposures.*

Part II. (cont.)**Item No. Caption and Instructions****Securitization Exposures: On- and Off-Balance Sheet**

- 9 On-balance sheet securitization exposures.** When determining the amount of risk-weighted assets for securitization exposures, banks that are not subject to the market risk capital rule may elect to use either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, as described above and in §.41 to §.45 of the regulatory capital rules. However, such banks must use the SSFA or Gross-Up Approach consistently across all securitization exposures (items 9.a through 10), but banks may risk weight any individual securitization exposure at 1,250 percent in lieu of applying the SSFA or Gross-Up Approach to that individual exposure.

Banks subject to the market risk capital rule must use the SSFA when determining the amount of risk-weighted assets for securitization exposures.

For further information, refer to the discussion of “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- 9.a Held-to-maturity securities.** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a, that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, item 2.a, for a summary of the reporting locations of HTM securitization exposures.

Exposure amount to be used for purposes of risk weighting – bank cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:

For a security classified as HTM where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP and in column A.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:

For a security classified as HTM where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security reported on the balance sheet of the bank and in column A, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI.

]

If an HTM securitization exposure will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, include as part of the exposure amount to be risk weighted in this item any accrued interest receivable on the HTM security that is reported in Schedule RC, item 11, “Other assets,” and included in Schedule RC-R, Part II, item 9.d, columns A and B. Do not report this accrued interest receivable in column A or B of this item.

- *In column B:*
 - If an HTM securitization exposure will be risk weighted using the 1,250 percent risk weight approach, report any difference between the carrying value of the HTM securitization exposure reported in column A of this item and the exposure amount of the HTM securitization exposure that is to be risk weighted.

Part II. (cont.)**Item No. Caption and Instructions**

- 9.a**
(cont.)
- If an HTM securitization exposure will be risk weighted using either the SSFA or the Gross-Up Approach, report the carrying value of the HTM securitization exposure reported in column A of this item
 - For an institution that has adopted the current expected credit losses methodology (CECL), include as a negative number:
 - The portion of Schedule RI-B, Part II, item 7, column B, “Balance end of current period” for HTM debt securities that relates to HTM securitization exposures, less
 - The portion of Schedule RC-R, Part II, Memorandum item 4.b, “Amount of allowances for credit losses on purchased credit-deteriorated assets” for HTM debt securities that relates to purchased credit-deteriorated HTM securitization exposures.

For example, if an institution reports \$100 in Schedule RI-B, Part II, item 7, column B, that relates to HTM securitization exposures and \$10 in Schedule RC-R, Part II, Memorandum item 4.b, that relates to purchased credit-deteriorated HTM securitization exposures, the institution would report (\$90) in this column B.

- *In column Q*, report the exposure amount of those HTM securitization exposures that are assigned a 1,250 percent risk weight (i.e., those HTM securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those HTM securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of HTM securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

- 9.b** **Available-for-sale securities.** Report in column A the fair value of those available-for-sale (AFS) securities reported in Schedule RC, item 2.b, that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, item 2.b, for a summary of the reporting locations of AFS securitization exposures.

Exposure amount to be used for purposes of risk weighting – bank that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:

For an AFS debt security that is a securitization exposure where the bank cannot make or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount of the AFS securitization exposure to be risk weighted by the bank is the carrying value of the debt security, which is the value of the asset reported on the balance sheet of the bank (Schedule RC, item 2.b) determined in accordance with GAAP (i.e., the fair value of the AFS debt security) and in column A of this item.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:

For an AFS debt security that is a securitization exposure where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount of the AFS securitization exposure to be risk weighted by the bank is the carrying value of the debt security, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI.

Part II. (cont.)**Item No. Caption and Instructions**

9.b
(cont.) If an AFS securitization exposure will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, include as part of the exposure amount to be risk weighted in this item any accrued interest receivable on the AFS debt security that is reported in Schedule RC, item 11, "Other assets," and included in Schedule RC-R, Part II, item 9.d, columns A and B. Do not report this accrued interest receivable in column A or B of this item.

- *In column B:*
 - If an AFS securitization exposure will be risk weighted using the 1,250 percent risk weight approach, a bank that has made the AOCI opt-out election should include the difference between the fair value and amortized cost of those AFS debt securities that qualify as securitization exposures. This difference equals the amounts reported in Schedule RC-B, items 4 and 5, column D, minus items 4 and 5, column C, for those AFS debt securities included in these items that are securitization exposures. When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, Part II, item 9.b, column B. When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule RC-R, Part II, item 9.b, column B.
 - If an AFS securitization exposure will be risk weighted using either the SSFA or the Gross-Up Approach, a bank should report the carrying value of the AFS securitization exposure reported in column A of this item.
- *In column Q*, report the exposure amount of those AFS securitization exposures that are assigned a 1,250 percent risk weight (i.e., those AFS securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

Example 1: A bank reports an AFS securitization exposure on its balance sheet in Schedule RC, item 2.b, at a carrying value (i.e., fair value) of \$105. The amortized cost of the AFS securitization exposure is \$100. The AFS securitization exposure has a \$5 unrealized gain that is included in AOCI. The AFS securitization exposure also has \$1 of accrued interest receivable that is reported in Schedule RC, item 11, and included in Schedule RC-R, Part II, item 9.d, column A. The bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. The AFS securitization exposure will be risk weighted using the 1,250 percent risk weight approach. The bank would report in Schedule RC-R, Part II, item 9.b:

- \$105 in column A. This is the carrying value of the AFS securitization exposure on the bank's balance sheet.
- \$5 in column B. This is the difference between the carrying value (i.e., fair value) of the AFS securitization exposure and its exposure amount that is subject to risk weighting. For a bank that has made the AOCI opt-out election, column B will typically represent the

Part II. (cont.)**Item No. Caption and Instructions**

- 9.b** amount of the unrealized gain or unrealized loss on securitization exposure. Gains are reported as positive numbers; losses as negative numbers. (Note: If the bank has not made or cannot make the opt-out election, there will not be an adjustment for the unrealized gain or loss to be reported in column B.)
- (cont.)
- \$100 is the exposure amount subject to risk weighting in this item (i.e., without regard to the accrued interest receivable on the AFS securitization exposure that is included in Schedule RC-R, Part II, item 9.d). This \$100 amount will be reported in item 9.b, column Q—1250% risk weight. For a bank that has made the AOCI opt-out election, the exposure amount typically will be the carrying value (i.e., fair value) of the AFS securitization exposure excluding any unrealized gain or loss.

The bank would also report the \$1 of accrued interest receivable on the AFS securitization exposure that is included in Schedule RC-R, Part II, item 9.d, column A, in column Q—1250% risk weight of item 9.d.

Example 2: A bank reports an AFS securitization exposure on its balance sheet in Schedule RC, item 2.b, at a carrying value (i.e., fair value) of \$105. The AFS securitization exposure has a \$5 unrealized gain that is included in AOCI. The AFS securitization exposure also has \$1 of accrued interest receivable that is reported in Schedule RC, item 11, and included in Schedule RC-R, Part II, item 9.d, column A. The bank's AFS securitization exposure provides credit enhancement for an additional \$800 in more senior securities. Therefore, the bank will need to risk weight a \$900 exposure composed of the carrying value of its AFS securitization exposure, less the unrealized gain, plus the amount of the more senior exposures that it supports. The bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. The AFS securitization exposure will be risk weighted using the Gross-Up Approach and the weighted-average risk weight of the underlying exposures is 100 percent. The bank would report in Schedule RC-R, Part II, item 9.b:

- \$105 in column A. This is the carrying value of the AFS securitization exposure on the bank's balance sheet.
- \$105 in column B. When the Gross-Up Approach is being used, the carrying value of the AFS securitization exposure on the bank's balance sheet, as reported in column A, of item 9.b, is to be reported in column B. Because the bank has made the AOCI opt-out election, the exposure amount to be risk weighted at the 100 percent weighted-average risk weight is the \$105 carrying value of the AFS securitization exposure, less the \$5 unrealized gain on the exposure included in AOCI, plus the \$1 accrued interest receivable on the exposure (included in Schedule RC-R, Part II, item 9.d, column A), plus the additional \$800 in more senior exposures that the AFS securitization exposure supports, which equals \$901.
- \$901 in column U. This is the risk-weighted asset amount of the AFS securitization exposure. This amount (\$901) will be reported in item 9.b, column U—Gross-Up. (Note: \$901 is the product of the \$901 exposure amount multiplied by the 100 percent weighted-average risk weight.)

- 9.c** **Trading assets.** Report in column A the fair value of those trading assets reported in Schedule RC, item 5, that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, item 7, for a summary of the reporting locations of trading assets that are securitization exposures.

If the bank is subject to the market risk capital rule, report in column B the fair value of those securitization exposures reported in column A of this item that are covered positions as defined in Schedule RC-R, Part II, item 27. The bank will report its standardized market risk-weighted assets in Schedule RC-R, Part II, item 27.

Part II. (cont.)**Item No. Caption and Instructions**

9.c
(cont.) If a trading asset securitization exposure will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, include as part of the exposure amount to be risk weighted in this item any accrued interest receivable on the trading asset that is reported in Schedule RC, item 11, “Other assets,” and included in Schedule RC-R, Part II, item 9.d, columns A and B. Do not report this accrued interest receivable in column A or B of this item.

For banks not subject to the market risk capital rule and for those trading assets held by banks subject to the market risk capital rule that are securitization exposures that do not meet the definition of a covered position:

- *In column B*, report the fair value reported in column A of this item for those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and will be risk-weighted using either the SSFA or the Gross-Up Approach.
- *In column Q*, report the fair value reported in column A of this item of those trading assets that are securitization exposures that are assigned a 1,250 percent risk weight (i.e., those trading asset securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

9.d **All other on-balance sheet securitization exposures.** Report in column A the amount of all on-balance sheet assets included in Schedule RC that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules and are not reported in Schedule RC-R, Part II, items 9.a, 9.b, or 9.c. Include in column A the amount reported in Schedule RC, item 11, “Other assets,” for accrued interest receivable on on-balance sheet securitization exposures, regardless of where the securitization exposures are reported on the balance sheet in Schedule RC. Refer to the instructions for Schedule RC-R, Part II, items 1, 3, 4, 5, and 8, above for a summary of the reporting locations of other on-balance sheet securitization exposures.

Exposure amount to be used for purposes of risk weighting – bank that cannot or has not made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:

For other on-balance sheet securitization exposures where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the exposure’s carrying value, which is the value of the exposure reported on the balance sheet of the bank determined in accordance with GAAP and in column A.

Part II. (cont.)**Item No. Caption and Instructions**

9.d Exposure amount to be used for purposes of risk weighting – bank has made the AOCI
(cont.) opt-out election in Schedule RC-R, Part I, item 3.a:
For other on-balance sheet securitization exposures where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the exposure's carrying value, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI. *In column B*, report any difference between the carrying value and the exposure amount of those other on-balance sheet securitization exposures reported in column A of this item that will be risk weighted by applying the 1,250 percent risk weight.

- *In column B*, all banks should include the amount reported in column A of this item for those other on-balance sheet securitization exposures that will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, including any accrued interest receivable reported in column A that has been accrued on these other on-balance sheet securitization exposures. Also include in column B any accrued interest receivable reported in column A that has been accrued on securitization exposures reported as held-to-maturity securities, available-for-sale securities, and trading assets in Schedule RC-R, Part II, items 9.a, 9.b, and 9.c, respectively.
- *In column Q*, report the exposure amount of those other on-balance sheet securitization exposures that are assigned a 1,250 percent risk weight (i.e., those other on-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach), including any accrued interest receivable reported in column A that has been accrued on these other on-balance sheet securitization exposures. Also include in column Q any accrued interest receivable reported in column A that has been accrued on securitization exposures reported as held-to-maturity securities, available-for-sale securities, and trading assets in Schedule RC-R, Part II, items 9.a, 9.b, and 9.c, respectively, that are assigned a 1,250 percent risk weight.
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

10 **Off-balance sheet securitization exposures.** Report in column A the notional amount of all derivatives and off-balance sheet items reported in Schedule RC-L or Schedule RC-S that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, items 12 through 21, for a summary of the reporting locations of off-balance sheet securitization exposures.

Exposure amount to be used for purposes of risk weighting
For an off-balance sheet securitization exposure that is not a repo-style transaction or eligible margin loan for which the bank calculates an exposure amount under §.37 of the regulatory capital rules, cleared transaction (other than a credit derivative), or over-the-counter (OTC) derivative contract (other than a credit derivative), the exposure amount is the notional amount of the exposure.

Part II. (cont.)**Item No. Caption and Instructions**

10
(cont.) For an off-balance sheet securitization exposure to an asset-backed commercial paper (ABCP) program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the bank could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets).

The exposure amount of an eligible ABCP liquidity facility for which the Simplified Supervisory Formula Approach (SSFA) does not apply is equal to the notional amount of the exposure multiplied by a credit conversion factor (CCF) of 50 percent.

The exposure amount of an eligible ABCP liquidity facility for which the SSFA applies is equal to the notional amount of the exposure multiplied by a CCF of 100 percent.

For an off-balance sheet securitization exposure that is a repo-style transaction or eligible margin loan for which the bank calculates an exposure amount under §.37 of the regulatory capital rules, a cleared transaction (other than a credit derivative), or a derivative contract (other than a credit derivative), the exposure amount is the amount calculated under §.34, §.35, §.37, §.132, or §.133, as applicable, of the regulatory capital rules.

For a credit-enhancing representation and warranty that is an off-balance sheet securitization exposure, see the discussion of "Treatment of Sales of 1-4 Family Residential First Mortgage Loans with Credit-Enhancing Representations and Warranties," which includes an example, in the General Instructions for Schedule RC-R, Part II.

- *In column B*, report the notional amount of those off-balance sheet securitization exposures reported in column A of this item for which the exposure amount (as described above) will be risk weighted using either the SSFA or the Gross-Up Approach. Also include in column B the difference between the notional amount reported in column A of this item and the exposure amount for those off-balance sheet items that qualify as securitization exposures and will be risk weighted by applying the 1,250 percent risk weight.
- *In column Q*, report the exposure amount of those off-balance sheet securitization exposures that are assigned a 1,250 percent risk weight (i.e., those off-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

Total Assets

11 **Total assets.** For columns A through R, report the sum of items 1 through 9. The sum of columns B through R must equal column A. Schedule RC-R, Part II, item 11, column A, must equal Schedule RC, item 12, "Total assets."

Part II. (cont.)**Derivatives, Off-Balance Sheet Items, and Other Items Subject to Risk Weighting (Excluding Securitization Exposures)**

Treatment of Derivatives and Off-Balance Sheet Items that are Securitization Exposures – Any derivatives or off-balance sheet items reported in Schedule RC-L or Schedule RC-S that qualify as securitization exposures, including liquidity facilities to asset-backed commercial paper programs, are to be reported in Schedule RC-R, Part II, item 10, column A, and excluded from Schedule RC-R, Part II, items 12 through 21 below.

Repo-style Transactions – The regulatory capital rules permit some repo-style transactions to be risk weighted on a netting set basis. Where netting is permitted, a bank will combine both on-balance and off-balance sheet repo-style transactions in order to determine a capital requirement for a netting set to a single counterparty. In such cases, a bank should combine securities purchased under agreements to resell (i.e., reverse repos) and securities sold under agreements to repurchase (i.e., repos) with off-balance sheet repo-style transactions (i.e., securities borrowing and securities lending transactions) in Schedule RC-R, Part II, item 16, and report the netting set exposure to each counterparty under the appropriate risk weight column.

Credit Conversion Factors for Off-Balance Sheet Items – A summary of the credit conversion factors (CCFs) by which the exposure amount of off-balance sheet items are to be multiplied follows. For further information on these factors, refer to the regulatory capital rules.

Off-balance sheet items subject to a zero percent CCF:

- (1) Unused portions of commitments that are unconditionally cancelable at any time by the bank.

Off-balance sheet items subject to a 20 percent CCF:

- (1) Commercial and similar letters of credit with an original maturity of one year or less, including short-term, self-liquidating, trade-related contingent items that arise from the movement of goods.
- (2) Commitments with an original maturity of one year or less that are not unconditionally cancelable.

Off-balance sheet items subject to a 50 percent CCF:

- (1) Transaction-related contingent items, including performance standby letters of credit, bid bonds, performance bonds, and warranties.
- (2) Commercial and similar letters of credit with an original maturity exceeding one year.
- (3) Commitments with an original maturity exceeding one year that are not unconditionally cancelable by the bank, including underwriting commitments and commercial credit lines.

Off-balance sheet items subject to a 100 CCF:

- (1) Financial standby letters of credit.
- (2) Repo-style transactions, including off-balance sheet securities lending transactions, off-balance sheet securities borrowing transactions, securities purchased under agreements to resell, and securities sold under agreements to repurchase.
- (3) Guarantees, certain credit-enhancing representations and warranties, and forward agreements.

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12 **Financial standby letters of credit.** For financial standby letters of credit reported in Schedule RC-L, item 2, that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, but are credit enhancements for assets, report *in column A*:

- (1) The amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit multiplied by 12.5.

Part II. (cont.)**Item No. Caption and Instructions**

12 (2) The full amount of the assets that are credit-enhanced by those letters of credit that are
(cont.) not multiplied by 12.5.

For all other financial standby letters of credit reported in Schedule RC-L, item 2, that do not meet the definition of a *securitization exposure*, report in column A the amount outstanding and unused of these letters of credit.

- *In column B*, report 100 percent of the amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G–20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that has been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H–50% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
- Financial standby letters of credit that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
 - The credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that have been conveyed to foreign banks.

13 **Performance standby letters of credit and transaction-related contingent items.** Report in column A transaction-related contingent items, which includes the face amount of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

- *In column B*, report 50 percent of the face amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

Part II. (cont.)**Item No. Caption and Instructions**

- 13**
(cont.)
- *In column G–20% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule RC-L, item 3, that have been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
 - *In column H–50% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
 - *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - Performance standby letters of credit and transaction-related contingent items that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
 - The credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule RC-L, item 3, that have been conveyed to foreign banks.
- 14** **Commercial and similar letters of credit with an original maturity of one year or less.**
Report in column A the face amount of those commercial and similar letters of credit, including self-liquidating trade-related contingent items that arise from the movement of goods, reported in Schedule RC-L, item 4, with an original maturity of one year or less that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules. Report those commercial letters of credit with an original maturity exceeding one year that do not meet the definition of a *securitization exposure* in Schedule RC-R, Part II, item 18.b.
- *In column B*, report 20 percent of the face amount reported in column A.
 - *In column C–0% risk weight*, include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
 - *In column G–20% risk weight*, include the credit equivalent amount of the portion of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or

Part II. (cont.)**Item No. Caption and Instructions**

- 14** less, reported in Schedule RC-L, item 4, that have been conveyed to U.S. depository (cont.) institutions. Also include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H–50% risk weight*, include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
 - *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
 - Commercial and similar letters of credit that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
 - The credit equivalent amount of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less, reported in Schedule RC-L, item 4, that have been conveyed to foreign banks.

- 15** **Retained recourse on small business obligations sold with recourse.** Report in column A the amount of retained recourse on small business obligations reported in Schedule RC-S, Memorandum item 1.b, that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

For retained recourse on small business obligations sold with recourse that qualify as securitization exposures, please see §.42(h) of the regulatory capital rule for purposes of risk weighting and report these exposures in Schedule RC-R, Part II, item 10.

Under Section 208 of the [Riegle Community Development and Regulatory Improvement Act of 1994](#), a "qualifying institution" that transfers small business loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution establishes a recourse liability account that is sufficient under GAAP. Only loans and leases to businesses that meet the criteria for a small business concern established by the Small Business Administration under [Section 3\(a\) of the Small Business Act \(15 U.S.C. 632 et seq.\)](#) are eligible for this favorable risk-based capital treatment.

Part II. (cont.)**Item No. Caption and Instructions**

15 In general, a "qualifying institution" is one that is well capitalized without regard to the Section 208 provisions. If a bank ceases to be a qualifying institution or exceeds the retained recourse limit set forth in banking agency regulations implementing Section 208, all new transfers of small business obligations with recourse would not be treated as sales. However, the reporting and risk-based capital treatment described above will continue to apply to any transfers of small business obligations with recourse that were consummated during the time the bank was a "qualifying institution" and did not exceed the limit.

(cont.)

- *In column B*, report 100 percent of the amount reported in column A.
- *In column C—0% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G—20% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H—50% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

16 **Repo-style transactions.** Repo-style transactions include:

- Securities lending transactions, including transactions in which the bank acts agent for a customer and indemnifies the customer against loss. Securities lent are reported in Schedule RC-L, item 6.a.
- Securities borrowing transactions. Securities borrowed are reported in Schedule RC-L, item 6.b.
- Securities purchased under agreements to resell (i.e., reverse repos). Securities purchased under agreements to resell are reported in Schedule RC, item 3.b.
- Securities sold under agreements to repurchase (i.e., repos). Securities sold under agreements to repurchase are reported in Schedule RC, item 14.b.¹

Report in column A the exposure amount of repo-style transactions that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

¹ Although securities purchased under agreements to resell and securities sold under agreements to repurchase are reported on the balance sheet (Schedule RC) as assets and liabilities, respectively, they are included with securities lent and securities borrowed and designated as repo-style transactions that are treated collectively as off-balance sheet items under the regulatory capital rules.

Part II. (cont.)**Item No. Caption and Instructions**

16
(cont.) For repo-style transactions to which the bank applies the Simple Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A is the sum of the fair value as of the report date of securities the bank has lent,¹ the amount of cash or the fair value as of the report date of other collateral the bank has posted for securities borrowed, the amount of cash provided to the counterparty for securities purchased under agreements to resell (as reported in Schedule RC, item 3.b), and the fair value as of the report date of securities sold under agreements to repurchase.

For repo-style transactions to which the bank applies the Collateral Haircut Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A for a repo-style transaction or a single-product netting set of such transactions is determined by using the exposure amount equation in §.37(c) of the regulatory capital rules.

A bank may apply either the Simple Approach or the Collateral Haircut Approach to repo-style transactions; however, the bank must use the same approach for similar exposures or transactions. For further information, see the discussion of “Treatment of Collateral and Guarantees” in the General Instructions for Schedule RC-R, Part II.

- *In column B*, report 100 percent of the exposure amount reported in column A.
- *In column C—0% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the zero percent risk weight under the regulatory capital rules (refer to §.37 of the regulatory capital rules).
- *In column D—2% risk weight*, include the credit equivalent amount of centrally cleared repo-style transactions with Qualified Central Counterparties (QCCPs), as defined in §.2 and described in §.35 of the regulatory capital rules.
- *In column E—4% risk weight*, include the credit equivalent amount of centrally cleared repo-style transactions with QCCPs in all other cases that do not meet the criteria of qualification for a 2 percent risk weight, as described in §.35 of the regulatory capital rules.
- *In column G—20% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 20 percent risk weight under the regulatory capital rules. Also include the credit equivalent amount of repo-style transactions that represents exposures to U.S. depository institutions.
- *In column H—50% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 50 percent risk weight under the regulatory capital rules.

¹ For held-to-maturity securities that have been lent, the amortized cost of these securities is reported in Schedule RC-L, item 6.a, but the fair value of these securities should be reported as the exposure amount in column A of this item.

Part II. (cont.)**Item No. Caption and Instructions**

- 16**
(cont.)
- *In column I–100% risk weight*, include the portion of the credit equivalent amount in column B that is not included in columns C through H, J, and R. Also include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 100 percent risk weight under the regulatory capital rules.
 - *In column J–150% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 150 percent risk weight under the regulatory capital rules.
 - *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of repo-style transactions that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure collateral under the Simple Approach or the Collateral Haircut Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the repo-style exposure may not be less than 20 percent.
 - Include in column R the portion of repo-style transactions secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all repo-style transactions. In addition, if the bank applies the Simple Approach, it must apply the same approach – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of repo-style transactions secured by such collateral. Any remaining portion of the repo-style exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.
 - Repo-style transactions that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
 - The credit equivalent amount of repo-style transactions that represents exposures to foreign central banks and foreign banks.

Examples: Reporting Securities Sold Under Agreements to Repurchase (Repos) under the Simple Approach for Recognizing the Effects of Collateral

§.37 of the regulatory capital rules provides for the recognition of the risk-mitigating effects of collateral when risk weighting assets collateralized by financial collateral (which is defined in §.2 of the regulatory capital rules). The following examples illustrate the calculation of risk-weighted assets and the reporting of securities sold under agreements to repurchase (repos) in Schedule RC-R, Part II, item 16, using the Simple Approach.

Part II. (cont.)**Item No. Caption and Instructions**

16 Example 1: Security sold under an agreement to repurchase fully collateralized by cash
(cont.) A bank has transferred an available-for-sale (AFS) debt security to a counterparty in a repo transaction that is accounted for as a secured borrowing on the bank's balance sheet. The bank received \$100 in cash from the repo counterparty in this transaction. The amortized cost and the fair value of the AFS debt security are both \$100 as of the report date.¹ The debt security is an exposure to a U.S. government-sponsored entity (GSE) that qualifies for a 20 percent risk weight. The repo counterparty is a company that would receive a 100 percent risk weight.

Calculation of risk-weighted assets for the transaction:

1. The bank continues to report the AFS GSE debt security as an asset on its balance sheet and to risk weight the security as an on-balance sheet asset at 20 percent:²
\$100 x 20% = \$20
2. The bank has a \$100 exposure to the repo counterparty (the report date fair value of the security transferred to the counterparty) that is collateralized by the \$100 of cash received from the counterparty. The bank risk weights its exposure to the repo counterparty at zero percent in recognition of the cash received in the transaction from the counterparty: \$100 x 0% = \$0
3. There is no additional exposure to the repo counterparty to risk weight because the exposure to the counterparty is fully collateralized by the cash received.

The total risk-weighted assets arising from the transaction: \$20

The bank would report the transaction in Schedule RC-R, Part II, as follows:

1. The bank reports the AFS debt security in item 2.b:
 - a. The \$100 carrying value (i.e., the fair value) of the AFS debt security on the balance sheet will be reported in column A.³
 - b. The \$100 exposure amount of the AFS debt security will be reported in column G–20% risk weight (which is the applicable risk weight for a U.S. GSE debt security).
2. The bank reports the repurchase agreement in item 16:
 - a. The bank's \$100 exposure to the repo counterparty, which is the fair value of the debt security transferred in the repo transaction, is the exposure amount to be reported in column A.
 - b. The \$100 credit equivalent amount of the bank's exposure to the repo counterparty will be reported in column B.
 - c. Because the bank's exposure to the repo counterparty is fully collateralized by the \$100 of cash received from the counterparty, the \$100 credit equivalent amount of the repurchase agreement will be reported in column C–0% risk weight (which is the applicable risk weight for cash collateral).

¹ In both Example 1 and Example 2, because the fair value carrying value of the AFS GSE debt security equals the amortized cost of the debt security, a bank that has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, does not need to adjust the carrying value (i.e., the fair value) of the debt security to determine the exposure amount of the security. Thus, for a bank that has made the AOCI opt-out election, the carrying value of the AFS debt security equals its exposure amount in Examples 1 and 2.

² See the footnote above in the instructions for this item 16 that addresses Examples 1 and 2.

³ See the footnote above in the instructions for this item 16 that addresses Examples 1 and 2.

Part II. (cont.)

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16
(cont.)

	(Column A) Totals From Schedule RC	(Column B) Adjustments	(Column C)	(Column G)	(Column I)
			Allocation by Risk-Weight Category		
			0%	20%	100%
2.b. Available-for-sale securities	\$100			\$100	
16. Repo-style transactions	(Column A) Face, Notional, or Other Amount	(Column B) Credit Equivalent Amount	(Column C)	(Column G)	(Column I)
			Allocation by Risk-Weight Category		
			0%	20%	100%
	\$100	\$100	\$100		

Example 2: Security sold under an agreement to repurchase (repo) not fully collateralized by cash

A bank has transferred an AFS debt security to a counterparty in a repo transaction that is accounted for as a secured borrowing on the bank’s balance sheet. The bank received \$98 in cash from the repo counterparty in this transaction. The amortized cost and the fair value of the AFS debt security are both \$100 as of the report date.¹ The debt security is an exposure to a U.S. GSE that qualifies for a 20 percent risk weight. The repo counterparty is a company that would receive a 100 percent risk weight.

Calculation of risk-weighted assets for the transaction:

- The bank continues to report the AFS GSE debt security as an asset on its balance sheet and to risk weight the security as an on-balance sheet asset at 20 percent:²
\$100 x 20% = \$20
 - The bank has a \$100 exposure to the repo counterparty (the report date fair value of the security transferred to the counterparty) of which \$98 is collateralized by the cash received from the counterparty. The bank risk weights the portion of its exposure to the repo counterparty that is collateralized by the cash received from the counterparty at zero percent: \$98 x 0% = \$0
 - The bank risk weights its \$2 uncollateralized exposure to the repo counterparty using the risk weight applicable to the counterparty: \$2 x 100% = \$2
- The total risk-weighted assets arising from the transaction: \$22

The bank would report the transaction in Schedule RC-R, Part II, as follows:

- The bank reports the AFS debt security in item 2.b:
 - The \$100 carrying value (i.e., the fair value) of the AFS debt security on the balance sheet will be reported in column A.³
 - The \$100 exposure amount of the AFS debt security will be reported in column G– 20% risk weight (which is the applicable risk weight for a U.S. GSE debt security).

¹ See the footnote above in the instructions for this item 16 that addresses Examples 1 and 2.

² See the footnote above in the instructions for this item 16 that addresses Examples 1 and 2.

³ See the footnote above in the instructions for this item 16 that addresses Examples 1 and 2.

Part II. (cont.)

Item No. Caption and Instructions

- 16** 2. The bank reports the repurchase agreement in item 16:
 (cont.) a. The bank’s \$100 exposure to the repo counterparty, which is the fair value of the debt security transferred in the repo transaction, is the exposure amount to be reported in column A.
 b. The \$100 credit equivalent amount of the bank’s exposure to the repo counterparty will be reported in column B.
 c. Because the bank’s exposure to the repo counterparty is collateralized by the \$98 of cash received from the counterparty, \$98 of the \$100 credit equivalent amount of the repurchase agreement will be reported in column C–0% risk weight (which is the applicable risk weight for cash collateral).
 d. The \$2 uncollateralized exposure to the repo counterparty will be reported in column I–100% risk weight (which is the applicable risk weight for the repo counterparty).

	(Column A) Totals From Schedule RC	(Column B) Adjustments	(Column C)	(Column G)	(Column I)	
			Allocation by Risk-Weight Category			
			0%	20%	100%	
2.b. Available-for-sale securities	\$100			\$100		2.b.
	(Column A) Face, Notional, or Other Amount	(Column B) Credit Equivalent Amount	(Column C)	(Column G)	(Column I)	
			Allocation by Risk-Weight Category			
			0%	20%	100%	
16. Repo-style transactions	\$100	\$100	\$98		\$2	16.

- 17** **All other off-balance sheet liabilities.** Report in column A:
- The notional amount of all other off-balance sheet liabilities reported in Schedule RC-L, item 9, that are covered by the regulatory capital rules,
 - The face amount of risk participations in bankers acceptances that have been acquired by the reporting institution and are outstanding,
 - The full amount of loans or other assets sold with credit-enhancing representations and warranties¹ that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules,
 - The notional amount of written option contracts that act as financial guarantees that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, and
 - The notional amount of all forward agreements, which are defined as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.

¹ The definition of *credit-enhancing representations and warranties* in §.2 of the regulatory capital rules states that such representations and warranties obligate an institution “to protect another party from losses arising from the credit risk of the underlying exposures” and “include provisions to protect a party from losses resulting from the default or nonperformance of the counterparties of the underlying exposures or from an insufficiency in the value of the collateral backing the underlying exposures.” Thus, when loans or other assets are sold “with recourse” and the recourse arrangement provides protection from losses as described in the preceding definition, the recourse arrangement constitutes a credit-enhancing representation and warranty.

Part II. (cont.)**Item No. Caption and Instructions**

- 17** However, exclude from column A:
- (cont.)
- The amount of credit derivatives classified as trading assets that are subject to the market risk capital rule (report in Schedule RC-R, Part II, items 20 and 21, as appropriate),
 - Credit derivatives purchased by the bank that are recognized as guarantees of an asset or off-balance sheet exposure under the regulatory capital rules, i.e., credit derivatives on which the bank is the beneficiary (report the guaranteed asset or exposure in Schedule RC-R, Part II, in the appropriate balance sheet or off-balance sheet category – e.g., item 5, “Loans and leases held for investment” – and in the risk-weight category applicable to the derivative counterparty – e.g., column G–20% risk weight – rather than the risk-weight category applicable to the obligor of the guaranteed asset), and
 - The notional amount of standby letters of credit issued by another depository institution, a Federal Home Loan Bank, or any other entity on behalf of the reporting bank that are reported in Schedule RC-L, item 9, because these letters of credit are not covered by the regulatory capital rules.
- *In column B*, report 100 percent of the face amount, notional amount, or other amount reported in column A.
 - *In column C–0% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column G–20% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column H–50% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through J. Include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column J–150% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

Part II. (cont.)**Item No. Caption and Instructions**

- 17**
(cont.)
- All other off-balance sheet liabilities that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C—0% risk weight; column G—20% risk weight, column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
 - The credit equivalent amount of those other off-balance sheet liabilities described above in the instructions for column A of this item that represent exposures to foreign central banks and foreign banks.

- 18**
- Unused commitments (exclude unused commitments to asset-backed commercial paper conduits).** Report in items 18.a and 18.b the amounts of unused commitments that are subject to the regulatory capital rules, excluding those that are unconditionally cancelable, which are to be reported in Schedule RC-R, Part II, item 19. Where a bank provides a commitment structured as a syndication or participation, the bank is only required to calculate the exposure amount for its pro rata share of the commitment.

Exclude from items 18.a and 18.b any unused commitments that qualify as securitization exposures, as defined in §.2 of the regulatory capital rules, including eligible asset-backed commercial paper (ABCP) liquidity facilities. Unused commitments that are securitization exposures must be reported in Schedule RC-R, Part II, item 10, column A. Also exclude default fund contributions in the form of commitments made by a clearing member to a central counterparty's mutualized loss-sharing arrangement. Such default fund contributions must be reported (as a negative number) in Schedule RC-R, Part II, item 8, column B.

- 18.a**
- Original maturity of one year or less.** Report in column A the unused portion of those unused commitments reported in Schedule RC-L, item 1, with an original maturity of one year or less that are subject to the regulatory capital rules.

Under the regulatory capital rules, the unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the bank have a zero percent credit conversion factor. The unused portion of such unconditionally cancelable commitments should be excluded from this item and reported in Schedule RC-R, Part II, item 19. For further information, see the instructions for item 19.

"Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment.

- *In column B, report 20 percent of the amount of unused commitments reported in column A.*
- *In column C—0% risk weight, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.*

Part II. (cont.)**Item No. Caption and Instructions**

- 18.a**
- *In column G–20% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column H–50% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column J–150% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of unused commitments that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of an unused commitment may not be less than 20 percent.
 - Include in column R the portion of unused commitments secured by the fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of unused commitments secured by such collateral. Any remaining portion of the unused commitment that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)**Item No. Caption and Instructions**

- 18.a**
(cont.)
- Unused commitments with an original maturity of one year or less, excluding ABCP conduits, that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
 - The credit equivalent amount of those unused commitments described above in the instructions for column A of this item that represent exposures to foreign banks.

- 18.b** **Original maturity exceeding one year.** Report in column A the unused portion of those commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions reported in Schedule RC-L, item 1, that have an original maturity exceeding one year and are subject to the regulatory capital rules. Also report in column A the face amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

Under the regulatory capital rules, the unused portion of commitments (facilities) which are unconditionally cancelable (without cause) at any time by the bank (to the extent permitted under applicable law) have a zero percent credit conversion factor. The unused portion of such unconditionally cancelable commitments should be excluded from this item and reported in Schedule RC-R, Part II, item 19. For further information, see the instructions for item 19.

Also include in column A the unused portion of all revolving underwriting facilities and note issuance facilities, regardless of maturity.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and excluded from this item 18.b if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the bank is obligated to advance at any time during the life of the commitment. This includes seasonal commitments where the dollar amount of the commitment increases during the customer's peak business period. In addition, this risk-based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting bank must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

Part II. (cont.)**Item No. Caption and Instructions**

- 18.b**
- *In column B*, report 50 percent of the amount of unused commitments and the face amount of commercial and similar letters of credit reported in column A. Note that unused commitments that qualify as securitization exposures as defined in §.2 of the regulatory capital rules should be reported as securitization exposures in Schedule RC-R, Part II, item 10.
 - *In column C—0% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column G—20% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Include the credit equivalent amount of commitments that have been conveyed to U.S. depository institutions. Include the credit equivalent amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that have been conveyed to U.S. depository institutions.
 - *In column H—50% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column I—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Also include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column J—150% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of unused commitments that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of an unused commitment may not be less than 20 percent.
 - Include in column R the portion of unused commitments secured by the fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the

Part II. (cont.)**Item No. Caption and Instructions**

18.b Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in
(cont.) Schedule RC-R, Part II, items 9 and 10.

- Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of unused commitments secured by such collateral. Any remaining portion of the unused commitment that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- Unused commitments and commercial and similar letters of credit with an original maturity exceeding one year that must be risk weighted according to the Country Risk Classification (CRC) methodology
 - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
 - The credit equivalent amount of those unused commitments described above in the instructions for column A of this item that represent exposures to foreign banks.
 - The credit equivalent amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that have been conveyed to foreign banks.

19 **Unconditionally cancelable commitments.** Report the unused portion of those unconditionally cancelable commitments reported in Schedule RC-L, item 1, that are subject to the regulatory capital rules. The unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the bank (to the extent permitted by applicable law) have a zero percent credit conversion factor. The bank should report the unused portion of such commitments in column A of this item and zero in column B of this item.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and included in this item if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

20 **Over-the-counter derivatives.** Report in column B the credit equivalent amount of over-the-counter derivative contracts covered by the regulatory capital rules. As defined in §.2 of the regulatory capital rules, an *over-the-counter (OTC) derivative contract* is a derivative contract that is not a cleared transaction.¹ Include OTC credit derivative contracts held for trading

¹ An OTC derivative includes a transaction:

- (1) Between an institution that is a clearing member and a counterparty where the institution is acting as a financial intermediary and enters into a cleared transaction with a central counterparty (CCP) that offsets the transaction with the counterparty; or
- (2) In which an institution that is a clearing member provides a CCP a guarantee on the performance of the counterparty to the transaction.

Part II. (cont.)

Item No. Caption and Instructions

20 purposes and subject to the market risk capital rule. Include the client-facing leg of a derivative contract cleared through a central counterparty or a qualified central counterparty, (cont.) which is to be reported as an over-the-counter derivative. Otherwise, do not include the credit equivalent amount of centrally cleared derivative contracts, which must be reported in Schedule RC-R, Part II, item 21. Do not include OTC derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

The credit equivalent amount of an OTC derivative contract to be reported in column B is determined under one of two methods, the current exposure method (CEM), as described in §.34(b) of the regulatory capital rules, or the standardized approach for counterparty credit risk (SA-CCR), as described in §.132(c) of the regulatory capital rules. Under the regulatory capital rules, a non-advanced approaches institution may elect to use CEM or SA-CCR to determine the credit equivalent amount of an OTC derivative contract, as of April 1, 2020 (and as of January 1, 2020, at an institution’s option on a best efforts basis). A non-advanced approaches institution must notify its appropriate federal banking supervisor before using SA-CCR. A non-advanced approaches institution must use the same methodology – CEM or SA-CCR – to calculate the exposure amount for all its derivative contracts, including centrally cleared derivative transactions, and may change its election only with the prior approval of its appropriate federal banking supervisor. An advanced approaches institution must use, as of January 1, 2022, SA-CCR to determine the credit equivalent amount of an OTC derivative contract. However, such an institution may elect to use SA-CCR to determine the credit equivalent amount of an OTC derivative contract, as of April 1, 2020, by notifying its appropriate federal banking supervisor (and as of January 1, 2020, at an institution’s option on a best efforts basis).

	Noncleared derivative contracts	Cleared transactions framework	Default fund contributions
Advanced approaches institutions, advanced approaches total risk-weighted assets	Option to use SA-CCR or Internal Models Methodology	Must use the approach selected for purposes of noncleared derivative contracts	Must use SA-CCR
Advanced approaches institutions, standardized approach total risk-weighted assets	Must use SA-CCR	Must use SA-CCR	Must use SA-CCR
Non-advanced approaches institutions, standardized approach total risk-weighted assets	Option to use CEM or SA-CCR	Must use the approach selected for purposes of noncleared derivative contracts	Must use the approach selected for purposes of noncleared derivative contracts
Advanced approaches institutions, supplementary leverage ratio	Must use SA-CCR to determine the exposure amount of derivative contracts for total leverage exposure		
Institutions subject to Category III capital standards, supplementary leverage ratio	Option to use CEM or SA-CCR to determine the exposure amount of derivative contracts for total leverage exposure		

Part II. (cont.)

Item No. Caption and Instructions

20 When using CEM, the credit equivalent amount of an OTC derivative contract to be reported
(cont.) in column B is the sum of its current credit exposure (as reported in Schedule RC-R, Part II,
Memorandum item 1) plus the potential future exposure (PFE) over the remaining life of the
derivative contract (regardless of its current credit exposure, if any), as described in §.34 of
the regulatory capital rules. The current credit exposure of a derivative contract is (1) the fair
value of the contract when that fair value is positive and (2) zero when the fair value of the
contract is negative or zero. The PFE of a derivative contract, which is based on the type of
contract and the contract's remaining maturity, is determined by multiplying the notional
principal amount of the contract by the appropriate conversion factor from the following chart.

The notional principal amounts of the reporting bank's OTC derivatives that are subject to the
risk-based capital requirements are reported by remaining maturity in Schedule RC-R, Part II,
Memorandum items 2.a through 2.g.

Remaining Maturity	Interest Rate	Foreign exchange rate and gold	Credit (investment grade reference assets)	Credit (non-investment grade reference assets)	Equity	Precious metals (except gold)	Other
One year or less	0.0%	1.0%	5.0%	10.0%	6.0%	7.0%	10.0%
Greater than one year & less than or equal to five years	0.5%	5.0%	5.0%	10.0%	8.0%	7.0%	12.0%
Greater than five years	1.5%	7.5%	5.0%	10.0%	10.0%	8.0%	15.0%

Under the banking agencies' regulatory capital rules and for purposes of Schedule RC-R, Part II, the existence of a legally enforceable bilateral netting agreement between the reporting bank and a counterparty may be taken into consideration when determining both the current credit exposure and the potential future exposure of derivative contracts. For further information on the treatment of bilateral netting agreements covering derivative contracts, refer to the instructions for Schedule RC-R, Part II, Memorandum item 1, and §.34 of the regulatory capital rules.

When assigning OTC derivative exposures to risk-weight categories, banks can recognize the risk-mitigating effects of financial collateral by using either the Simple Approach or the Collateral Haircut Approach, as described in §.37 of the regulatory capital rules.

When using SA-CCR, the credit equivalent amount of an OTC derivative contract to be reported in column B is the sum of its current credit exposure (as reported in Schedule RC-R, Part II, Memorandum item 1) plus the potential future exposure over the remaining life of the derivative contract (regardless of its current credit exposure, if any), as described in §.133 of the regulatory capital rules. When using SA-CCR, a bank should use the value of the replacement cost amount for its current credit exposure.

Under SA-CCR, the determination of the replacement cost depends on whether the counterparty to a bank is required to post variation margin. The replacement cost for a netting set that is not subject to a variation margin agreement is equal to the greater of (1) the sum of the fair values (after excluding any valuation adjustments) of the derivative contracts within the netting set, less the net independent collateral amount applicable to such derivative contracts, or (2) zero. For a netting set that is subject to a variation margin

Part II. (cont.)**Item No. Caption and Instructions**

- 20**
(cont.) agreement where the counterparty is required to post variation margin, replacement cost is equal to the greater of (1) the sum of the fair values (after excluding any valuation adjustments) of the derivative contracts within the netting set, less the sum of the net independent collateral amount and the variation margin amount applicable to such derivative contracts; (2) the sum of the variation margin threshold and the minimum transfer amount applicable to the derivative contracts within the netting set, less the net independent collateral amount applicable to such derivative contracts; or (3) zero. The SA-CCR PFE is equal to the product of the PFE multiplier and the aggregated amount. To determine the aggregated amount, a bank is required to determine the hedging set amounts for the derivative contracts within a netting set, where a hedging set is comprised of derivative contracts that share similar risk factors based on asset class (e.g., interest rate, exchange rate, credit, equity, and commodity).
- *In column C—0% risk weight*, include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. This includes OTC derivative contracts that are marked-to-market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contracts are collateralized by cash on deposit at the reporting institution.
 - *In column F—10% risk weight*, include the credit equivalent amount of OTC derivative contracts that are marked-to-market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contracts are collateralized by a sovereign exposure that qualifies for a zero percent risk weight under §.32 of the regulatory capital rules.
 - *In column G—20% risk weight*, include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column H—50% risk weight*, include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column I—100% risk weight*, include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R.
 - *In column J—150% risk weight*, include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

Part II. (cont.)**Item No. Caption and Instructions**

- 20**
- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of OTC derivative contracts that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach or the Collateral Haircut Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the OTC derivative exposure may not be less than 20 percent.
 - Include in column R the portion of OTC derivative contracts secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all OTC derivative contracts. In addition, if the bank applies the Simple Approach, it must apply the same approach – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
 - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of OTC derivative contracts secured by such collateral. Any remaining portion of the OTC derivative exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- 21**
- Centrally cleared derivatives.** Report in column B the credit equivalent amount of centrally cleared derivative contracts covered by the regulatory capital rules. As described in §.2 of the regulatory capital rules, a centrally cleared derivative contract is an exposure associated with an outstanding derivative contract that an institution, or an institution that is a clearing member has entered into with a central counterparty (CCP), that is, a transaction that a CCP has accepted. Include centrally cleared credit derivative contracts held for trading purposes that are subject to the market risk capital rule and meet the operational requirements for counterparty credit risk in §.3 of the regulatory capital rules. However, do not include the client-facing leg of a derivative contract cleared through a CCP or a qualified CCP, which is to be reported as an over-the-counter derivative in Schedule RC-R, Part II, item 20. For information on the regulatory capital treatment of settled-to-market contracts, see the discussion of “Treatment of Certain Centrally Cleared Derivative Contracts” in the General Instructions for Schedule RC-R, Part II.

Do not include the credit equivalent amount of over-the-counter derivative contracts; which must be reported in Schedule RC-R, Part II, item 20. Do not include centrally cleared derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

The credit equivalent amount of a centrally cleared derivative contract to be reported in column B is determined under either §.35 or §.133 of the regulatory capital rules. Under the regulatory capital rules, a non-advanced approaches institution that elects to calculate the exposure amount for its OTC derivative contracts using the standardized approach for counterparty credit risk (SA-CCR), as described in §.132(c), must apply the treatment of

Part II. (cont.)

Item No. Caption and Instructions

21 cleared transactions under §.133 to its derivative contracts that are cleared transactions and to all default fund contributions associated with such derivative contracts, rather than applying §.35. A non-advanced approaches institution must use the same methodology – the current exposure method (CEM) or SA-CCR – to calculate the exposure amount for all its derivative contracts and may change its election only with the prior approval of its appropriate federal banking supervisor. An advanced approaches institution must apply the treatment of cleared transactions under §.133 of the regulatory capital rules to its derivative contracts that are cleared transactions and to all default fund contributions associated with such derivative contracts.

(cont.)

When using CEM, the credit equivalent amount of a centrally cleared derivative contract is the sum of its current credit exposure (as reported in Schedule RC-R, Part II, Memorandum item 1), plus the potential future exposure (PFE) over the remaining life of the derivative contract, plus the fair value of collateral posted by the clearing member client bank and held by the CCP or a clearing member in a manner that is not bankruptcy remote. The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The PFE of a derivative contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate conversion factor from the following chart.

The notional principal amounts of the reporting bank's centrally cleared derivatives that are subject to the risk-based capital requirements are reported by remaining maturity in Schedule RC-R, Part II, Memorandum items 3.a through 3.g.

Remaining Maturity	Interest Rate	Foreign exchange rate and gold	Credit (investment grade reference assets)	Credit (non-investment grade reference assets)	Equity	Precious metals (except gold)	Other
One year or less	0.0%	1.0%	5.0%	10.0%	6.0%	7.0%	10.0%
Greater than one year & less than or equal to five years	0.5%	5.0%	5.0%	10.0%	8.0%	7.0%	12.0%
Greater than five years	1.5%	7.5%	5.0%	10.0%	10.0%	8.0%	15.0%

When using SA-CCR, the credit equivalent amount of a centrally cleared derivative contract is the sum of its current credit exposure (as reported in Schedule RC-R, Part II, Memorandum item 1), plus the PFE over the remaining life of the derivative contract, plus the fair value of collateral posted by the clearing member client bank and held by the CCP or a clearing member in a manner that is not bankruptcy remote. When using SA-CCR, a bank should use the value of the replacement cost amount for its current credit exposure.

Under SA-CCR, the determination of the replacement cost depends on whether the counterparty to a bank is required to post variation margin. The replacement cost for a netting set that is not subject to a variation margin agreement is equal to the greater of (1) the sum of the fair values (after excluding any valuation adjustments) of the derivative contracts within the netting set, less the net independent collateral amount applicable to such derivative contracts, or (2) zero. For a netting set that is subject to a variation margin agreement where the counterparty is required to post variation margin, replacement cost is equal to the greater

Part II. (cont.)**Item No. Caption and Instructions**

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(cont.) of (1) the sum of the fair values (after excluding any valuation adjustments) of the derivative contracts within the netting set, less the sum of the net independent collateral amount and the variation margin amount applicable to such derivative contracts; (2) the sum of the variation margin threshold and the minimum transfer amount applicable to the derivative contracts within the netting set, less the net independent collateral amount applicable to such derivative contracts; or (3) zero. The SA-CCR PFE is equal to the product of the PFE multiplier and the aggregated amount. To determine the aggregated amount, a bank is required to determine the hedging set amounts for the derivative contracts within a netting set, where a hedging set is comprised of derivative contracts that share similar risk factors based on asset class (e.g., interest rate, exchange rate, credit, equity, and commodity).

When using the SA-CCR method, a bank may elect to treat settled-to-market derivative contracts as subject to a variation margin agreement and receive the benefits of netting with collateralized-to-market derivative contracts. If a bank elects to treat settled-to-market derivative contracts as subject to a variation margin agreement, it must apply the maturity factor to such contracts under §.132(c)(9)(iv)(A) of the regulatory capital rules. The maturity factor of a derivative contract that is subject to a variation margin agreement, excluding derivative contracts that are subject to a variation margin agreement under which the counterparty is not required to post variation margin, is determined by the following formula:

$$\text{Maturity factor} = \frac{3}{2} \sqrt{\frac{\text{MPOR}}{250}},$$

where MPOR refers to the period from the most recent exchange of collateral under a variation margin agreement with a defaulting counterparty until the derivative contracts are closed out and the resulting market risk is re-hedged.

- *In column C—0% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
- *In column D—2% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with Qualified Central Counterparties (QCCPs) where the collateral posted by the bank to the QCCP or clearing member is subject to an arrangement that prevents any losses to the clearing member client due to the joint default or a concurrent insolvency, liquidation, or receivership proceeding of the clearing member and any other clearing member clients of the clearing member; and the clearing member client bank has conducted sufficient legal review to conclude with a well-founded basis (and maintains sufficient written documentation of that legal review) that in the event of a legal challenge (including one resulting from default or from liquidation, insolvency, or receivership proceeding) the relevant court and administrative authorities would find the arrangements to be legal, valid, binding, and enforceable under the law of the relevant jurisdictions. See the definition of QCCP in §.2 of the regulatory capital rules.
- *In column E—4% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with QCCPs in all other cases that do not meet the qualification criteria for a 2 percent risk weight, as described in §.2 of the regulatory capital rules.

Part II. (cont.)**Item No. Caption and Instructions**

- 21**
- *In column G–20% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column H–50% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
 - *In column I–100% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.
 - *In column J–150% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
- 22** **Unsettled transactions (failed trades)**. NOTE: This item includes unsettled transactions in the reporting bank’s trading book and in its banking book. Report as unsettled transactions all on- and off-balance sheet transactions involving securities, foreign exchange instruments, and commodities that have a risk of delayed settlement or delivery, or are already delayed, and against which the reporting bank must hold risk-based capital as described in §.38 of the regulatory capital rules.

For delivery-versus-payment (DvP) transactions¹ and payment-versus-payment (PvP) transactions,² report in column A the positive current exposure of those unsettled transactions with a normal settlement period in which the reporting bank’s counterparty has not made delivery or payment within five business days after the settlement date, which are the DvP and PvP transactions subject to risk weighting under §.38 of the regulatory capital rules. Positive current exposure is equal to the difference between the transaction value at the agreed settlement price and the current market price of the transaction, if the difference results in a credit exposure of the bank to the counterparty.

¹ DvP transaction means a securities or commodities transaction in which the buyer is obligated to make payment only if the seller has made delivery of the securities or commodities and the seller is obligated to deliver the securities or commodities only if the buyer has made payment.

² PvP transaction means a foreign exchange transaction in which each counterparty is obligated to make a final transfer of one or more currencies only if the other counterparty has made a final transfer of one or more currencies.

Part II. (cont.)**Item No. Caption and Instructions**

22
(cont.) For delayed non-DvP/non-PvP transactions,¹ also include in column A the current fair value of the deliverables owed to the bank by the counterparty in those transactions with a normal settlement period in which the reporting bank has delivered cash, securities, commodities, or currencies to its counterparty, but has not received its corresponding deliverables, which are the non-DvP/non-PvP transactions subject to risk weighting under §.38 of the regulatory capital rules.

Do not include in this item: (1) cleared transactions that are marked-to-market daily and subject to daily receipt and payment of variation margin; (2) repo-style transactions, including unsettled repo-style transactions; (3) one-way cash payments on over-the-counter derivatives; and (4) transactions with a contractual settlement period that is longer than the normal settlement period (generally greater than 5 business days).

- *In column C—0% risk weight*, include the fair value of deliverables owed to the bank by a counterparty that qualifies for a zero percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column G—20% risk weight*, include the fair value of deliverables owed to the bank by a counterparty that qualifies for a 20 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column H—50% risk weight*, include the fair value of deliverables owed to the bank by a counterparty that qualifies for a 50 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column I—100% risk weight*, include:
 - The fair value of deliverables owed to the bank by a counterparty that qualifies for a 100 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
 - The positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 5 to 15 business days after the contractual settlement date.
- *In column J—150% risk weight*, include the fair value of deliverables owed to the bank by a counterparty that qualifies for a 150 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column O—625% risk weight*, include the positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 16 to 30 business days after the contractual settlement date.
- *In column P—937.5% risk weight*, include the positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 31 to 45 business days after the contractual settlement date.

¹ Non-DvP/non-PvP transaction means any other delayed or unsettled transaction that does not meet the definition of a DvP or a PvP transaction.

Part II. (cont.)**Item No. Caption and Instructions**

- 22**
- *In column Q—1250% risk weight, include:*
 - The positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 46 or more business days after the contractual settlement date.
 - The fair value of the deliverables in Non-DvP/non-PvP transactions in which the bank has not received deliverables from the counterparty five or more business days after which the delivery was due.

Totals**Item No. Caption and Instructions**

- 23** **Total assets, derivatives, off-balance sheet items, and other items subject to risk weighting by risk weight category.** For each of columns C through P, report the sum of items 11 through 22. For column Q, report the sum of items 10 through 22.
- 24** **Risk weight factor.**
- 25** **Risk-weighted assets by risk weight category.** For each of columns C through Q, multiply the amount in item 23 by the risk weight factor specified for that column in item 24.
- 26** **Risk-weighted assets base for purposes of calculating the allowance for loan and lease losses 1.25 percent threshold.** Report the sum of:
- Schedule RC-R, Part II:
 - Items 2.b through 20, column S,
 - Items 9.a, 9.b, 9.c, 9.d, and 10, columns T and U, and
 - Item 25, columns C through Q
 - Schedule RC-R, Part I:
 - The portion of item 10.b composed of “Investments in the institution’s own shares to the extent not excluded as part of treasury stock,”
 - The portion of item 10.b composed of “Reciprocal cross-holdings in the capital of financial institutions in the form of common stock,”
 - Item 11 (advanced approaches institutions only),¹
 - Items 13.a, 14.a, and 15.a, column A, on the FFIEC 031 for non-advanced approaches institutions;² items 13.b, 14.b, 15.b, and 16, column B, for advanced approaches institutions; and items 13 through 15 on the FFIEC 041,

¹ For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), should include the amount reported in Schedule RC-R, Part I, item 11, when calculating this item 26; non-advanced approaches institutions that choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020, that file the FFIEC 041 should include the portion of Schedule RC-R, Part I, item 10.b, composed of “Non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that exceed the 10 percent threshold for non-significant investments” when calculating this item 26.

² For the March 31, 2020, report date only, non-advanced approaches institutions that file the FFIEC 031 and choose not to early adopt the capital simplifications rule in the quarter beginning January 1, 2020 (i.e., elect to wait to adopt the final rule in the quarter beginning April 1, 2020), should include the amounts reported in Schedule RC-R, Part I, items 13.b, 14.b, 15.b, and 16, column B, when calculating this item 26. As stated in the General Instructions for Schedule RC-R, Part I, such non-advanced institutions must complete column B for Schedule RC-R, Part I, items 11 through 19, on the FFIEC 031 for the March 31, 2020, report date only and must not complete column A for these items.

Part II. (cont.)**Item No. Caption and Instructions**

- 26**
(cont.)
- Item 24, excluding the portion of item 24 composed of tier 2 capital deductions reported in Part I, item 45, for which the institution does not have a sufficient amount of tier 2 capital before deductions reported in Part I, item 44.a on the FFIEC 031; item 44 on the FFIEC 041, to absorb these deductions, and
 - Item 45.

For institutions that have adopted the current expected credit losses methodology (CECL), the risk-weighted assets base reported in this item 26 is for purposes of calculating the adjusted allowances for credit losses (AACL) 1.25 percent threshold.

NOTE: Item 27 is applicable only to banks that are subject to the market risk capital rule.

- 27** **Standardized market risk-weighted assets.** Report the amount of the bank's standardized market risk-weighted assets. This item is applicable only to those banks covered by Subpart F of the regulatory capital rules (i.e., the market risk capital rule), as provided in §.201 of the regulatory capital rules.

A bank's measure for market risk for its covered positions is the sum of its value-at-risk (VaR)-based, stressed VaR-based, incremental risk, and comprehensive risk capital requirements plus its specific risk add-ons and any capital requirement for de minimis exposures. A bank's market risk-weighted assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio).

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC-D, that is held for any of the following reasons:

- (1) For the purpose of short-term resale;
- (2) With the intent of benefiting from actual or expected short-term price movements;
- (3) To lock in arbitrage profits; or
- (4) To hedge another covered position.

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank must be able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions).

A covered position does not include:

- (1) An intangible asset (including any servicing asset);
- (2) A hedge of a trading position that is outside the scope of the bank's hedging strategy;
- (3) Any position that, in form or substance, acts as a liquidity facility that provides support to asset-backed commercial paper;
- (4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the regulatory capital rules for credit risk;
- (5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity);
- (6) A position held with the intent to securitize; or
- (7) A direct real estate holding.

- 28** **Risk-weighted assets before deductions for excess allowance for loan and lease losses and allocated transfer risk reserve.** Report the sum of items 2.b through 20, column S; items 9.a, 9.b, 9.c, 9.d, and 10, columns T and U; item 25, columns C through Q;

Part II. (cont.)**Item No. Caption and Instructions**

28 and, if applicable, item 27. (Item 27 is applicable only to banks that are subject to the market
(cont.) risk capital rule.)

For institutions that have adopted the current expected credit losses methodology (CECL), the risk-weighted assets reported in this item 28 represents the amount of risk-weighted assets before deductions for excess adjusted allowances for credit losses (AACL) and allocated transfer risk reserve.

29 **LESS: Excess allowance for loan and lease losses.** Report the amount, if any, by which the bank's allowance for loan and lease losses (ALLL) or adjusted allowances for credit losses (AACL), as applicable, for regulatory capital purposes exceeds 1.25 percent of the bank's risk-weighted assets base reported in Schedule RC-R, Part II, item 26.

For an institution that has not adopted the current expected credit losses methodology (CECL), the institution's ALLL for regulatory capital purposes equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less any allocated transfer risk reserve included in Schedule RC, item 4.c, plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures." If an institution's ALLL for regulatory capital purposes, as defined in the preceding sentence, exceeds 1.25 percent of Schedule RC-R, Part II, item 26, the amount to be reported in this item equals the institution's ALLL for regulatory capital purposes less Schedule RC-R, Part I, item 42.a on the FFIEC 031; item 42 on the FFIEC 041, "Allowance for loan and lease losses includable in tier 2 capital."

For an institution that has adopted CECL, the institution's AACL for regulatory capital purposes equals Schedule RI-B, Part II, item 7, columns A and B, "Balance end of current period" for loans and leases held for investment and held-to-maturity debt securities, respectively; plus Schedule RI-B, Part II, Memorandum item 6, "Allowance for credit losses on other financial assets measured at amortized cost (not included in item 7, above)"; less Schedule RC-R, Part II, sum of Memorandum items 4.a, 4.b, and 4.c, "Amount of allowances for credit losses on purchased credit-deteriorated assets" for loans and leases held for investment, held-to-maturity debt securities, and other financial assets measured at amortized cost, respectively; less any allocated transfer risk reserve included in Schedule RI-B, Part II, item 7, columns A and B, and Memorandum item 6; plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

For an institution that has not adopted CECL, the sum of the amounts reported in Schedule RC-R, Part I, item 42.a on the FFIEC 031; item 42 on the FFIEC 041, and Schedule RC-R, Part II, item 29, must equal Schedule RC, item 4.c, less any allocated transfer risk reserve included in Schedule RC, item 4.c, plus Schedule RC-G, item 3.

30 **LESS: Allocated transfer risk reserve.** Report the entire amount of any allocated transfer risk reserve (ATRR) the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act ([Subpart D of Federal Reserve Regulation K](#), [Part 347 of the FDIC's Rules and Regulations](#), and [12 CFR Part 28, Subpart C \(OCC\)](#)), and in any guidelines, letters, or instructions issued by the agencies. The entire amount of the ATRR equals the ATRR related to loans and leases held for investment (which is reported in Schedule RI-B, Part II, Memorandum item 1) plus the ATRR for assets other than loans and leases held for investment.

31 **Total risk-weighted assets.** Report the amount derived by subtracting items 29 and 30 from item 28.

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

- 1 Current credit exposure across all derivative contracts covered by the regulatory capital rules.** Report the total current credit exposure amount when using the current exposure method (CEM) or replacement cost amount when using the standardized approach for counterparty credit risk (SA-CCR) after considering applicable legally enforceable bilateral netting agreements for all derivative contracts that are over-the-counter derivative contracts (as defined in §.2 of the regulatory capital rules) and all derivative contracts that are cleared transactions (as described in §.2 of the regulatory capital rules) and are covered by §.34, §.35, §.132, and §.133 of the regulatory capital rules, as applicable. Banks that are subject to the market risk capital rule should exclude all covered positions subject to that rule, except for foreign exchange derivatives that are outside of the trading account. Foreign exchange derivatives that are outside of the trading account and all over-the-counter derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount for these derivatives should be reported in this item.

Include the current credit exposure arising from credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk capital rule or (b) not defined as a covered position under the market risk capital rule and not recognized as a guarantee for regulatory capital purposes.

As discussed further below, current credit exposure (sometimes referred to as the replacement cost) is the fair value of a derivative contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero.

Exclude the positive fair value of derivative contracts that are neither over-the-counter derivative contracts nor derivative contracts that are cleared transactions under §.2 of the regulatory capital rules. Such derivative contracts include written option contracts, including so-called "derivative loan commitments," i.e., a lender's commitment to originate a mortgage loan that will be held for resale. Written option contracts that are, in substance, financial guarantees, are discussed below. For "derivative loan commitments," which are reported as over-the-counter written option contracts in Schedule RC-L, if the fair value of such a commitment is positive and reported as an asset in Schedule RC, item 11, this positive fair value should be reported in the appropriate risk-weight category in Schedule RC-R, Part II, item 8, and not as a component of the current credit exposure to be reported in this item.

Purchased options held by the reporting bank that are traded on an exchange are covered by the regulatory capital rules unless such options are subject to a daily variation margin. Variation margin is defined as the gain or loss on open positions, calculated by marking to market at the end of each trading day. Such gain or loss is credited or debited by the clearing house to each clearing member's account, and by members to their customers' accounts.

If a written option contract acts as a financial guarantee that does not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, then for risk-based capital purposes the notional amount of the option should be included in Schedule RC-R, Part II, item 17, column A, as part of "All other off-balance sheet liabilities." An example of such a contract occurs when the reporting bank writes a put option to a second bank that has a loan to a third party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second bank, the reporting bank would be required by the second bank to take the loan onto its books.

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

- 1** Do not include derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

(cont.)

Current credit exposure, when using CEM, or replacement cost, when using SA-CCR, should be derived as follows: Determine whether a qualifying master netting agreement, as defined in §.2 of the regulatory capital rules, is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the netting agreement are netted to a single amount.

Next, for all other derivative contracts covered by the regulatory capital rules that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to qualifying master netting agreements and (ii) the total positive fair values of all other contracts covered by the regulatory capital rules for both OTC and centrally cleared contracts. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule RC-R, items 20 or 21, column B, depending on whether the contracts are centrally cleared.

- 2** **Notional principal amounts of over-the-counter derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all over-the-counter (OTC) derivative contracts, including credit derivatives, that are subject to §.34 or §.132 of the regulatory capital rules.¹ Such contracts include swaps, forwards, and purchased options. Do not include OTC derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10. Report notional amounts and par values in the column corresponding to the OTC derivative contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

Regardless of whether an institution uses the standardized approach for counterparty credit risk (SA-CCR) or the current exposure methodology (CEM) to calculate exposure amounts for its derivative contracts, report in Memorandum items 2.a through 2.g the notional amounts of the contracts, as this term is defined in U.S. generally accepted accounting principles, unless a derivative contract has a multiplier component as discussed in the following paragraph.

The notional amount or par value to be reported under SA-CCR and CEM for an OTC derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of \$1,000,000 whose terms call for quarterly settlement of the difference between 5 percent and LIBOR multiplied by 10 has an effective notional amount of \$10,000,000.)

The notional amount to be reported under SA-CCR and CEM for an amortizing OTC derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

¹ See the instructions for Schedule RC-R, Part II, item 20, for the definition of an OTC derivative contract.

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

2 For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity (cont.) and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of "credit derivative contracts," refer to the instructions for Schedule RC-L, item 7.

Exclude from this item the notional amount of OTC written option contracts, including so-called "derivative loan commitments," which are not subject to §.34 of the regulatory capital rules.

When using SA-CCR, include gold in the metals category for Memorandum item 2.f and exclude gold from the exchange rate category for Memorandum item 2.b.

When using SA-CCR, a bank may elect to treat a credit or equity derivative contract that references an index as if it were multiple derivative contracts each referencing one component of the index. Thus, under this election, a banking organization would apply the SA-CCR methodology to each decomposed component of the index instead of applying the SA-CCR methodology to the index derivative contract.

When using SA-CCR, a bank may elect to treat a commodity derivative contract that references an index as if it were multiple derivative contracts each referencing one component of the index.

3 **Notional principal amounts of centrally cleared derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all derivative contracts, including credit derivatives, that are cleared transactions (as described in §.2 of the regulatory capital rules) and are subject to §.35 or §.133 of the regulatory capital rules.¹ Such centrally cleared derivative contracts include swaps, forwards, and purchased options. Do not include centrally cleared derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10. Report notional amounts and par values in the column corresponding to the centrally cleared derivative contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

Regardless of whether an institution uses the standardized approach for counterparty credit risk (SA-CCR) or the current exposure methodology (CEM) to calculate exposure amounts for its derivative contracts, report in Memorandum items 3.a through 3.g the notional amounts of the contracts, as this term is defined in U.S. generally accepted accounting principles, unless a derivative contract has a multiplier component as discussed in the following paragraph.

The notional amount or par value to be reported under SA-CCR and CEM for a centrally cleared derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of \$1,000,000 whose terms call for quarterly settlement of the difference between 5 percent and LIBOR multiplied by 10 has an effective notional amount of \$10,000,000.)

¹ See the instructions for Schedule RC-R, Part II, item 21, for the description of derivative contracts that are cleared transactions, referred to hereafter as centrally cleared derivative contracts.

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

3 The notional amount to be reported under SA-CCR and CEM for an amortizing centrally cleared derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

(cont.)

For purposes of reporting remaining maturities in Memorandum items 3.a through 3.g, settled-to-market cleared derivatives should be treated in the following manner:

- When an institution uses CEM for risk-based capital purposes, if a cleared derivative contract meets the settled-to-market cleared derivative criteria in the banking agencies' August 2017 [supervisory guidance on the regulatory capital treatment of certain centrally cleared derivative contracts](#),¹ the remaining maturity equals the time until the next exchange of variation margin on the contract.
- When an institution uses SA-CCR, if a cleared derivative contract meets the settled-to-market cleared derivative criteria in the banking agencies' August 2017 [supervisory guidance on the regulatory capital treatment of certain centrally cleared derivative contracts](#),² the remaining maturity equals the time until the next exchange of variation margin on the contract. However, if the institution elects to treat such a settled-to-market cleared derivative as a collateralized-to-market cleared derivative, the remaining maturity of the derivative should be determined as E – S, where E is the number of business days from the present day (i.e., the report date) until the end date of the derivative contract and S is the number of business days from the present day until the start date of the derivative contract.

For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of "credit derivative contracts," refer to the instructions for Schedule RC-L, item 7.

When using SA-CCR, include gold in the precious metals category for Memorandum item 3.f and exclude gold from the foreign exchange rate category for Memorandum item 3.b.

When using SA-CCR, a bank may elect to treat a credit or equity derivative contract that references an index as if it were multiple derivative contracts each referencing one component of the index. Thus, under this election, a banking organization would apply the SA-CCR methodology to each decomposed component of the index instead of applying the SA-CCR methodology to the index derivative contract. A bank must allocate the notional amount in the same category that it elected for purposes of applying the regulatory capital rules.

When using SA-CCR, a bank may elect to treat a commodity derivative contract that references an index as if it were multiple derivative contracts each referencing one component of the index. A bank must allocate the notional amount in the same category that it elected for purposes of applying the regulatory capital rules.

¹ For information on the settled-to-market cleared derivative criteria that are to be met, refer also to the discussion of "Treatment of Certain Centrally Cleared Derivative Contracts" in the General Instructions for Schedule RC-R, Part II.

² See the preceding footnote.

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

- 2.a and 3.a** **Interest rate.** Report the remaining maturities of interest rate contracts that are subject to the regulatory capital rules.
- 2.b and 3.b** **Foreign exchange rate and gold.** Report the remaining maturities of foreign exchange contracts and the remaining maturities of gold contracts that are subject to the regulatory capital rules.
- 2.c and 3.c** **Credit (investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity meets the definition of investment grade as described in §.2 of the regulatory capital rules.
- 2.d and 3.d** **Credit (non-investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity does not meet the definition of investment grade as described in §.2 of the regulatory capital rules.
- 2.e and 3.e** **Equity.** Report the remaining maturities of equity derivative contracts that are subject to the regulatory capital rules.
- 2.f and 3.f** **Precious metals (except gold).** Report the remaining maturities of other precious metals contracts that are subject to the regulatory capital rules. Report all silver, platinum, and palladium contracts.
- 2.g and 3.g** **Other.** Report the remaining maturities of other derivative contracts that are subject to the regulatory capital rules. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.

NOTE: Memorandum items 4.a through 4.c should be completed only by institutions that have adopted [FASB Accounting Standards Update No. 2016-13](#) (ASU 2016-13), which governs the accounting for credit losses. Institutions that have not adopted ASU 2016-13 should leave Memorandum items 4.a through 4.c blank.

- 4** **Amount of allowances for credit losses on purchased credit-deteriorated assets.**
ASU 2016-13 introduces the concept of purchased credit-deteriorated (PCD) assets as a replacement for purchased credit-impaired (PCI) assets. The PCD asset definition covers a broader range of assets than the PCI asset definition. As defined in ASU 2016-13, “purchased credit-deteriorated assets” are acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) accounted for in accordance with ASC Topic 326, Financial Instruments–Credit Losses, that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by the acquiring institution’s assessment.

ASU 2016-13 requires institutions to estimate and record a credit loss allowance for a PCD asset at the time of purchase. The credit loss allowance is then added to the purchase price to determine the amortized cost basis of the asset for financial reporting purposes. Post-acquisition increases in credit loss allowances on PCD assets will be established through a charge to earnings. This accounting treatment for PCD assets is different from the current treatment of PCI assets, for which institutions are not permitted to estimate and recognize credit loss allowances at the time of purchase. Rather, in general, credit loss allowances for PCI assets are estimated subsequent to the purchase only if there is deterioration in the expected cash flows from the assets.

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

- 4.a **Loans and leases held for investment.** Report all allowances for credit losses on PCD loans and leases held for investment.
- 4.b **Held-to-maturity debt securities.** Report all allowances for credit losses on PCD held-to-maturity debt securities.
- 4.c **Other financial assets measured at amortized cost.** Report all allowances for credit losses on all other PCD financial assets, excluding PCD loans and leases held for investment, held-to-maturity debt securities, and available-for-sale debt securities.

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Accounting Changes (cont.):

For purposes of the Reports of Condition and Income, all banks should follow the sound accounting practices described in SAB 108 and SAB 99. Accordingly, banks should quantify the impact of correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on their current year reports by applying both the "rollover" and "iron curtain" approaches and evaluating the impact of the error measured under each approach. When the misstatement that exists after recording the adjustment in the current year Reports of Condition and Income is material (considering all relevant quantitative and qualitative factors), the appropriate prior year report(s) should be amended, even though such revision previously was and continues to be immaterial to the prior year report(s). If the misstatement that exists after recording the adjustment in the current year Reports of Condition and Income is not material, then amending the immaterial errors in prior year reports would not be necessary.

When a bank's primary federal bank regulatory agency determines that the bank's Reports of Condition and Income contain a material accounting error, the bank may be directed to file amended condition and/or income report data for each prior period that was significantly affected by the error. Normally, such refilings will not result in restatements of reports for periods exceeding five years. If amended reports are not required, the bank should report the effect of such corrections on retained earnings at the beginning of the year, net of applicable income taxes, in Schedule RI-A, item 2, "Cumulative effect of changes in accounting principles and corrections of material accounting errors," and in Schedule RI-E, item 4. The effect of such corrections on income and expenses since the beginning of the year in which the error is discovered should be reflected in each affected income and expense account on a year-to-date basis in the next quarterly Report of Income to be filed and not as a direct adjustment to retained earnings.

In addition, a change from an accounting principle that is neither accepted nor sanctioned by bank supervisors to one that is acceptable to supervisors is to be reported as a correction of an error. When such a change is implemented, the cumulative effect that applies to prior periods, calculated in the same manner as described above for other changes in accounting principles, should be reported in Schedule RI-A, item 2, "Cumulative effect of changes in accounting principles and corrections of material accounting errors," and in Schedule RI-E, item 4. In most cases of this kind undertaken voluntarily by the reporting bank in order to adopt more acceptable accounting practices, such a change will not result in a request for amended reports for prior periods unless substantial distortions in the bank's previously reported results are in evidence.

In the Reports of Condition and Income in which the correction of an error is first reflected, the bank is encouraged to include an explanation of the nature and reason for the correction in Schedule RI-E, item 7, "Other explanations," or in the "Optional Narrative Statement Concerning the Amounts Reported in the Reports of Condition and Income."

For further information on these three topics, see ASC Topic 250, Accounting Changes and Error Corrections (formerly FASB Statement No. 154, "Accounting Changes and Error Corrections").

Accounting Errors, Corrections of: See "accounting changes."

Accounting Estimates, Changes in: See "accounting changes."

Accounting Principles, Changes in: See "accounting changes."

Accrued Interest Receivable: Accrued interest receivable is the recorded amount of interest that has been earned in current or prior periods on interest-bearing assets that has not yet been collected.

For institutions that have not adopted ASC Topic 326, Financial Instruments–Credit Losses, refer to the Glossary entry on “nonaccrual status” for the treatment of previously accrued interest. Accrued interest receivable that is not reported elsewhere on Schedule RC, Balance Sheet, as a component of the balance sheet amount of the associated financial asset should be reported in Schedule RC-F, item 1, “Accrued interest receivable.”

For institutions that have adopted ASC Topic 326, ASC Topic 326 permits a series of accounting policy elections related to accrued interest receivable. These elections are made upon adoption of ASC Topic 326 and may differ by class of financing receivable or major security-type level. The available accounting policy elections are:

- (1) Institutions may elect to separately present accrued interest receivable from the associated financial asset. The accrued interest receivable is presented net of an allowance for credit losses (ACL), if any. An institution that elects to present accrued interest receivable separately from the amount reported for the related financial asset (e.g., loans, leases, debt securities, and other interest-bearing assets) on Schedule RC, Balance Sheet (rather than as a component of the balance sheet amount reported for the related financial asset), should report the accrued interest receivable in Schedule RC-F, item 1, “Accrued interest receivable.”
- (2) Institutions that charge off uncollectible accrued interest receivable in a timely manner, i.e., in accordance with the Glossary entry for “nonaccrual status,” may elect to not measure an ACL for accrued interest receivable. For purposes of these reports, if an institution makes this policy election, the institution should debit (i.e., reduce) the appropriate category of interest income on Schedule RI, Income Statement, for the amount of uncollectible accrued interest receivable being charged off. If an institution does not make this policy election, the institution should measure an allowance for credit losses on accrued interest receivable and should charge off any uncollectible accrued interest receivable against the allowance for credit losses.

See also the Glossary entries for “allowance for loan and lease losses” or “allowance for credit losses” as applicable, “amortized cost basis,” and “nonaccrual status.”

Accrued Interest Receivable Related to Credit Card Securitizations: In a typical credit card securitization, an institution transfers a pool of receivables and the right to receive the future collections of principal (credit card purchases and cash advances), finance charges, and fees on the receivables to a trust. If a securitization transaction qualifies as a sale under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” as amended), the selling institution removes the receivables that were sold from its reported assets and continues to carry any retained interests in the transferred receivables on its balance sheet. The “accrued interest receivable” (AIR) asset typically consists of the seller’s retained interest in the investor’s portion of (1) the accrued fees and finance charges that have been billed to customer accounts, but have not yet been collected (“billed but uncollected”), and (2) the right to finance charges that have been accrued on cardholder accounts, but have not yet been billed (“accrued but unbilled”).

While the selling institution retains a right to the excess cash flows generated from the fees and finance charges collected on the transferred receivables, the institution generally subordinates its right to these cash flows to the investors in the securitization. If and when cash payments on the accrued fees and finance charges are collected, they flow through the trust, where they are available to satisfy more senior obligations before any excess amount is remitted to the seller. Only after trust expenses (such as servicing fees, investor certificate interest, and investor principal charge-offs) have been paid will the trustee distribute any excess fee and finance charge cash flow back to the seller. Since investors are paid from these cash collections before the selling institution receives the amount of AIR that is due, the seller may or may not realize the full amount of its AIR asset.

Accrued Interest Receivable Related to Credit Card Securitizations (cont.):

Accounting at Inception of the Securitization Transaction – Generally, if a securitization transaction meets the criteria for sale treatment and the AIR is subordinated either because the asset has been isolated from the transferor¹ or because of the operation of the cash flow distribution (or “waterfall”) through the securitization trust, the total AIR asset (both the “billed and uncollected” and “accrued and unbilled”) should be considered one of the components of the sale transaction. Thus, when accounting for a credit card securitization, an institution should allocate the previous carrying amount of the AIR (net of any related allowance for uncollectible amounts) and the other transferred assets between the assets that are sold and the retained interests, based on their relative fair values at the date of transfer. As a result, after a securitization, the allocated carrying amount of the AIR asset will typically be lower than its face amount.

Subsequent Accounting – After securitization, the AIR asset should be accounted for at its allocated cost basis (as discussed above). In addition, an institution should treat the AIR asset as a retained (subordinated) beneficial interest. Accordingly, it should be reported as an “All other asset” in Schedule RC-F, item 6, and in Schedule RC-S, item 2, column C on the FFIEC 031; column G on the FFIEC 041, (if reported as a stand-alone asset) and not as a loan receivable.

Although the AIR asset is a retained beneficial interest in transferred assets, it is not required to be subsequently measured like an investment in debt securities classified as available for sale or trading under ASC Topic 320, Investments-Debt Securities (formerly FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”) and ASC Topic 860 because the AIR asset cannot be contractually prepaid or settled in such a way that the holder would not recover substantially all of its recorded investment. Rather, institutions should follow existing applicable accounting standards, including ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, *Accounting for Contingencies*), in subsequent accounting for the AIR asset. ASC Subtopic 450-20 addresses the accounting for various loss contingencies, including the collectibility of receivables.

For further guidance, banks should refer to the [Interagency Advisory on the Accounting Treatment of Accrued Interest Receivable Related to Credit Card Securitizations](#) dated December 4, 2002. See also the Glossary entry for “Transfers of Financial Assets.”

Acquisition, Development, or Construction (ADC) Arrangements: An ADC arrangement is an arrangement in which a bank provides financing for real estate acquisition, development, or construction purposes and participates in the expected residual profit resulting from the ultimate sale or other use of the property. ADC arrangements should be reported as loans, real estate joint ventures, or direct investments in real estate in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly AICPA Practice Bulletin 1, Appendix, Exhibit I, “ADC Arrangements”).

[12 USC 29](#) limits the authority of national banks to hold real estate. National banks should review real estate ADC arrangements carefully for compliance. State member banks are not authorized to invest in real estate except with the prior approval of the Federal Reserve Board under [Federal Reserve Regulation H \(12 CFR Part 208\)](#). In certain states, nonmember banks may invest in real estate.

Under the agencies’ regulatory capital rules, the term high volatility commercial real estate (HVCRE) exposure is defined, in part, to mean a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction of real property. (See §.2 of the regulatory capital rules and the instructions for Schedule RC-R, Part II, item 4.b.) Institutions should note that the meaning of the term ADC as used in the definition of HVCRE exposure in the regulatory capital rules differs from the meaning of ADC arrangement for accounting purposes in ASC Subtopic 310-10 as described above in this Glossary entry. For example, an institution’s

¹ See ASC Subtopic 860-10.

Acquisition, Development, or Construction (ADC) Arrangements (cont.):

participation in the expected residual profit from a property is part of the accounting definition of an ADC arrangement, but whether the institution participates in the expected residual profit is not a consideration for purposes of determining whether a credit facility is an HVCRE exposure for regulatory capital purposes. Thus, a loan can be treated as an HVCRE exposure for regulatory capital purposes even though it does not provide for the institution to participate in the property's expected residual profit.

Agreement Corporation: See "Edge and Agreement corporation."

Allowance for Credit Losses: This entry applies to institutions that have adopted ASC Topic 326 (introduced by Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13)). Institutions that have not adopted ASC Topic 326 should continue to refer to the Glossary entry for "allowance for loan and lease losses."

Standards for accounting for an ACL for financial assets measured at amortized cost and net investments in leases (hereafter referred to collectively as financial assets measured at amortized cost), as well as certain off-balance sheet credit exposures, are set forth in ASC Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. For financial assets measured at amortized cost, the ACL is a valuation account that is deducted from, or added to, the amortized cost basis of financial assets to present the net amount expected to be collected over the contractual term of the financial assets.

For institutions that have adopted ASC Topic 326, standards for measuring credit losses on available-for-sale (AFS) debt securities are set forth in ASC Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities. See the Glossary entry for "securities activities" for guidance on allowances for credit losses on AFS debt securities.

The following sections of this Glossary entry apply to financial assets measured at amortized cost and also to off-balance sheet credit exposures within the scope of ASC Subtopic 326-20.

Measurement— An ACL shall be established upon the origination or acquisition of a financial asset(s) measured at amortized cost. A separate ACL shall be reported for each type of financial asset measured at amortized cost (e.g., loans and leases held for investment, held-to-maturity (HTM) debt securities, and receivables that relate to repurchase agreements and securities lending agreements) as of the end of each reporting period.

As of the end of each quarter, or more frequently if warranted, each institution must evaluate the collectability of its financial assets measured at amortized cost, including, if applicable, any recorded accrued interest receivable (i.e., not already reversed or charged off, as applicable), and make adjusting entries to maintain the balance of each of the separate ACLs reported on the balance sheet at an appropriate level.

An institution shall measure expected credit losses on a collective or pool basis when financial assets share similar risk characteristics. If a financial asset does not share similar risk characteristics with other assets, expected credit losses for that asset should be evaluated individually. Individually evaluated assets should not be included in a collective assessment of expected credit losses. If a financial asset ceases to share similar risk characteristics with other assets in its pool, it should be moved to a different pool with assets sharing similar risk characteristics, if such a pool exists.

ASC Subtopic 326-20 does not require the use of a specific loss estimation method for purposes of determining ACLs. Various methods may be used to estimate the expected collectability of financial assets measured at amortized cost, with those methods generally applied consistently over time. The same loss estimation method does not need to be applied to all financial assets. An institution is not precluded from selecting a different method when it determines the method will result in a better estimate of ACLs.

Allowance for Credit Losses (cont.):

ASC Subtopic 326-20 requires an institution to measure estimated expected credit losses over the contractual term of its financial assets, considering expected prepayments. Renewals, extensions, and modifications are excluded from the contractual term of a financial asset for purposes of estimating the ACL unless there is a reasonable expectation of executing a troubled debt restructuring or the renewal and extension options are part of the original or modified contract and are not unconditionally cancellable by the institution. If such renewal or extension options are present, an institution must evaluate the likelihood of a borrower exercising those options when determining the contractual term.

In estimating the net amount expected to be collected on financial assets measured at amortized cost, an institution should consider the effects of past events, current conditions, and reasonable and supportable forecasts on the collectibility of the institution's financial assets. Under ASC Subtopic 326-20, an institution is required to use relevant forward-looking information and expectations drawn from reasonable and supportable forecasts when estimating expected credit losses.

Expected recoveries, prior to collection, are a component of management's estimate of the net amount expected to be collected for a financial asset. Expected recoveries of amounts previously charged off or expected to be charged off that are included in ACLs may not exceed the aggregate amounts previously charged off or expected to be charged off.

Changes in the ACL – Additions to, or reductions of, the ACL to adjust its level to management's current estimate of expected credit losses are to be made through charges or credits to the "provision for credit losses on financial assets" (provision) in item 4 of Schedule RI, Income Statement, except for changes to adjust the level of the ACL for off-balance-sheet credit exposures. When available information confirms that specific financial assets measured at amortized cost, or portions thereof, are uncollectible, these amounts should be promptly charged off against the related ACL in the period in which the financial assets are deemed uncollectible. Under no circumstances can expected credit losses on financial assets measured at amortized cost be charged directly to "Retained earnings" after the initial adoption of ASC Topic 326, for which the change from the incurred loss to the current expected credit losses methodology is required to be recorded through a cumulative-effect adjustment to retained earnings. This cumulative-effect adjustment is reported in Schedule RI-A, item 2, "Cumulative effect of changes in accounting principles and corrections of material accounting errors," and disclosed in Schedule RI-E, item 4.a, "Effect of adoption of current expected credit losses methodology – ASU 2016-13."

Recoveries on financial assets measured at amortized cost represent collections on amounts that were previously charged off against the related ACL. Recoveries shall be credited to the ACL, provided that the total amount credited to the ACL as recoveries on a financial asset (which may include amounts representing principal, interest, and fees) is limited to the amount previously charged off against the ACL on that financial asset. Any amounts collected in excess of this limit should generally be recognized as noninterest income upon collection.

Charge-Offs and Establishment of a New Amortized Cost Basis – When an institution makes a full or partial charge-off of a financial asset measured at amortized cost that is deemed uncollectible, the institution establishes a new cost basis for that financial asset. Consequently, once a new cost basis has been established for a financial asset through a charge-off, this amortized cost basis may not be directly "written up" at a later date. Reversing the previous charge-off and "re-booking" the charged-off asset after the institution concludes that the prospects for recovering the charge-off have improved, regardless of whether the institution assigns a new account number to the asset or the borrower signs a new note, is not an acceptable accounting practice. Nevertheless, as stated above, management's estimate of the net amount expected to be collected for a financial asset, as reflected in the related ACL, considers expected recoveries.

Allowance for Credit Losses (cont.):

If losses charged off against an ACL exceed the amount of the ACL, a provision expense sufficient to restore the ACL to an appropriate level must be charged to a provision for credit losses on the income statement during the reporting period in which the charge-off is recorded. An institution shall not increase an ACL by transferring an amount from retained earnings or any segregation thereof to the ACL.

Collateral-Dependent Financial Assets – A collateral-dependent financial asset is a financial asset for which repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management's assessment, is experiencing financial difficulty as of the reporting date.

For purposes of these reports, the ACL for a collateral-dependent loan is measured using the fair value of collateral, regardless of whether foreclosure is probable. This application of this requirement for purposes of these reports is limited to collateral-dependent loans; it does not apply to other financial assets such as held-to-maturity debt securities that are collateral dependent.

When estimating the ACL for a collateral-dependent loan, the fair value of collateral should be adjusted to consider estimated costs to sell if repayment or satisfaction of the loan depends on the sale of the collateral. ACL adjustments for estimated costs to sell are not appropriate when the repayment of a collateral-dependent loan is expected from the operation of the collateral.

The fair value of collateral securing a collateral-dependent loan may change over time. If the fair value of the collateral as of the ACL evaluation date has decreased since the previous ACL evaluation date, the ACL should be increased to reflect the additional decrease in the fair value of the collateral. Likewise, if the fair value of the collateral has increased as of the ACL evaluation date, the increase in the fair value of the collateral is reflected through a reduction in the ACL. Any negative ACL that results is capped at the amount previously charged off. In general, any portion of the amortized cost basis in excess of the fair value of collateral less estimated costs to sell, if applicable, that can be identified as uncollectible should be promptly charged off against the ACL.

Financial Assets with Collateral Maintenance Agreements – Institutions may have financial assets that are secured by collateral (such as debt securities) and are subject to collateral maintenance agreements requiring the borrower to continuously replenish the amount of collateral securing the asset. If the fair value of the collateral declines, the borrower is required to provide additional collateral as specified by the agreement.

ASC Topic 326 includes a practical expedient for financial assets with collateral maintenance agreements where the borrower is required to provide collateral greater than or equal to the amortized cost basis of the asset and is expected to continuously replenish the collateral. In those cases, the institution may elect the collateral maintenance practical expedient and measure expected credit losses for these qualifying assets based on the fair value of the collateral. If the fair value of the collateral is greater than the amortized cost basis of the financial asset and the institution expects the borrower to replenish collateral as needed, the institution may record an ACL of zero for the financial asset when the collateral maintenance practical expedient is applied. Similarly, if the fair value of the collateral is less than the amortized cost basis of the financial asset and the institution expects the borrower to replenish collateral as needed, the ACL is limited to the difference between the fair value of the collateral and the amortized cost basis of the asset as of the reporting date when applying the collateral maintenance practical expedient.

Off-Balance-Sheet Credit Exposures – Each institution should also estimate, as a separate liability account, expected credit losses for off-balance-sheet credit exposures not accounted for as insurance, over the contractual period during which the institution is exposed to credit risk. The estimate of expected credit losses should take into consideration the likelihood that funding will occur as well as

Allowance for Credit Losses (cont.):

the amount expected to be funded over the estimated remaining contractual term of the off-balance-sheet credit exposures. Off-balance sheet credit exposures include loan commitments, financial standby letters of credit, and financial guarantees not accounted for as insurance, and other similar instruments except for those within the scope of ASC Topic 815 on derivatives and hedging. This separate allowance should be reported in Schedule RC-G, item 3, "Allowance for credit losses on off-balance-sheet credit exposures," not as part of the "Allowance for credit losses on loans and leases" in Schedule RC, item 4.c. Additions to, or reductions of, the allowance for credit losses on off-balance sheet credit exposures to adjust the balance of the allowance to an appropriate level are reported in net income.

Institutions should not record an estimate of expected credit losses for off-balance-sheet credit exposures that are unconditionally cancellable by the issuer. For example, for an institution that has unfunded commitments (i.e., available credit) on credit cards, the institution should not record an allowance for expected credit losses for unfunded commitments for which the institution has the ability to unconditionally cancel the available line of credit. In contrast, home equity lines of credit may be deemed unconditionally cancellable for regulatory capital purposes. However, unfunded commitments under home equity lines of credit are not considered unconditionally cancellable by the issuer for purposes of estimating expected credit losses under ASC Topic 326, because the lender may not unilaterally refuse to extend credit under the commitment.

Recourse Liability Accounts – Recourse liability accounts that arise from recourse obligations for any transfers of financial assets that are reported as sales should not be included in an ACL. These accounts are considered separate and distinct from ACLs and from the allowance for credit losses on off-balance sheet credit exposures. Recourse liability accounts should be reported in Schedule RC-G, item 4, "All other liabilities."

See also the Glossary entries for "accrued interest receivable," "amortized cost basis," "business combinations," "foreclosed assets," "loan," "loan fees," "nonaccrual status," "purchased credit-deteriorated assets," "securities activities," "transfers of financial assets," and "troubled debt restructurings."

Allowance for Loan and Lease Losses: This Glossary entry applies to institutions that have not adopted ASC Topic 326, Financial Instruments–Credit Losses. Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for "allowance for credit losses."

Each bank must maintain an allowance for loan and lease losses (allowance) at a level that is appropriate to cover estimated credit losses associated with its loan and lease portfolio, i.e., loans and leases that the bank has intent and ability to hold for the foreseeable future or until maturity or payoff. Each bank should also maintain, as a separate liability account, an allowance at a level that is appropriate to cover estimated credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees. This separate allowance should be reported in Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures," not as part of the "Allowance for loan and lease losses" in Schedule RC, item 4.c.

With respect to the loan and lease portfolio, the term "estimated credit losses" means an estimate of the current amount of loans and leases that it is probable the bank will be unable to collect given facts and circumstances as of the evaluation date. Thus, estimated credit losses represent net charge-offs that are likely to be realized for a loan or pool of loans. These estimated credit losses should meet the criteria for accrual of a loss contingency (i.e., through a provision to the allowance) set forth in generally accepted accounting principles (GAAP).

As of the end of each quarter, or more frequently if warranted, the management of each bank must evaluate, subject to examiner review, the collectibility of the loan and lease portfolio, including any recorded accrued and unpaid interest (i.e., not already reversed or charged off), and make entries to

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Allowance for Loan and Lease Losses (cont.):

maintain the balance of the allowance for loan and lease losses on the balance sheet at an appropriate level. Management must maintain reasonable records in support of their evaluations and entries. Furthermore, each bank is responsible for ensuring that controls are in place to consistently determine the allowance for loan and lease losses in accordance with GAAP (including ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies") and ASC Topic 310, Receivables (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), the bank's stated policies and procedures, management's best judgment and relevant supervisory guidance.

Additions to, or reductions of, the allowance account resulting from such evaluations are to be made through charges or credits to the "provision for loan and lease losses" (provision) in the Report of Income. When available information confirms that specific loans and leases, or portions thereof, are uncollectible, these amounts should be promptly charged off against the allowance. All charge-offs of loans and leases shall be charged directly to the allowance. Under no circumstances can loan or lease losses be charged directly to "Retained earnings." Recoveries on loans and leases represent collections on amounts that were previously charged off against the allowance. Recoveries shall be credited to the allowance, provided, however, that the total amount credited to the allowance as recoveries on an individual loan (which may include amounts representing principal, interest, and fees) is limited to the amount previously charged off against the allowance on that loan. Any amounts collected in excess of this limit should be recognized as income.

ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer") prohibits a bank from "carrying over" or creating loan loss allowances in the initial accounting for "purchased credit-impaired loans," i.e., loans that a bank has purchased where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a purchase business combination. However, if, upon evaluation subsequent to acquisition, based on current information and events, it is probable that the bank is unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition) on a purchased credit-impaired loan (not accounted for as a debt security), the loan should be considered impaired for purposes of establishing an allowance pursuant to ASC Subtopic 450-20 or ASC Topic 310, as appropriate. For further information, see the Glossary entry for "purchased credit-impaired loans and debt securities."

When a bank makes a full or partial direct write-down of a loan or lease that is uncollectible, the bank establishes a new cost basis for the asset. Consequently, once a new cost basis has been established for a loan or lease through a direct write-down, this cost basis may not be "written up" at a later date. Reversing the previous write-down and "re-booking" the charged-off asset after the bank concludes that the prospects for recovering the charge-off have improved, regardless of whether the bank assigns a new account number to the asset or the borrower signs a new note, is not an acceptable accounting practice.

The allowance account must never have a debit balance. If losses charged off exceed the amount of the allowance, a provision sufficient to restore the allowance to an appropriate level must be charged to expense on the income statement immediately. A bank shall not increase the allowance account by transferring an amount from undivided profits or any segregation thereof to the allowance for loan and lease losses.

To the extent that a bank's reserve for bad debts for tax purposes is greater than or less than its "allowance for loan and lease losses" on the balance sheet of the Report of Condition, the difference is referred to as a temporary difference. See the Glossary entry for "income taxes" for guidance on how to report the tax effect of such a temporary difference.

Allowance for Loan and Lease Losses (cont.):

Recourse liability accounts that arise from recourse obligations for any transfers of loans that are reported as sales for purposes of these reports should not be included in the allowance for loan and lease losses. These accounts are considered separate and distinct from the allowance account and from the allowance for credit losses on off-balance sheet credit exposures. Recourse liability accounts should be reported in Schedule RC-G, item 4, "All other liabilities."

For comprehensive guidance on the maintenance of an appropriate allowance for loan and lease losses, banks should refer to the [Interagency Policy Statement on the Allowance for Loan and Lease Losses](#) dated December 13, 2006. For guidance on the design and implementation of allowance methodologies and supporting documentation practices, banks should refer to the interagency [Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Associations](#), which was published on July 6, 2001. National banks should also refer to the Office of the Comptroller of the Currency's [Handbook for National Bank Examiners discussing the allowance for loan and lease losses](#). Information on the application of ASC Topic 310, Receivables, to the determination of an allowance for loan and lease losses on those loans covered by that accounting standard is provided in the Glossary entry for "loan impairment."

For information on reporting on foreclosed and repossessed assets, see the Glossary entry for "foreclosed assets."

Amortized Cost Basis: The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount and net deferred fees or costs, collection of cash, write-offs,¹ foreign exchange, and fair hedge accounting adjustments.

See also the Glossary entries for "accrued interest receivable," "loan," "loan fees," "nonaccrual status," and "securities activities."

Applicable Income Taxes: See "income taxes."

Associated Company: See "subsidiaries."

ATS Account: See "deposits."

Bankers Acceptances: A banker's acceptance, for purposes of these reports, is a draft or bill of exchange that has been drawn on and accepted by a banking institution (the "accepting bank") or its agent for payment by that institution at a future date that is specified in the instrument. Funds are advanced to the drawer of the acceptance by the discounting of the accepted draft either by the accepting bank or by others; the accepted draft is negotiable and may be sold and resold subsequent to its original discounting. At the maturity date specified, the holder or owner of the acceptance at that date, who has advanced funds either by initial discount or subsequent purchase, presents the accepted draft to the accepting bank for payment.

The accepting bank has an unconditional obligation to put the holder in funds (to pay the holder the face amount of the draft) on presentation on the specified date. The account party (customer) has an unconditional obligation to put the accepting bank in funds at or before the maturity date specified in the instrument.

¹ The FASB's term "write-off" is used interchangeably with the term "charge-off" in these instructions. These terms can refer to both full and partial write-offs or charge-offs.

Brokered Deposits (cont.):

[Section 202 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act*](#), enacted on May 24, 2018, amends [Section 29 of the *Federal Deposit Insurance Act*](#) to except a capped amount of reciprocal deposits from treatment as, and from being reported as, brokered deposits for qualifying institutions. The FDIC has amended its regulations to conform to the treatment of reciprocal deposits set forth in Section 202. As defined in [Section 337.6\(e\)\(2\)\(v\) of the FDIC's regulations](#), "reciprocal deposits" means "deposits received by an agent institution through a deposit placement network with the same maturity (if any) and in the same aggregate amount as covered deposits placed by the agent institution in other network member banks." As defined in [Section 327.8\(g\) of the FDIC's regulations](#), "brokered reciprocal deposits" are "reciprocal deposits as defined in [Section 337.6\(e\)\(2\)\(v\) of the FDIC's regulations](#) that are not excepted from an institution's brokered deposits pursuant to [Section 337.6\(e\)](#)" of the FDIC's regulations. Brokered reciprocal deposits should be reported as (1) brokered deposits and included in Schedule RC-E, Memorandum item 1.b, and, if applicable, Memorandum items 1.c and 1.d, and (2) brokered reciprocal deposits and included in Schedule RC-O, item 9 and, if applicable, item 9.a. An institution should report its total reciprocal deposits, including any reciprocal deposits that are reported as brokered deposits, in Schedule RC-E, Memorandum item 1.g. For further information on reciprocal deposits and brokered reciprocal deposits, see the instructions for Schedule RC-E, Memorandum items 1.b and 1.g, and the examples after the instructions for Schedule RC-E, Memorandum item 7.

Fully insured brokered deposits are brokered deposits (including brokered deposits that represent retirement deposit accounts as defined in Schedule RC-O, Memorandum item 1) with balances of \$250,000 or less or with balances of more than \$250,000 that have been participated out by the deposit broker in shares of \$250,000 or less. As more fully described in the instructions for Schedule RC-E, (part I on the FFIEC 031), Memorandum item 1.c, fully insured brokered deposits also include (a) certain brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit issued by a bank to a deposit broker in an amount that exceeds \$250,000 and (b) certain brokered transaction accounts and money market deposit accounts denominated in amounts of \$0.01 and established and maintained by the deposit broker (or its agent) as agent, custodian, or other fiduciary for the broker's customers.

For additional information on brokered deposits, refer to the FDIC's "Identifying, Accepting and Reporting Brokered Deposits: Frequently Asked Questions" at <https://www.fdic.gov/news/news/financial/2016/fil16042b.pdf>.

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Broker's Security Draft: A broker's security draft is a draft with securities or title to securities attached that is drawn to obtain payment for the securities. This draft is sent to a bank for collection with instructions to release the securities only on payment of the draft.

Business Combinations: The accounting and reporting standards for business combinations are set forth in ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations"). ASC Topic 805 requires that all business combinations, which are defined as the acquisition of assets and assumption of liabilities that constitute a business, be accounted for using the acquisition method of accounting. The formation of a joint venture, the acquisition of a group of assets that do not constitute a business, and a transfer of net assets or exchange of equity interests between entities under common control are not considered business combinations and therefore are not accounted for using the acquisition method of accounting.

Acquisition method – Under the acquisition method, the acquirer in a business combination shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values (with limited exceptions specified in ASC Topic 805) using the definition of fair value in ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"). The acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets, and assumes the liabilities of the acquiree, i.e., the closing date. ASC Topic 805 requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values. If ASC Topic 326, Financial Instruments—Credit Losses, has not been adopted, the acquirer may not recognize a separate valuation allowance (e.g., allowance for loan and lease losses) for the contractual cash flows that are deemed to be uncollectible as of that date.

If ASC Topic 326 has been adopted, an institution is required to determine whether any acquired financial assets meet the definition of a purchased credit-deteriorated (PCD) asset. For a financial asset that meets the definition of a PCD asset, the institution applies the gross-up approach and records the acquired financial asset at its purchase price plus acquisition-date allowance for credit losses, which establishes the initial amortized cost basis of the PCD asset. For acquired financial assets that are not PCD assets, the acquirer records the purchased financial assets at their acquisition-date fair values. Additionally, for those acquired financial assets within the scope of ASC Subtopic 326-20 that are not PCD financial assets, an allowance is initially recorded with a corresponding charge to the provision for credit losses expense in the reporting period that includes the acquisition date. See also the Glossary entries for "allowance for credit losses" and "purchased credit-deteriorated assets."

The consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets (including any cash) transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer. Acquisition-related costs are costs the acquirer incurs to effect a business combination such as finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services received. The cost to register and issue debt or equity securities shall be recognized in accordance with other applicable generally accepted accounting principles.

At the acquisition date, an acquirer generally will not have obtained all of the information necessary to measure the fair values of the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree, and consideration transferred for the acquiree. Under ASC Topic 805, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer should report provisional amounts in its Consolidated Reports of Condition and Income for the items for which the accounting is incomplete. Provisional amounts

Business Combinations (cont.):

should be based on the best information available. During the measurement period, the acquirer is required to adjust the provisional amounts recognized at the acquisition date, with a corresponding adjustment to goodwill, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Topic 805 further requires an acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which adjustment amounts are determined. The acquirer also must recognize in the income statement for the same reporting period the effect on earnings, if any, resulting from the adjustments to the provisional amounts as if the accounting for the business combination had been completed as of the acquisition date. See ASC Topic 805 for additional guidance on the measurement period and adjustments to provisional amounts during this period.

ASC Topic 805 provides guidance for recognizing particular assets acquired and liabilities assumed in a business combination. Acquired assets may be tangible (such as securities or fixed assets) or intangible, as discussed in the following paragraph. An acquiring entity must not recognize the goodwill, if any, or the deferred income taxes recorded by an acquired entity before the business combination. However, a deferred tax liability or asset must be recognized for differences between the carrying values assigned in the business combination and the tax bases of the recognized assets acquired and liabilities assumed, in accordance with ASC Topic 740, Income Taxes (formerly FASB Statement No. 109, "Accounting for Income Taxes," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"). (For further information, see the Glossary entry for "income taxes.")

Under ASC Topic 805, an intangible asset must be recognized separately from goodwill if it arises from contractual or other legal rights, regardless of whether the rights are transferable or separable. Otherwise, an intangible asset must be recognized separately from goodwill only if it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged individually or together with a related contract, identifiable asset, or liability. Examples of intangible assets that must be recognized separately from goodwill are core deposit intangibles, purchased credit card relationships, servicing assets, favorable leasehold rights, trademarks, trade names, internet domain names, and noncompetition agreements. However, an institution that is a private company, as defined in U.S. GAAP, may elect the private company accounting alternative for the recognition of certain identifiable intangible assets acquired in a business combination provided by ASC Subtopic 805-20, Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest, if it also has adopted the private company goodwill accounting alternative provided by ASC Subtopic 350-20, Intangibles–Goodwill and Other – Goodwill. Intangible assets that are recognized separately from goodwill must be reported in Schedule RC, item 10, "Intangible assets," and in Schedule RC-M, item 2.a or 2.c, as appropriate. Refer to the Glossary entry for "goodwill" for further information on the private company accounting alternative for identifiable intangible assets. See also the Glossary entries for "private company" and "public business entity."

In general, the amount recognized as goodwill in a business combination is the excess of the sum of the consideration transferred and the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is reported in Schedule RC, item 10, and in Schedule RC-M, item 2.b. An acquired intangible asset that does not meet the criteria described in the preceding paragraph must be treated as goodwill. After initial recognition, goodwill must be accounted for in accordance with ASC Topic 350, Intangibles–Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets") and the Glossary entry for "goodwill."

¹ In general, the measurement period in a business combination is the period after the acquisition date during which the acquirer may adjust provisional amounts recognized for a business combination. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Deferred Compensation Agreements (cont.):

After the present value of the expected future benefit payments has been determined, an institution should accrue an amount of compensation expense and a liability each year from the date the employee enters into the deferred compensation agreement until the full eligibility date. The amount of these annual accruals should be sufficient to ensure that a deferred compensation liability equal to the present value of the expected benefit payments is recorded by the full eligibility date. Any method of deferred compensation accounting that does not recognize some expense in each year from the date the employee enters into the agreement until the full eligibility date is not systematic and rational. (For indexed retirement plans, some expense should be recognized for the primary benefit and any secondary benefit in each of these years.)

Vesting provisions should be reviewed to ensure that the full eligibility date is properly determined because this date is critical to the measurement of the liability estimate. Because ASC Subtopic 710-10 requires that the present value of the expected benefit payments be recorded by the full eligibility date, institutions also need to consider changes in market interest rates to appropriately measure deferred compensation liabilities. Therefore, institutions should periodically review their estimates of the expected future benefits under deferred compensation agreements and the discount rates used to compute the present value of the expected benefit payments and revise the estimates and rates, when appropriate.

Deferred compensation agreements may include noncompete provisions or provisions requiring employees to perform consulting services during postretirement years. If the value of the noncompete provisions cannot be reasonably and reliably estimated, no value should be assigned to the noncompete provisions in recognizing the deferred compensation liability. Institutions should allocate a portion of the future benefit payments to consulting services to be performed in postretirement years only if the consulting services are determined to be substantive. Factors to consider in determining whether postretirement consulting services are substantive include, but are not limited to, whether the services are required to be performed, whether there is an economic benefit to the institution, and whether the employee forfeits the benefits under the agreement for failure to perform such services.

Deferred compensation liabilities should be reported on the balance sheet in Schedule RC, item 20, "Other liabilities," and in Schedule RC-G, item 4, "All other liabilities." If this amount is greater than \$100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4, it should be reported in Schedule RC-G, item 4.b. The annual compensation expense (service component and interest component) related to deferred compensation agreements should be reported in the income statement in Schedule RI, item 7.a, "Salaries and employee benefits."

See also "bank-owned life insurance."

Deferred Income Taxes: See "income taxes."

Defined Benefit Postretirement Plans: The accounting and reporting standards for defined benefit postretirement plans, such as pension plans and health care plans, are set forth in ASC Topic 715, Compensation-Retirement Benefits (formerly FASB Statement No. 87, "Employers' Accounting for Pensions"; FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; and FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"). ASC Topic 715 requires an institution that sponsors a single-employer defined benefit postretirement plan to recognize the funded status of each such plan on its balance sheet. The funded status of a benefit plan is measured as of the end of an institution's fiscal year as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. An overfunded plan is recognized as an asset, which should be reported in Schedule RC-F, item 6, "All other assets," while an underfunded plan is recognized as a liability, which should be reported in Schedule RC-G, item 4, "All other liabilities."

Defined Benefit Postretirement Plans (cont.):

An institution should measure the net period benefit cost of a defined benefit plan for a reporting period in accordance with ASC Subtopic 715-30 (formerly FASB Statement No. 87) for pension plans and ASC Subtopic 715-60 (formerly FASB Statement No. 106) for other postretirement benefit plans. This cost should be reported in Schedule RI, item 7.a, "Salaries and employee benefits." However, an institution must recognize certain gains and losses and prior service costs or credits that arise on a defined benefit plan during each reporting period, net of tax, as a component of other comprehensive income (Schedule RI-A, item 10) and, hence, accumulated other comprehensive income (AOCI) (Schedule RC, item 26.b). Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of a plan's net periodic benefit cost.

For further information on accounting for defined benefit postretirement plans, institutions should refer to ASC Topic 715.

Impact on Regulatory Capital – An institution that has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, should reverse the effects on AOCI of ASC Topic 715 (formerly FASB Statement No. 158) for purposes of reporting and measuring the numerators and denominators for the leverage and risk-based capital ratios. The intent of the reversal is to neutralize for regulatory capital purposes the effects on AOCI of the application of ASC Topic 715. The instructions for Schedule RC-R, Part I, items 9.d and 26, and Schedule RC-R, Part II, item 8, provide guidance on how to report adjustments to Tier 1 capital and risk-weighted and total assets to reverse the effects of applying ASC Topic 715 for regulatory capital purposes.

Demand Deposits: See "deposits."

Depository Institutions in the U.S.: Depository institutions in the U.S. consist of:

- (1) U.S. branches and agencies of foreign banks;
- (2) U.S.-domiciled head offices and branches of U.S. banks, i.e.,
 - (a) national banks,
 - (b) state-chartered commercial banks,
 - (c) trust companies that perform a commercial banking business,
 - (d) industrial banks,
 - (e) private or unincorporated banks,
 - (f) Edge and Agreement corporations, and
 - (g) International Banking Facilities (IBFs) of U.S. banks; and

Federal Funds Transactions: For purposes of the Consolidated Reports of Condition and Income, federal funds transactions involve the reporting bank's lending (federal funds sold) or borrowing (federal funds purchased) in domestic offices of immediately available funds under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract. However, funds lent or borrowed in the form of securities resale or repurchase agreements, due bills, borrowings from the Discount and Credit Department of a Federal Reserve Bank, deposits with and advances from a Federal Home Loan Bank, and overnight loans for commercial and industrial purposes are excluded from federal funds. Transactions that are to be reported as federal funds transactions may be secured or unsecured or may involve an agreement to resell loans or other instruments that are not securities.

Immediately available funds are funds that the purchasing bank can either use or dispose of on the same business day that the transaction giving rise to the receipt or disposal of the funds is executed.

The borrowing and lending of immediately available funds has an original maturity of one business day if the funds borrowed on one business day are to be repaid or the transaction reversed on the next business day, that is, if immediately available funds borrowed today are to be repaid tomorrow (in tomorrow's immediately available funds). Such transactions include those made on a Friday to mature or be reversed the following Monday and those made on the last business day prior to a holiday (for either or both of the parties to the transaction) to mature or be reversed on the first business day following the holiday.

A continuing contract is a contract or agreement that remains in effect for more than one business day, but has no specified maturity and does not require advance notice of either party to terminate. Such contracts may also be known as rollovers or as open-ended agreements.

Federal funds may take the form of the following two types of transactions in domestic offices provided that the transactions meet the above criteria (i.e., immediately available funds with an original maturity of one business day or under a continuing contract):

- (1) Unsecured loans (federal funds sold) or borrowings (federal funds purchased). (In some market usage, the term "fed funds" or "pure fed funds" is confined to unsecured loans of immediately available balances.)
- (2) Purchases (sales) of financial assets (other than securities) under agreements to resell (repurchase) that have original maturities of one business day (or are under continuing contracts) and are in immediately available funds.

Any borrowing or lending of immediately available funds in domestic offices that has an original maturity of more than one business day, other than securities repurchase or resale agreements, is to be treated as a borrowing or as a loan, not as federal funds. Such transactions are sometimes referred to as "term federal funds."

Federally-Sponsored Lending Agency: A federally-sponsored lending agency is an agency or corporation that has been chartered, authorized, or organized as a result of federal legislation for the purpose of providing credit services to a designated sector of the economy. These agencies include Banks for Cooperatives, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and the Student Loan Marketing Association.

Fees, Loan: See "loan fees."

Foreclosed Assets: The accounting and reporting standards for the receipt and holding of foreclosed assets are set forth in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings"), and ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"). Subsequent to the

Foreclosed Assets (cont.):

issuance of Statement No. 144, AICPA Statement of Position (SOP) No. 92-3, "Accounting for Foreclosed Assets," was rescinded. Certain provisions of SOP 92-3 are not present in Statement No. 144, but the application of these provisions represents prevalent practice in the banking industry and is consistent with safe and sound banking practices and the accounting objectives set forth in Section 37(a) of the Federal Deposit Insurance Act. These provisions of SOP 92-3 have been incorporated into this Glossary entry, which institutions must follow for purposes of preparing their Consolidated Reports of Condition and Income.

An institution that receives from a borrower in full satisfaction of a loan either receivables from a third party, an equity interest in the borrower, or another type of asset (except a long-lived asset that will be sold) shall initially measure the asset received at its fair value at the time of the restructuring. When an institution receives a long-lived asset, such as real estate, from a borrower in full satisfaction of a loan, the long-lived asset is rebuttably presumed to be held for sale and the institution shall initially measure this asset at its fair value less cost to sell. The fair value (less cost to sell, if applicable) of the asset received in full satisfaction of the loan becomes the "cost" of the asset. The amount, if any, by which the recorded investment in the loan (or the amortized cost basis of the loan, if the institution has adopted ASC Topic 326, Financial Instruments—Credit Losses)¹ exceeds the fair value (less cost to sell, if applicable) of the asset is a loss which must be charged to the allowance for loan and lease losses at the time of restructuring, foreclosure, or repossession. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

If an asset is sold shortly after it is received in a restructuring, foreclosure, or repossession, it would generally be appropriate to substitute the value received in the sale (net of the cost to sell for a long-lived asset, such as real estate, that has been sold) for the fair value (less cost to sell for a long-lived asset, such as real estate, that will be sold) that had been estimated at the time of restructuring, foreclosure, or repossession. Any adjustments should be made to the loss charged against the allowance.

An asset received in partial satisfaction of a loan should be initially measured as described above and the recorded investment in, or amortized cost basis of, the loan, as applicable, should be reduced by the fair value (less cost to sell, if applicable) of the asset at the time of restructuring, foreclosure, or repossession.

The measurement and accounting subsequent to acquisition for real estate received in full or partial satisfaction of a loan, including through foreclosure or repossession, is discussed below in this Glossary entry. For other types of assets that an institution receives in full or partial satisfaction of a loan, the institution generally should subsequently measure and account for such assets in accordance with other applicable generally accepted accounting principles and regulatory reporting instructions for such assets.

For purposes of these reports, foreclosed assets include loans (other than residential real estate property collateralizing a consumer mortgage loan) where an institution, as creditor, has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place. An institution, as creditor, is considered to have received physical possession (resulting from an in-substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan only upon the occurrence of either of the following:

- (1) The institution obtains legal title to the residential real estate property upon completion of a foreclosure even if the borrower has redemption rights that provide the borrower with a legal right

¹ The recorded investment in the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest. For institutions that have adopted ASC Topic 326, the term "amortized cost basis" is used in place of "recorded investment." See the Glossary entry for "amortized cost basis."

Foreclosed Assets (cont.):

for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law, or

- (2) The borrower conveys all interest in the residential real estate property to the bank to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor.

In situations where physical possession is received, the secured loan should be recategorized on the balance sheet in the asset category appropriate to the underlying collateral (e.g., as other real estate owned for real estate collateral) and accounted for as described above, except for foreclosures on certain fully and partially government-guaranteed mortgage loans, which are to be reported in Schedule RC-F, item 6, "All other assets," as discussed below in this Glossary entry.

The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule RC-M, item 5.b, "Other borrowings."

After foreclosure, each foreclosed real estate asset (including any real estate for which the institution receives physical possession) must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraphs). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs.

If a foreclosed real estate asset is held for more than a short period of time, any declines in value after foreclosure and any gain or loss from the sale or disposition of the asset shall not be reported as a loan or lease loss or recovery and shall not be debited or credited to the allowance for loan and lease losses (or allowance for credit losses, if the institution has adopted ASC Topic 326). Such additional declines in value and the gain or loss from the sale or disposition shall be reported net on the income statement in Schedule RI, item 5.j, "Net gains (losses) on sales of other real estate owned."

Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure – ASC Subtopic 310-40 clarifies the conditions under which a creditor must derecognize a government-guaranteed mortgage loan and recognize a separate "other receivable" upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan). When these conditions are met, other real estate owned should not be recognized by an institution.

An institution should derecognize a mortgage loan and record a separate other receivable upon foreclosure of the real estate collateral if all of the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the institution has the intent to convey the property to the guarantor and make a claim on the guarantee and it has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed (that is, the real estate property has been appraised for purposes of the claim and thus the institution is not exposed to changes in the fair value of the property).

This guidance is applicable to fully and partially government-guaranteed mortgage loans provided the three conditions identified above have been met. In such situations, upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This other receivable should be reported in Schedule RC-F, item 6, "All other assets." Any interest income earned on the other receivable should be reported in Schedule RI, item 1.g, "Other interest income."

Foreclosed Assets (cont.):

Dispositions of Foreclosed Real Estate – Until the effective date of ASU 2014-09 “Revenue from Contracts with Customers,” which includes amendments to ASC Subtopic 610-20, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets, the primary accounting guidance for sales of foreclosed real estate is ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales (formerly FASB Statement No. 66, “Accounting for Sales of Real Estate”). When it takes effect, ASC Subtopic 610-20 supersedes ASC Subtopic 360-20 for real estate sales not accompanied by a leaseback and becomes the primary accounting guidance for sales of foreclosed real estate.

This Glossary entry presents a summary of the methods included in ASC Subtopic 360-20 for institutions that have not yet adopted ASC 610-20. For institutions that have adopted ASC Subtopic 610-20, this Glossary entry also presents a summary of the provisions of ASC Subtopic 610-20, which requires the application of specified portions of ASC Topic 606, Revenue from Contracts with Customers, to an institution’s sale of repossessed nonfinancial assets such as foreclosed real estate (also referred to as other real estate owned or OREO).

Effective Date of ASU 2014-09, including ASC Subtopic 610-20 (and ASC Topic 606) – For institutions that are public business entities, these standards are effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the standards are effective for fiscal years beginning after December 15, 2018, and interim reporting periods within fiscal years beginning after December 15, 2019. For further information, see the Glossary entries for “public business entity” and “private company.” Early application of these standards is permitted for all institutions for fiscal years beginning after December 15, 2016, and interim reporting periods as prescribed in the standards. An institution that early adopts these standards must apply them (including all of ASC Topic 606 on revenue recognition) in their entirety. If an institution chooses to early adopt these standards for financial reporting purposes, the institution should implement them in its Call Report for the same quarter-end report date.

Accounting under ASC Subtopic 360-20 – This subtopic, which applies to all transactions in which the seller provides financing to the buyer of the real estate, establishes the following methods to account for dispositions of real estate. If a profit is involved in the sale of real estate, each method sets forth the manner in which the profit is to be recognized. Regardless of which method is used, however, any losses on the disposition of real estate should be recognized immediately.

- (1) Full Accrual Method – Under the full accrual method, the disposition is recorded as a sale. Any profit resulting from the sale is recognized in full and the asset resulting from the seller's financing of the transaction is reported as a loan. This method may be used when the following conditions have been met:
 - (a) A sale has been consummated;
 - (b) The buyer's initial investment (down payment) and continuing investment (periodic payments) are adequate to demonstrate a commitment to pay for the property;
 - (c) The receivable is not subject to future subordination; and
 - (d) The usual risks and rewards of ownership have been transferred.

Guidelines for the minimum down payment that must be made in order for a transaction to qualify for the full accrual method are set forth in ASC Subtopic 360-20. These vary from five percent to 25 percent of the property's sales value. These guideline percentages vary by type of property and are primarily based on the inherent risk assumed for the type and characteristics of the property. To meet the continuing investment criteria, the contractual loan payments must be sufficient to repay the loan over the customary loan term for the type of property involved. Such periods may range up to 30 years for loans on single family residential property.

- (2) Installment Method – Dispositions of foreclosed real estate that do not qualify for the full accrual method may qualify for the installment method. This method recognizes a sale and the

Foreclosed Assets (cont.):

corresponding loan. Any profits on the sale are only recognized as the institution receives payments from the purchaser/borrower. Interest income is recognized on an accrual basis, when appropriate.

The installment method is used when the buyer's down payment is not adequate to allow use of the full accrual method but recovery of the cost of the property is reasonably assured if the buyer defaults. Assurance of recovery requires careful judgment on a case-by-case basis. Factors which should be considered include: the size of the down payment, loan-to-value ratios, projected cash flows from the property, recourse provisions, and guarantees.

Since default on the loan usually results in the seller's reacquisition of the real estate, reasonable assurance of cost recovery may often be achieved with a relatively small down payment. This is especially true in situations involving loans with recourse to borrowers who have verifiable net worth, liquid assets, and income levels. Reasonable assurance of cost recovery may also be achieved when the purchaser/borrower pledges additional collateral.

- (3) Cost Recovery Method – Dispositions of foreclosed real estate that do not qualify for either the full accrual or installment methods are sometimes accounted for using the cost recovery method. This method recognizes a sale and the corresponding loan, but all income recognition is deferred. Principal payments are applied as a reduction of the loan balance and interest increases the unrecognized gross profit. No profit or interest income is recognized until either (1) the aggregate payments by the borrower exceed the recorded investment in, or the amortized cost basis of, the loan, as applicable, or (2) a change to another accounting method is appropriate (e.g., installment method). Consequently, the loan is maintained in nonaccrual status while this method is being used.
- (4) Reduced-Profit Method – This method is used in certain situations where the institution receives an adequate down payment, but the loan amortization schedule does not meet the requirements for use of the full accrual method. The method recognizes a sale and the corresponding loan. However, like the installment method, any profit is apportioned over the life of the loan as payments are received. The method of apportionment differs from the installment method in that profit recognition is based on the present value of the lowest level of periodic payments required under the loan agreement.

Since sales with adequate down payments are generally not structured with inadequate loan amortization requirements, this method is seldom used in practice.

- (5) Deposit Method – The deposit method is used in situations where a sale of the foreclosed real estate has not been consummated. It may also be used for dispositions that could be accounted for under the cost recovery method. Under this method a sale is not recorded and the asset continues to be reported as foreclosed real estate. Further, no profit or interest income is recognized. Payments received from the borrower are reported as a liability in Schedule RC-G, item 4, "All other liabilities," until sufficient payments or other events have occurred which allow the use of one of the other methods.

Accounting under ASC Subtopic 610-20 (and ASC Topic 606) – The amendments to ASC Subtopic 610-20, when effective as a result of ASU 2014-09 (as discussed above), eliminate the prescriptive criteria and methods for sale accounting and gain recognition for dispositions of OREO set forth in ASC Subtopic 360-20. Under ASC Subtopic 610-20, if the buyer of the OREO is a legal entity, an institution should first assess whether it has a controlling financial interest in the legal entity buying the OREO by applying the guidance in ASC Topic 810, Consolidation. If an institution determines that it has a controlling financial interest in the buying legal entity, it should not derecognize the OREO and should apply the guidance in ASC Subtopic 810-10. When an institution does not have a controlling financial interest in the buying legal entity or the OREO buyer is not a legal entity, which is expected to be the case for most sales of OREO, the institution will recognize the entire gain or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of ASC Topic 606. Otherwise, the institution generally will continue reporting the OREO as an asset,

Foreclosed Assets (cont.):

with any cash payments or other consideration received from the individual or entity acquiring the OREO (i.e., any down payment and any subsequent payments of principal or interest) reported as a liability in Schedule RC-G, item 4, "All other liabilities," until it becomes appropriate to recognize the revenue and the sale of the OREO in accordance with ASC Subtopic 610-20 and ASC Topic 606.¹

When applying ASC Subtopic 610-20 and Topic 606, an institution will need to exercise judgment in determining whether a contract (within the meaning of Topic 606) exists for the sale or transfer of OREO, whether the institution has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss. These standards apply to all sales or transfers of real estate by institutions, but greater judgment will generally be required for seller-financed sales of OREO.

Under ASC Subtopic 610-20, when an institution does not have a controlling financial interest in the buying legal entity or the OREO buyer is not a legal entity, the institution's first step in assessing whether it can derecognize an OREO asset and recognize revenue upon the sale or transfer of the OREO is to determine whether a contract exists under the provisions of Topic 606. In the context of an OREO sale or transfer, in order for an institution's transaction with the party acquiring the property to be a contract under ASC Topic 606, it must meet all the following criteria:

- (a) The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations;
- (b) The institution can identify each party's rights regarding the OREO to be transferred;
- (c) The institution can identify the payment terms for the OREO to be transferred;
- (d) The contract has commercial substance (that is, the risk, timing, or amount of the institution's future cash flows is expected to change as a result of the contract); and
- (e) It is probable that the institution will collect substantially all of the consideration to which it will be entitled in exchange for OREO that will be transferred to the buyer, i.e. the transaction price. In evaluating whether collectability of an amount of consideration is probable, an institution shall consider only the buyer's ability and intention to pay that amount of consideration when it is due.

These five criteria require careful analysis for seller-financed sales of OREO. In particular, criteria (a) and (e) may require significant judgment. When determining whether the buyer is committed to perform its obligations under criterion (a) and collectability under criterion (e), a selling institution should consider all facts and circumstances related to the buyer's ability and intent to pay the transaction price, which may include:

- Amount of cash paid as a down payment;
- Existence of recourse provisions;
- Credit standing of the buyer;
- Age and location of the property;
- Cash flow from the property;
- Payments by the buyer to third parties;
- Other amounts paid to the selling institution, including current or future contingent payments;
- Transfer of noncustomary consideration (i.e., consideration other than cash and a note receivable);
- Other types of financing involved with the property or transaction;
- Financing terms of the loan (reasonable and customary terms, amortization, any graduated payments, any balloon payment);
- Underwriting inconsistent with the institution's underwriting policies for loans not involving OREO sales; and
- Future subordination of the selling institution's receivable.

¹ Although ASC Topic 606 describes the consideration received (including any cash payments) using such terms as "liability," "deposit," and "deposit liability," for regulatory reporting purposes these amounts should be reported in Schedule RC-G, item 4, and not as a deposit in Schedule RC, item 13.

Income Taxes (cont.):

Generally, a net operating loss that occurs when loss carrybacks are not available becomes a net operating loss carryforward. For tax years beginning before January 1, 2018, a bank may carry operating losses forward 20 years for federal income tax purposes. For tax years beginning on or after January 1, 2018, net operating losses can be carried forward indefinitely for federal income tax purposes; however, for net operating losses arising in such tax years, the amount of loss that can be carried forward and deducted in a particular year is limited to 80 percent of a bank's taxable income in that year.

Tax credit carryforwards are tax credits which cannot be used for tax purposes in the current year, but which can be carried forward to reduce taxes payable in a future period.

Deferred tax assets are recognized for net operating loss and tax credit carryforwards just as they are for deductible temporary differences. As a result, a bank can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the bank determines that a valuation allowance is not considered necessary (i.e., if the realization of the benefit is more likely than not).

Applicable tax rate -- The income tax rate to be used in determining deferred tax assets and liabilities is the rate under current tax law that is expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or paid. For tax years beginning on or after January 1, 2018, the federal corporate tax rate is a flat 21 percent rate. This flat rate replaced the graduated federal corporate tax rate structure that applied in prior tax years. If a bank is subject to graduated tax rates and the bank's income level is such that graduated tax rates are a significant factor, then the bank shall use the average graduated tax rate applicable to the amount of estimated taxable income in the period in which the deferred tax asset or liability is expected to be realized or settled.

When the tax law changes, banks shall determine the effect of the change, adjust the deferred tax asset or liability and include the effect of the change in Schedule RI, item 9, "Applicable income taxes (on item 8.c)."

Valuation allowance – A valuation allowance must be recorded, if needed, to reduce the amount of deferred tax assets to an amount that is more likely than not to be realized. Changes in the valuation allowance generally shall be reported in Schedule RI, item 9, "Applicable income taxes (on item 8.c)." The following discussion of the valuation allowance relates to the allowance, if any, included in the amount of net deferred tax assets or liabilities to be reported on the balance sheet (Schedule RC) and in Schedule RC-F, item 2, or Schedule RC-G, item 2. This discussion does not address the determination of the amount of deferred tax assets, if any, that is disallowed for regulatory capital purposes and reported in Schedule RC-R, Part I, item 8; items 15, 15.a, and 15.b, as applicable; and, for advanced approaches institutions, item 16.

Banks must consider all available evidence, both positive and negative, in assessing the need for a valuation allowance. The future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period. Four sources of taxable income may be available to realize the deferred tax assets:

- (1) Taxable income in carryback years (which can be offset to recover taxes previously paid),
- (2) Reversing taxable temporary differences,
- (3) Future taxable income (exclusive of reversing temporary differences and carryforwards.
- (4) Tax-planning strategies.

In general, positive evidence refers to the existence of one or more of the four sources of taxable income. To the extent evidence about one or more sources of income is sufficient to support a

Income Taxes (cont.):

conclusion that a valuation allowance is not necessary (i.e., the bank can conclude that the deferred tax asset is more likely than not to be realized), other sources need not be considered. However, if a valuation allowance is needed, each source of income must be evaluated to determine the appropriate amount of the allowance needed.

Evidence used in determining the valuation allowance should be subject to objective verification. The weight given to evidence when both positive and negative evidence exist should be consistent with the extent to which it can be verified. Sources (1) and (2) listed above are more susceptible to objective verification and, therefore, may provide sufficient evidence regardless of future events.

The consideration of future taxable income (exclusive of reversing temporary differences and carryforwards) as a source for the realization of deferred tax assets will require subjective estimates and judgments about future events which may be less objectively verifiable.

Examples of negative evidence include:

- Cumulative losses in recent years.
- A history of operating loss or tax credit carryforwards expiring unused.
- Losses expected in early future years by a presently profitable bank.
- Unsettled circumstances that, if unfavorably resolved, would adversely affect future profit levels.
- A brief carryback or carryforward that would limit the ability to realize the deferred tax asset.

Examples of positive evidence include:

- A strong earnings history exclusive of the loss that created the future deductible amount (tax loss carryforward or deductible temporary difference) coupled with evidence indicating that the loss is an aberration rather than a continuing condition.
- Existing contracts that will generate significant income.
- An excess of appreciated asset value over the tax basis of an entity's net assets in an amount sufficient to realize the deferred tax asset.

When realization of a bank's deferred tax assets is dependent upon future taxable income, the reliability of a bank's projections is very important. The bank's record in achieving projected results under an actual operating plan will be a strong measure of this reliability. Other factors a bank should consider in evaluating evidence about its future profitability include but are not limited to current and expected economic conditions, concentrations of credit risk within specific industries and geographical areas, historical levels and trends in past due and nonaccrual assets, historical levels and trends in loan loss reserves, and the bank's interest rate sensitivity.

When strong negative evidence, such as the existence of cumulative losses, exists, it is extremely difficult for a bank to determine that no valuation allowance is needed. Positive evidence of significant quality and quantity would be required to counteract such negative evidence.

For purposes of determining the valuation allowance, a tax-planning strategy is a prudent and feasible action that would result in realization of deferred tax assets and that management ordinarily might not take, but would do so to prevent an operating loss or tax credit carryforward from expiring unused. For example, a bank could accelerate taxable income to utilize carryforwards by selling or securitizing loan portfolios, selling appreciated securities, or restructuring nonperforming assets. Actions that management would take in the normal course of business are not considered tax-planning strategies.

Significant expenses to implement the tax-planning strategy and any significant losses that would result from implementing the strategy shall be considered in determining any benefit to be realized from the tax-planning strategy. Also, banks should consider all possible consequences of any tax-planning strategies. For example, loans pledged as collateral would not be available for sale.

Loan (cont.):

- (8) loans arising out of the purchase of assets (other than securities) under resale agreements with a maturity of more than one business day if the agreement requires the bank to resell the identical asset purchased; and
- (9) participations (acquired or held) in a single loan or in a pool of loans or receivables (see the discussion of loan participations in the Glossary entry for "transfers of financial assets").

Loan assets held for trading are to be reported in Schedule RC, item 5, "Trading assets."

See also "loan secured by real estate," "overdraft," and "transfers of financial assets."

Loan Fees: The accounting standards for nonrefundable fees and costs associated with lending, committing to lend, and purchasing a loan or group of loans are set forth in ASC Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs (formerly FASB Statement No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases"), a summary of which follows. The statement applies to all types of loans as well as to debt securities (but not to loans or debt securities carried at fair value if the changes in fair value are included in earnings) and to all types of lenders. For further information, see ASC Subtopic 310-20.

A bank may acquire a loan by originating the loan (lending) or by acquiring a loan from a party other than the borrower (purchasing). Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, syndicating loans, and leasing activities are all considered "lending activities." Nonrefundable loan fees paid by the borrower to the lender may have many different names, such as origination fees, points, placement fees, commitment fees, application fees, management fees, restructuring fees, and syndication fees, but in this Glossary entry, they are referred to as loan origination fees, commitment fees, or syndication fees.

ASC Subtopic 310-20 applies to both a lender and a purchaser, and should be applied to individual loan contracts. Aggregation of similar loans for purposes of recognizing net fees or costs and purchase premiums or discounts is permitted under certain circumstances specified in ASC Subtopic 310-20 or if the result does not differ materially from the amount that would have been recognized on an individual loan-by-loan basis. In general, the statement specifies that:

- (1) Loan origination fees should be deferred and recognized over the life of the related loan as an adjustment of yield (interest income). Once a bank adopts ASC Subtopic 310-20, recognizing a portion of loan fees as revenue to offset all or part of origination costs in the reporting period in which a loan is originated is no longer acceptable.
- (2) Certain direct loan origination costs specified in the Statement should be deferred and recognized over the life of the related loan as a reduction of the loan's yield. Loan origination fees and related direct loan origination costs for a given loan should be offset and only the net amount deferred and amortized.
- (3) Direct loan origination costs should be offset against related commitment fees and the net amounts deferred except for: (a) commitment fees (net of costs) where the likelihood of exercise of the commitment is remote, which generally should be recognized as service fee income on a straight line basis over the loan commitment period, and (b) retrospectively determined fees, which are recognized as service fee income on the date as of which the amount of the fee is determined. All other commitment fees (net of costs) shall be deferred over the entire commitment period and recognized as an adjustment of yield over the related loan's life or, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

Loan Fees (cont.):

- (4) Loan syndication fees should be recognized by the bank managing a loan syndication (the syndicator) when the syndication is complete unless a portion of the syndication loan is retained. If the yield on the portion of the loan retained by the syndicator is less than the average yield to the other syndication participants after considering the fees passed through by the syndicator, the syndicator should defer a portion of the syndication fee to produce a yield on the portion of the loan retained that is not less than the average yield on the loans held by the other syndication participants.
- (5) Loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans shall be recognized as an adjustment of yield generally by the interest method based on the contractual term of the loan. However, if the bank holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the bank may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method. Once a bank adopts ASC Subtopic 310-20, the practice of recognizing fees over the estimated average life of a group of loans is no longer acceptable.
- (6) A refinanced or restructured loan, other than a troubled debt restructuring, should be accounted for as a new loan if the terms of the new loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan. Any unamortized net fees or costs and any prepayment penalties from the original loan should be recognized in interest income when the new loan is granted. If the refinancing or restructuring does not meet these conditions or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties should be carried forward as a part of the net investment in the new loan (or the amortized cost basis of the new loan if the institution has adopted ASC Topic 326, Financial Instruments—Credit Losses).

The net investment in, or the amortized cost basis of, the new loan, as applicable, should include the remaining net investment in the original loan, any additional amounts loaned, any fees received, and direct loan origination costs associated with the transaction. In a troubled debt restructuring involving a modification of terms, fees received should be applied as a reduction of the recorded investment in, or the amortized cost basis of, the loan, as applicable; all related costs, including direct loan origination costs, should be charged to expense as incurred. (See the Glossary entry for "troubled debt restructurings" for further discussion.)

- (7) Deferred net fees or costs shall not be amortized during periods in which interest income on a loan is not being recognized because of concerns about realization of loan principal or interest.

Direct loan origination costs of a completed loan are defined to include only (a) incremental direct costs of loan origination incurred in transactions with independent third parties for that particular loan and (b) certain costs directly related to specified activities performed by the lender for that particular loan.¹ Incremental direct costs are costs to originate a loan that (a) result directly from and are essential to the lending transaction and (b) would not have been incurred by the lender had that lending transaction not occurred. The specified activities performed by the lender are evaluating the prospective borrower's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating loan terms; preparing and processing loan documents; and closing the transaction. The costs directly related to those activities include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that particular loan and other costs related to those activities that would not have been incurred but for that particular loan.

¹ For purposes of these reports, a bank which deems its costs for these lending activities not to be material and which need not maintain records on a loan-by-loan basis for other purposes may expense such costs as incurred.

Loan Fees (cont.):

All other lending-related costs, whether or not incremental, should be charged to expense as incurred, including costs related to activities performed by the lender for advertising, identifying potential borrowers, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Employees' compensation and fringe benefits related to these activities, unsuccessful loan origination efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in "Any unearned income on loans reflected in items 1-9 above" in Schedule RC-C, part I. Net unamortized direct loan origination costs shall be added to the related loan balances in Schedule RC-C, part I. Amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield should be reported under the appropriate subitem of item 1, "Interest income," in Schedule RI. Other fees, such as (a) commitment fees that are recognized during the commitment period or included in income when the commitment expires (i.e., fees retrospectively determined and fees for commitments where exercise is remote) and (b) syndication fees that are not deferred, should be reported as "Other noninterest income" on Schedule RI.

Loan Impairment: This Glossary entry applies to institutions that have not adopted ASC Topic 326, Financial Instruments–Credit Losses. Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for "allowance for credit losses."

The accounting standard for impaired loans is ASC Topic 310, Receivables (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended). For further information, refer to ASC Topic 310.

Each institution is responsible for maintaining an allowance for loan and lease losses (allowance) at a level that is appropriate to cover estimated credit losses in its entire portfolio of loans and leases held for investment, i.e., loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. ASC Topic 310 sets forth measurement methods for estimating the portion of the overall allowance for loan and lease losses attributable to individually impaired loans. For the remainder of the portfolio, an appropriate allowance must be maintained in accordance with ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies"). For comprehensive guidance on the maintenance of an appropriate allowance, banks should refer to the [Interagency Policy Statement on the Allowance for Loan and Lease Losses](#) dated December 13, 2006, and the Glossary entry for "allowance for loan and lease losses." National banks should also refer to the Office of the Comptroller of the Currency's [Handbook for National Bank Examiners discussing the allowance for loan and lease losses](#).

In general, loans are impaired under ASC Topic 310 when, based on current information and events, it is probable that an institution will be unable to collect all amounts due (i.e., both principal and interest) according to the contractual terms of the original loan agreement. An institution should apply its normal loan review procedures when identifying loans to be individually evaluated for impairment under ASC Topic 310. When an individually evaluated loan is deemed impaired under ASC Topic 310 and is not collateral dependent, an institution must measure impairment using the present value of expected future cash flows discounted at the loan's effective interest rate (i.e., the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan), except that as a practical expedient, an institution may measure impairment based on a loan's observable market price. As discussed in the following paragraph, the agencies require the impairment of an impaired collateral dependent loan to be measured using the fair value of collateral method. A loan is collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. A creditor should consider estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy

Loan Impairment (cont.):

the loan. If the measure of an impaired loan is less than the recorded investment in the loan, an impairment should be recognized by creating an allowance for estimated credit losses for the impaired loan or by adjusting an existing allowance with a corresponding charge or credit to "Provision for loan and lease losses."

For purposes of the Reports of Condition and Income, the impairment of an impaired collateral dependent loan must be measured using the fair value of collateral method. In general, any portion of the recorded investment in an impaired collateral dependent loan (including recorded accrued interest, net deferred loan fees or costs, and unamortized premium or discount) in excess of the fair value of the collateral (less estimated costs to sell, if applicable) that can be identified as uncollectible should be promptly charged off against the allowance for loan and lease losses.

An institution should not provide an additional allowance for estimated credit losses on an individually impaired loan over and above what is specified by ASC Topic 310. The allowance established under ASC Topic 310 should take into consideration all available information existing as of the Call Report date that indicates that it is probable that a loan has been impaired. All available information would include existing environmental factors such as industry, geographical, economic, and political factors that affect collectibility.

ASC Topic 310 also addresses the accounting by creditors for all loans that are restructured in troubled debt restructurings involving a modification of terms, except loans that are measured at fair value or the lower of cost or fair value. According to ASC Topic 310, all loans restructured in troubled debt restructurings are impaired loans. For guidance on troubled debt restructurings, see the Glossary entry for "troubled debt restructurings."

As with all other loans, all impaired loans should be reported as past due or nonaccrual loans in Schedule RC-N in accordance with the schedule's instructions. A loan identified as impaired is one for which it is probable that the institution will be unable to collect all principal and interest amounts due according to the contractual terms of the original loan agreement. Therefore, a loan that is not already in nonaccrual status when it is first identified as impaired will normally meet the criteria for placement in nonaccrual status at that time. Exceptions may arise when a loan not previously in nonaccrual status is identified as impaired because its terms have been modified in a troubled debt restructuring, but the borrower's sustained historical repayment performance for a reasonable time prior to the restructuring is consistent with the modified terms of the loan and the loan is reasonably assured of repayment (of principal and interest) and of performance in accordance with its modified terms. This determination must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Exceptions may also arise for those purchased credit-impaired loans for which the criteria for accrual of income under the interest method are met as specified in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"). Any cash payments received on impaired loans in nonaccrual status should be reported in accordance with the criteria for the cash basis recognition of income in the Glossary entry for "nonaccrual status." For further guidance, see the Glossary entries for "nonaccrual status" and "purchased credit-impaired loans and debt securities."

Loan Secured by Real Estate: For purposes of these reports, a loan secured by real estate is a loan that, at origination, is secured wholly or substantially by a lien or liens on real property for which the lien or liens are central to the extension of the credit – that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) must be greater than 50 percent of the principal amount of the loan at origination.

Loan Secured by Real Estate (cont.):

A loan satisfying the criteria above, except a loan to a state or political subdivision in the U.S., is to be reported as a loan secured by real estate in Schedule RC-C, part I, item 1, and related items in the Reports of Condition and Income, (1) regardless of whether the loan is secured by a first or a junior lien; (2) regardless of whether the loan was originated by the reporting bank or purchased from others and, if originated by the reporting bank, regardless of the department within the bank or bank subsidiary that made the loan; (3) regardless of how the loan is categorized in the bank's records; (4) and regardless of the purpose of the financing. Only in a transaction where a lien or liens on real property (with an estimated collateral value greater than 50 percent of the loan's principal amount at origination) have been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien or liens, would the loan not be considered a loan secured by real estate for purposes of the Reports of Condition and Income. In addition, when a loan is partially secured by a lien or liens on real property, but the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) is 50 percent or less of the principal amount of the loan at origination, the loan should not be categorized as a loan secured by real estate. Instead, the loan should be reported in one of the other loan categories used in these reports based on the purpose of the loan.

The following are examples of the application of the preceding guidance:

- (1) A bank loans \$700,000 to a dental group to construct and equip a building that will be used as its dental office. The loan will be secured by both the real estate and the dental equipment. At origination, the estimated values of the building, upon completion, and the equipment are \$400,000 and \$350,000, respectively. The loan should be reported as a loan secured by real estate in Schedule RC-C, part I, item 1.a.(2), "Other construction loans and all land development and other land loans." In contrast, if the estimated values of the building and equipment at origination were \$340,000 and \$410,000, respectively, the loan should not be reported as a loan secured by real estate. Instead, the loan should be reported in Schedule RC-C, part I, item 4, "Commercial and industrial loans."
- (2) A bank grants a \$25,000 line of credit and a \$125,000 term loan to a commercial borrower for working capital purposes on the same date. The loans will be cross-collateralized by equipment with an estimated value of \$40,000 and a third lien on the borrower's residence, which has an estimated value of \$140,000 and first and second liens with unpaid balances payable to other lenders totaling \$126,000. The two loans should be considered together to determine whether they are secured by real estate. Because the estimated equity in the real estate collateral available to the bank is \$14,000, the two cross-collateralized loans for \$150,000 should not be reported as loans secured by real estate. Instead, the loans should be reported in Schedule RC-C, part I, item 4, "Commercial and industrial loans."
- (3) A bank grants a \$50,000 working capital loan and takes a first lien on a vacant commercial building lot as collateral. The estimated value of the lot is \$30,000. The loan should be reported as a loan secured by real estate in Schedule RC-C, part I, item 1.a.(2), "Other construction loans and all land development and other land loans," unless the lien has been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien.
- (4) A bank grants a \$10,000 home equity line of credit secured by a junior lien on a 1-4 family residential property. The bank also has a loan to the same borrower that is secured by a first lien on the same 1-4 family residential property and has an unpaid principal balance of \$71,000. There are no intervening liens and the line of credit will be used for household, family, and other personal expenditures. The estimated value of the residential property at the origination of the home equity line of credit is \$75,000. Consistent with the risk-based capital treatment of these loans, the two loans should be considered together to determine whether the home equity line of credit should be

Loan Secured by Real Estate (cont.):

reported as a loan secured by real estate. Because the value of the collateral is greater than 50 percent of the first lien balance plus the amount of the home equity line of credit, loans extended under the line of credit should be reported as loans secured by real estate in Schedule RC-C, part I, item 1.c.(1), "Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit." In contrast, if a creditor other than the bank holds the first lien on the borrower's property, the estimated value of the collateral to the bank for the home equity line of credit would have been \$4,000 (\$75,000 less the \$71,000 first lien held by the other creditor), which is 50 percent or less of the amount of the line of credit at origination. In this case, the bank should not report loans extended under the line of credit as loans secured by real estate in Schedule RC-C, part I, item 1. Rather, the loans should be reported as "Loans to individuals for household, family, and other personal expenditures" in Schedule RC-C, part I, item 6.b, "Other revolving credit plans."

Loss Contingencies: A loss contingency is an existing condition, situation, or set of circumstances that involves uncertainty as to possible loss that will be resolved when one or more future events occur or fail to occur. An estimated loss (or expense) from a loss contingency (for example, pending or threatened litigation) must be accrued by a charge to income if it is probable that an asset has been impaired or a liability incurred as of the report date and the amount of the loss can be reasonably estimated.

A contingency that might result in a gain, for example, the filing of an insurance claim, shall not be recognized as income prior to realization.

For further information, see ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies").

Majority-Owned Subsidiary: See "subsidiaries."

Mandatory Convertible Debt: Mandatory convertible debt is a subordinated note or debenture with a maturity of 12 years or less that obligates the holder to take the common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal by a date at or before the maturity date of the debt instrument (so-called "equity contract notes").

Mergers: See "business combinations."

Money Market Deposit Account (MMDA): See "deposits."

Nonaccrual Status: This entry covers, for purposes of these reports, the criteria for placing assets in nonaccrual status (presented in the general rule below) and related exceptions, the reversal of previously accrued but uncollected interest, the treatment of cash payments received on nonaccrual assets and the criteria for cash basis income recognition, the restoration of a nonaccrual asset to accrual status, and the treatment of multiple extensions of credit to one borrower.

General rule – Banks shall not accrue interest, amortize deferred net loan fees or costs, or accrete discount on any asset (1) which is maintained on a cash basis because of deterioration in the financial condition of the borrower, (2) for which payment in full of principal or interest is not expected, or (3) upon which principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

Any state statute, regulation, or rule that imposes more stringent standards for nonaccrual of interest takes precedence over this instruction.

Nonaccrual Status (cont.):

Exceptions to the general rule – In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for accrual of income under the interest method specified in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, “Accounting for Certain Loans or Debt Securities Acquired in a Transfer”), are met for a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with that Subtopic, regardless of whether the loan, the loans in the pool, or debt security had been maintained in nonaccrual status by its seller. (For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) For further information, see the Glossary entry for “purchased credit-impaired loans and debt securities.” For institutions that have adopted ASC Topic 326, Financial Instruments—Credit Losses, as discussed in the “Definitions” section of the instructions for Schedule RC-N, this exception is no longer available.
- (2) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan (as defined for Schedule RC-C, part I, item 6, “Loans to individuals for household, family, and other personal expenditures”) or a loan secured by a 1-to-4 family residential property (as defined for Schedule RC-C, part I, item 1.c, Loans “Secured by 1-4 family residential properties”). Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the bank’s net income is not materially overstated. However, to the extent that the bank has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in Schedule RC-N.

Treatment of previously accrued interest – The reversal of previously accrued but uncollected interest applicable to any asset placed in nonaccrual status should be handled in accordance with generally accepted accounting principles. Acceptable accounting treatment includes a reversal of all previously accrued but uncollected interest applicable to assets placed in a nonaccrual status against appropriate income and balance sheet accounts.

For example, for institutions that have not adopted ASC Topic 326, one acceptable method of accounting for such uncollected interest on a loan placed in nonaccrual status is (1) to reverse all of the unpaid interest by crediting the “accrued interest receivable” account on the balance sheet, (2) to reverse the uncollected interest that has been accrued during the calendar year-to-date by debiting the appropriate “interest and fee income on loans” account on the income statement, and (3) to reverse any uncollected interest that had been accrued during previous calendar years by debiting the “allowance for loan and lease losses” account on the balance sheet. The use of this method presumes that bank management’s additions to the allowance through charges to the “provision for loan and lease losses” on the income statement have been based on an evaluation of the collectability of the loan and lease portfolios and the “accrued interest receivable” account.

Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for “accrued interest receivable” for information on the treatment of previously accrued interest.

Treatment of cash payments and criteria for the cash basis recognition of income – When doubt exists as to the collectability of the remaining recorded investment in a nonaccrual asset (or the amortized cost basis of a nonaccrual asset, if the institution has adopted ASC Topic 326), any payments received must be applied to reduce the recorded investment in, or the amortized cost basis of, the asset, as applicable, to the extent necessary to eliminate such doubt. Placing an asset in nonaccrual status does not, in and of itself, require a charge-off, in whole or in part, of the asset’s recorded investment or amortized cost basis, as applicable. However, any identified losses must be charged off.

While an asset is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining recorded investment in, or the

Nonaccrual Status (cont.):

amortized cost basis of, the asset, as applicable, (i.e., after charge-off of identified losses, if any) is deemed to be fully collectible.³ A bank's determination as to the ultimate collectibility of the asset's remaining recorded investment, or amortized cost basis, as applicable, must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's historical repayment performance and other relevant factors.

When recognition of interest income on a cash basis is appropriate, it should be handled in accordance with generally accepted accounting principles. One acceptable accounting practice involves allocating contractual interest payments among interest income, reduction of the recorded investment in, or the amortized cost basis of, the asset, as applicable, and recovery of prior charge-offs. If this method is used, the amount of income that is recognized would be equal to that which would have been accrued on the asset's remaining recorded investment at the contractual rate. A bank may also choose to account for the contractual interest in its entirety either as income, reduction of the recorded investment in, or the amortized cost basis of, the asset, as applicable, or recovery of prior charge-offs, depending on the condition of the asset, consistent with its accounting policies for other financial reporting purposes.

Restoration to accrual status – As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the bank expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection. If any interest payments received while the asset was in nonaccrual status were applied to reduce the recorded investment in, or the amortized cost basis of, the asset, as applicable, as discussed in the preceding section of this entry, the application of these payments to the asset's recorded investment or amortized cost basis, as applicable, should not be reversed (and interest income should not be credited) when the asset is returned to accrual status.

For purposes of meeting the first test, the bank must have received repayment of the past due principal and interest unless, as discussed below, (1) the asset has been formally restructured and qualifies for accrual status, (2) the asset is a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with ASC Subtopic 310-30 and it meets the criteria for accrual of income under the interest method specified therein, or (3) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and the following two criteria are met. These criteria are, first, that all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period and, second, that there is a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the contractual terms involving payments of cash or cash equivalents. A loan that meets these two criteria may be restored to accrual status, but must continue to be disclosed as past due in Schedule RC-N until it has been brought fully current or until it later must be placed in nonaccrual status. For institutions that have adopted ASC Topic 326, the second exception above, which applies to purchased credit-impaired assets, is no longer available.

A loan or other debt instrument that has been formally restructured in a troubled debt restructuring so as to be reasonably assured of repayment (of principal and interest) and of performance according to its modified terms need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the asset are supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the

³ An asset in nonaccrual status that is subject to the cost recovery method required by ASC Subtopic 325-40, Investments-Other – Beneficial Interests in Securitized Financial Assets (formerly Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets"), should follow that method for reporting purposes. In addition, when a purchased credit-impaired loan, pool of loans, or debt security that is accounted for in accordance with ASC Subtopic 310-30 (or when a purchased credit-deteriorated asset that is accounted for in accordance with ASC Subtopic 326-20, if the institution has adopted ASC Topic 326) has been placed on nonaccrual status, the cost recovery method should be used, when appropriate.

Nonaccrual Status (cont.):

restructured asset must remain in nonaccrual status. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan or other debt instrument is returned to accrual status. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents. (In returning the asset to accrual status, sustained historical repayment performance for a reasonable time prior to the restructuring may be taken into account.) Such a restructuring must improve the collectability of the loan or other debt instrument in accordance with a reasonable repayment schedule and does not relieve the bank from the responsibility to promptly charge off all identified losses.

A troubled debt restructuring may involve a multiple note structure in which, for example, a troubled loan is restructured into two notes. The first or "A" note represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. The second or "B" note represents the portion of the original loan that has been charged off and, because it is not reflected as an asset and is unlikely to be collected, could be viewed as a contingent receivable. For a troubled debt restructuring of a collateral-dependent loan involving a multiple note structure, the amount of the "A" note should be determined using the fair value of the collateral. The "A" note may be returned to accrual status provided the conditions in the preceding paragraph are met and: (1) there is economic substance to the restructuring and it qualifies as a troubled debt restructuring under generally accepted accounting principles, (2) the portion of the original loan represented by the "B" note has been charged off before or at the time of the restructuring, and (3) the "A" note is reasonably assured of repayment and of performance in accordance with the modified terms.

Until the restructured asset is restored to accrual status, if ever, cash payments received must be treated in accordance with the criteria stated above in the preceding section of this entry. In addition, after a formal restructuring, if a restructured asset that has been returned to accrual status later meets the criteria for placement in nonaccrual status as a result of past due status based on its modified terms or for any other reasons, the asset must be placed in nonaccrual status.

For further information on formally restructured assets, see the Glossary entry for "troubled debt restructurings."

Treatment of multiple extensions of credit to one borrower – As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset's collectability and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a bank does not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a bank has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets the criteria for nonaccrual status, the bank should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

Noninterest-Bearing Account: See "deposits."

Nontransaction Account: See "deposits."

NOW Account: See "deposits."

Offsetting: Offsetting is the reporting of assets and liabilities on a net basis in the balance sheet. Banks are permitted to offset assets and liabilities recognized in the Consolidated Report of Condition when a "right of setoff" exists. Under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts"), a right of setoff exists when all of the following conditions are met:

- (1) Each of two parties owes the other determinable amounts. Thus, only bilateral netting is permitted.

Offsetting (cont.):

- (2) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.
- (4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to ASC Subtopic 210-20, for forward, interest rate swap, currency swap, option, and other conditional and exchange contracts, a master netting arrangement exists if the reporting bank has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability in the Consolidated Report of Condition. The reporting entity's choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently.

Offsetting of assets and liabilities is also permitted by other accounting pronouncements identified in ASC Subtopic 210-20. These pronouncements apply to such items as leveraged leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements"), describes the circumstances in which amounts recognized as payables under repurchase agreements may be offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in the balance sheet. The reporting entity's choice to offset or not to offset payables and receivables under ASC Subtopic 210-20 must be applied consistently.

According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, ASC Subtopic 210-20 does not apply to securities borrowing or lending transactions. Therefore, for purposes of the Consolidated Report of Condition, banks should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in ASC Subtopic 210-20 are met.

See also "reciprocal balances."

One-Day Transaction: See "federal funds transactions."

Option: See "derivative contracts."

Organization Costs: See "start-up activities."

Other Real Estate Owned: See "foreclosed assets" and the instructions to Schedule RC-M, item 3.

Other-Than-Temporary Impairment: See "securities activities." Institutions that have adopted ASC Topic 326, Financial Instruments—Credit Losses, and have identified impairment in the investment portfolio should no longer record any other-than-temporary impairment, as discussed in the Glossary entry for "securities activities."

Overdraft: An overdraft can be either planned or unplanned. An unplanned overdraft occurs when a depository institution honors a check or draft drawn against a deposit account when insufficient funds are on deposit and there is no advance contractual agreement to honor the check or draft. When a contractual agreement has been made in advance to allow such credit extensions, overdrafts are referred to as planned or prearranged. Any overdraft, whether planned or unplanned, is an extension of credit and is to be treated and reported as a "loan" rather than being treated as a negative deposit balance.

Planned overdrafts in depositors' accounts are to be classified in Schedule RC-C, part I, by type of loan according to the nature of the overdrawn depositor. For example, a planned overdraft by a commercial customer is to be classified as a "commercial and industrial loan."

Unplanned overdrafts in depositors' accounts are to be classified in Schedule RC-C, part I, as "All other loans," unless the depositor is a depository institution or a state or political subdivision in the U.S. Such unplanned overdrafts should be reported in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," and item 8, "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," respectively. In addition, on the FFIEC 031, when the depositor is a foreign government or foreign official institution, an unplanned overdraft in the account of such a depositor should be reported in Schedule RC-C, part I, item 7, "Loans to foreign governments and official institutions."

An overdraft also occurs when a borrower's loan secured by real estate has an escrow account for the payment of taxes and/or insurance and the institution pays taxes or insurance on behalf of the borrower when the escrow account does not have sufficient funds to cover the full amount of the payment. Because escrow funds are deposits for purposes of these reports, an overdrawn escrow account should be reported as a "loan" in Schedule RC-C, Part I, in the same loan category in Schedule RC-C, Part I, as the related loan.

For purposes of treatment of overdrafts in depositors' accounts, a group of related transaction accounts of a single type (i.e., demand deposit accounts or NOW accounts, but not a combination thereof) maintained in the same right and capacity by a customer (a single legal entity) that is established under a bona fide cash management arrangement by this customer function as, and are regarded as, one account rather than as multiple separate accounts. In such a situation, overdrafts in one or more of the transaction accounts within the group are not to be classified as loans unless there is a net overdraft position in the group of related transaction accounts taken as a whole. (NOTE: Affiliates and subsidiaries are considered separate legal entities.) For further information, see "cash management arrangements."

The reporting institution's overdrafts on deposit accounts it holds with other depository institutions (i.e., its "due from" accounts) are to be reported as borrowings in Schedule RC, item 16, except overdrafts arising in connection with checks or drafts drawn by the reporting institution and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule RC-E until the funds are remitted).

Participations: See "transfers of financial assets."

Participations in Acceptances: See "bankers acceptances."

Participations in Pools of Securities: See "repurchase/resale agreements."

Pass-through Reserve Balances: Under the Monetary Control Act of 1980, and as reflected in [Federal Reserve Regulation D](#), both member and nonmember depository institutions may hold the balances they maintain to satisfy reserve balance requirements (in excess of vault cash) in one of two ways: either (1) directly with a Federal Reserve Bank or (2) indirectly in an account with another institution (referred to here as a "correspondent"), which, in turn, is required to

Private Company: A private company is a business entity that is not a public business entity. For further information, see the Glossary entry for “public business entity.”

Public Business Entity: Accounting Standards Update No. 2013-12, “Definition of a Public Business Entity,” added this term to the Master Glossary in the Accounting Standards Codification. The definition states that a business entity, such as bank or savings association, that meets any one of five specified criteria is a public business entity for reporting purposes under U.S. GAAP. This also applies for Call Report purposes. In contrast, a private company is a business entity that is not a public business entity. An institution that is a public business entity is not permitted to apply private company accounting alternatives when preparing its Call Report.

As defined in the ASC Master Glossary, a business entity is a public business entity if it meets any one of the following criteria:

- It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC (such as one of the federal banking agencies).
- It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- It has issued debt or equity securities that are traded, listed, or quoted on an exchange or an over-the-counter market, which includes an interdealer quotation or trading system for securities not listed on an exchange (for example, OTC Markets Group, Inc., including the OTC Pink Markets, or the OTC Bulletin Board).
- It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

The Master Glossary also explains that if an entity meets the definition of a public business entity solely because its financial statements or financial information is included in another entity’s filing with the SEC, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC, but not for other reporting purposes or for Call Report purposes.

If a bank or savings association does not meet any one of the first four criteria, it would need to consider whether it meets both of the conditions included in the fifth criterion to determine whether it would be a public business entity. With respect to the first condition under the fifth criterion, a stock institution must determine whether it has a class of securities not subject to contractual restrictions on transfer, which the FASB has stated means that the securities are not subject to management preapproval on resale. A contractual management preapproval requirement that lacks substance would raise questions about whether the stock institution meets this first condition.

If an institution is a wholly owned subsidiary of a holding company, an implicit contractual restriction on transfer is presumed to exist on the institution’s common stock; therefore, if the institution has issued no other debt or equity securities, the institution would not meet the first condition of the fifth criterion. A mutual institution that has issued no debt securities also does not meet the first condition of the fifth criterion. In all other scenarios (e.g., a closely-held bank or a Subchapter S bank that is not a wholly owned subsidiary of a holding company), an institution should assess whether contractual restrictions on transfer exist on its securities based on its individual facts and circumstances.

Public Business Entity (cont.):

With respect to the second condition under the fifth criterion, an insured depository institution with \$500 million or more in total assets as of the beginning of its fiscal year is required by Section 36 of the Federal Deposit Insurance Act and Part 363 of the FDIC's regulations, "Annual Independent Audits and Reporting Requirements," to prepare and make publicly available audited annual U.S. GAAP financial statements. In certain circumstances, an insured depository institution with \$500 million or more in total assets that is a subsidiary of a holding company may choose to satisfy this annual financial statement requirement at a holding company level rather than at the institution level. An insured depository institution of this size that satisfies the financial statement requirement of Section 36 and Part 363 at either the institution level or the holding company level would meet the fifth criterion's second condition.

Purchase Acquisition: See "business combinations."

Purchased Credit-Deteriorated Assets: This Glossary entry applies to institutions that have adopted ASC Topic 326, Financial Instruments—Credit Losses. Institutions that have not adopted ASC Topic 326 should continue to refer to the Glossary entry for "purchased credit-impaired loans and debt securities."

Purchased credit-deteriorated (PCD) assets are acquired financial assets that, at acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment.

In accordance with ASC Topic 326, institutions are required to estimate and record an allowance for credit losses (ACL) for PCD assets at the time of purchase. This acquisition date ACL is added to the purchase price of the financial assets rather than recording these losses through provisions for credit losses. This establishes the initial amortized cost basis of the PCD assets. An institution may use either a discounted or an undiscounted cash flow method at acquisition to determine this ACL. Subsequent ACL measurements for acquired financial assets with more-than-insignificant credit deterioration since origination are to be measured under ASC Topic 326 as with (1) originated financial assets and (2) purchased financial assets that do not have a more-than-insignificant deterioration in credit quality at acquisition.

Institutions that measure expected credit losses for PCD assets on a pool basis shall continue to evaluate whether financial assets in the pool continue to share similar risk characteristics with the other financial assets in the pool. If there have been changes in credit risk, borrower circumstances, recognition of a charge-off, or cash collections of interest applied to principal while the asset is in nonaccrual status, an institution may determine that either the financial asset has similar risk characteristics with another pool or the credit loss measurement should be performed on an individual financial asset basis because the financial asset does not share risk characteristics with other financial assets. Institutions that measure the ACL on a collective basis shall allocate the ACL and any noncredit discount or premium to the individual PCD assets unless the institution elected the transition option to account for existing purchased credit-impaired financial asset pools as PCD pools upon adoption of ASC Topic 326.

Any difference between the unpaid principal balance of the PCD asset and the amortized cost basis of the asset as of the acquisition date is the noncredit discount or premium. Provided the asset remains on accrual status, the noncredit discount or premium recorded at acquisition is accreted into interest income over the remaining life of the PCD asset on a level-yield basis.

For further information on the reporting of interest income on PCD assets, institutions should reference the Glossary entry for "nonaccrual status" and ASC Subtopic 310-10, Receivables – Overall.

Deferred Tax Asset Considerations – An institution's provisions for credit losses that increase the amount of the ACL also increase the amount of the deductible temporary difference associated with the

Purchased Credit-Deteriorated Assets (cont.):

ACL and the related deferred tax asset because the provisions are expensed for financial reporting purposes. These increases in the ACL typically are not deducted in the same period for income tax purposes. Tax deductions for credit losses typically occur in the period when financial assets are actually charged off. However, an addition to the ACL as of the acquisition date of a PCD asset (i.e., the “gross-up”) does not create such a deductible temporary difference or a deferred tax asset. An institution’s deferred tax assets should be calculated at the report date by applying the “applicable tax rate” based on the institution’s total deductible temporary differences. See the Glossary entry for “income taxes” for information on how to determine the tax effect of such a temporary difference and the need for any deferred tax asset valuation allowance.

See also the Glossary entries for “allowance for credit losses” and “nonaccrual status.”

Purchased Credit-Impaired Loans and Debt Securities: This Glossary entry applies to institutions that have not adopted ASC Topic 326, Financial Instruments–Credit Losses. Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for “purchased credit-deteriorated assets.”

Purchased credit-impaired loans and debt securities are loans and debt securities that an institution has purchased or otherwise acquired by completion of a transfer, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan or debt security and it is probable, at the acquisition date, that the institution will be unable to collect all contractually required payments receivable. Such loans and debt securities must be accounted for in accordance with ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, “Accounting for Certain Loans or Debt Securities Acquired in a Transfer”). ASC Subtopic 310-30 does not apply to loans that an institution has originated.

Under ASC Subtopic 310-30, a purchased credit-impaired loan or debt security is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). ASC Subtopic 310-30 limits the yield that may be accreted on the loan or debt security (the accretable yield) to the excess of the institution's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the asset over the institution's initial investment in the asset. The excess of the contractually required payments receivable on the loan or debt security over the cash flows expected to be collected, which is referred to as the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Neither the accretable

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Securities Activities (cont.):

Other-Than-Temporary Impairment (ASC Topic 320) – For institutions that have adopted ASC Topic 326, Financial Instruments–Credit Losses, this section is no longer applicable. Refer to the “Impairment of Individual Available-for-Sale Debt Securities (ASC Topic 326)” and “Accounting for Held-to-Maturity Debt Securities (ASC Topic 326)” sections below, as applicable.

Until an institution has adopted FASB [Accounting Standards Update No. 2016-13](#) (ASU 2016-13), which applies to held-to-maturity and available-for-sale debt securities, or [ASU 2016-01](#), which applies to equity securities, when the fair value of a debt or equity security (not held for trading) is less than its (amortized) cost basis, the security is impaired and the impairment is either temporary or other than temporary. Under ASC Topic 320, institutions must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. To make this determination, institutions should apply applicable accounting guidance including, but not limited to, ASC Topic 320, ASC Subtopic 325-40, Investments-Other – Beneficial Interests in Securitized Financial Assets (formerly EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets,” as amended), and [SEC Staff Accounting Bulletin No. 59, Other Than Temporary Impairment of Certain Investments in Equity Securities \(Topic 5.M. in the Codification of Staff Accounting Bulletins\)](#).

Under ASC Topic 320, if an institution intends to sell a debt security, or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment has occurred and the entire difference between the security’s amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. In these cases, the fair value of the debt security would become its new amortized cost basis.

In addition, under ASC Topic 320, if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if an institution does not intend to sell the security and it is not more likely than not that the institution will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

Until an institution has adopted [ASU 2016-13](#), other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that must be recognized in earnings should be included in Schedule RI, items 6.a and 6.b, respectively. Other-than-temporary impairment losses that are to be of applicable taxes, should be reported in item 10 of Schedule RI-A, Changes in Bank Equity Capital, and included on the balance sheet in Schedule RC, item 26.b, “Accumulated other comprehensive income.” The amount of other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities recognized in earnings during the current calendar year-to-date reporting period should be reported in Schedule RI, Memorandum item 14. For a held-to-maturity debt security on which the institution has recognized an other-than-temporary impairment loss related to factors other than credit loss in other comprehensive income, the institution should report the carrying value of the debt security in Schedule RC, item 2.a, and in column A of Schedule RC-B, Securities. Under ASC Topic 320, this carrying value should be the fair value of the held-to-maturity debt security as of the date of the most recently recognized other-than-temporary impairment loss adjusted for subsequent accretion of the impairment loss related to factors other than credit loss.

Securities Activities (cont.):

Impairment of Individual Available-for-Sale Debt Securities (ASC Topic 326) – This section of this Glossary entry applies to institutions that have adopted ASC Topic 326. Institutions that have not adopted ASC Topic 326 should continue to refer to the “Other-Than-Temporary Impairment (ASC Topic 320)” section above.

Standards for the accounting for impairment of available-for-sale debt securities are set forth in ASC Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities. Under this subtopic, an available-for-sale debt security is impaired if its fair value is less than its amortized cost basis. Thus, as of the end of each quarter, or more frequently if warranted, an institution must determine whether a decline in fair value below the amortized cost basis of an individual available-for-sale debt security has resulted from a credit loss or other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method to compare the present value of the cash flows expected to be collected with the amortized cost basis of the security. An ACL is established, with a charge to the provision for credit losses, to reflect the credit loss component of the decline in fair value below amortized cost. The ACL for an available-for-sale debt security is limited by the amount that the fair value is less than the amortized cost basis, which is referred to as the fair value floor. Noncredit impairment on an available-for-sale debt security that is not required to be recorded through the ACL should be reported, net of applicable income taxes, in Schedule RI-A, item 10, “Other comprehensive income.”

An institution must reassess the credit losses on an individual available-for-sale debt security each quarter when there is an ACL on the security. The institution should record subsequent changes in the ACL in the period of the change with a corresponding adjustment recorded through a provision for credit losses included in Schedule RI, item 4. A previously recorded ACL on an available-for-sale debt security should not be reversed to an amount below zero.

When evaluating impairment for available-for-sale debt securities, an institution may evaluate the amortized cost basis including accrued interest receivable, or may evaluate the accrued interest receivable separately from the remaining amortized cost basis. If evaluated separately, accrued interest receivable is excluded from both the fair value of the available-for-sale debt security and its amortized cost basis.

If an institution intends to sell an available-for-sale debt security or will more likely than not be required to sell the security before recovery of the amortized cost basis, the security’s ACL should be written off and the amortized cost basis of the security should be charged down to its fair value at the reporting date with any incremental impairment reported in Schedule RI, item 6.b, “Realized gains (losses) on available for sale securities.” The previous amortized cost basis of the debt security, less the amount of the charge-off, becomes the new amortized cost basis of the security. This new amortized cost basis is not increased for subsequent recoveries in fair value; rather, a subsequent increase in fair value after charge-off is included in other comprehensive income. The difference between the new amortized cost basis and the cash flows expected to be collected should be accreted to interest income according to applicable accounting standards.

An institution that has available-for-sale debt securities accounted for in accordance with ASC Subtopic 325-40, Investments—Other—Beneficial Interests in Securitized Financial Assets, should refer to that subtopic to account for changes in cash flows expected to be collected.

Securities Activities (cont.):

Accounting for Expected Credit Losses on Held-to-Maturity Debt Securities (ASC Topic 326) – Institutions that have not adopted ASC Topic 326 should continue to refer to the “Other-Than-Temporary Impairment (ASC Topic 320)” section above.

Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for “allowance for credit losses” for information on estimating the allowance for credit losses on held-to-maturity debt securities. Such institutions should include provisions for credit losses on held-to-maturity debt securities in Schedule RI, item 4.

Practices Considered Trading Activities – The proper categorization of securities is important to ensure that trading gains and losses are promptly recognized in earnings and regulatory capital. This will not occur when debt securities intended to be held for trading purposes are categorized as held-to-maturity or available-for-sale. The following practices are considered trading activities:

- (1) **Gains Trading** – Gains trading is characterized by the purchase of a security and the subsequent sale of the same security at a profit after a short holding period, while securities acquired for this purpose that cannot be sold at a profit are typically retained in the available-for-sale or held-to-maturity portfolio. Gains trading may be intended to defer recognition of losses, as unrealized losses on available-for-sale and held-to-maturity debt securities do not directly affect regulatory capital and generally are not reported in income until the security is sold.
- (2) **When-Issued Securities Trading** – When-issued securities trading is the buying and selling of securities in the period between the announcement of an offering and the issuance and payment date of the securities. A purchase of a “when-issued” security acquires the risks and rewards of owning a security and may sell the when-issued security at a profit before having to take delivery and pay for it. Because such transactions are intended to generate profits from short-term price movements, they should be categorized as trading.
- (3) **Pair-offs** – Pair-offs are security purchase transactions that are closed-out or sold at, or prior to, settlement date. In a pair-off, an institution commits to purchase a security. Then, prior to the predetermined settlement date, the institution will pair-off the purchase with a sale of the same security. Pair-offs are settled net when one party to the transaction remits the difference between the purchase and the sale price to the counterparty. Pair-offs may also involve the same sequence of events using swaps, options on swaps, forward commitments, options on forward commitments, or other off-balance sheet derivative contracts.
- (4) **Extended Settlements** – In the U.S., regular-way settlement for federal government and federal agency securities (except mortgage-backed securities and derivative contracts) is one business day after the trade date. Regular-way settlement for corporate and municipal securities is three business days after the trade date. For mortgage-backed securities, it can be up to 60 days or more after the trade date. The use of extended settlements may be offered by securities dealers in order to facilitate speculation on the part of the purchaser, often in connection with pair-off transactions. Securities acquired through the use of a settlement period in excess of the regular-way settlement periods in order to facilitate speculation should be reported as trading assets.
- (5) **Repositioning Repurchase Agreements** – A repositioning repurchase agreement is a funding technique offered by a dealer in an attempt to enable an institution to avoid recognition of a loss. Specifically, an institution that enters into a “when-issued” trade or a “pair-off” (which may include an extended settlement) that cannot be closed out at a profit on the payment or settlement date will be provided dealer financing in an effort to fund its speculative position until the security can be sold at a gain. The institution purchasing the security typically pays the dealer a small margin that approximates the actual loss in the security. The dealer then agrees to fund the purchase of the security, typically buying it back from the purchaser under a resale agreement. Any securities

Securities Activities (cont.):

acquired through a dealer financing technique such as a repositioning repurchase agreement that is used to fund the speculative purchase of securities should be reported as trading assets.

- (6) Short Sales – A short sale is the sale of a security that is not owned. The purpose of a short sale generally is to speculate on a fall in the price of the security. (For further information, see the Glossary entry for "short position.")

Prohibited Practice – One other practice, referred to as "adjusted trading," is not acceptable under any circumstances. Adjusted trading involves the sale of a security to a broker or dealer at a price above the prevailing market value and the contemporaneous purchase and booking of a different security, frequently a lower-rated or lower quality issue or one with a longer maturity, at a price above its market value. Thus, the dealer is reimbursed for losses on the purchase from the institution and ensured a profit. Such transactions inappropriately defer the recognition of losses on the security sold and establish an excessive cost basis for the newly acquired security. Consequently, such transactions are prohibited and may be in violation of 18 U.S.C. Sections [1001–Statements or Entries Generally](#) and [1005–Bank Entries, Reports and Transactions](#).

See also the Glossary entries for "accrued interest receivable," "allowance for credit losses," "purchased credit-deteriorated assets," and "trading account."

Securities Borrowing/Lending Transactions: Securities borrowing/lending transactions are typically initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer's failure to deliver securities sold. A transferee ("borrower") of securities generally is required to provide "collateral" to the transferor ("lender") of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities "borrowed."

Most securities borrowing/lending transactions do not qualify as sales under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended), because the agreement entitles and obligates the securities lender to repurchase or redeem the transferred assets before their maturity. (See the Glossary entry for "transfers of financial assets" for further discussion of sale criteria.) When such transactions do not qualify as sales, securities lenders and borrowers should account for the transactions as secured borrowings in which cash (or securities that the holder is permitted by contract or custom to sell or repledge) received as "collateral" by the securities lender is considered the amount borrowed and the securities "loaned" are considered pledged as collateral against the amount borrowed. The "loaned" securities should continue to be reported on the securities lender's balance sheet as available-for-sale securities, held-to-maturity securities, or trading assets, as appropriate. "Loaned" securities that are reported as available-for-sale or held-to-maturity securities in Schedule RC-B, Securities, should also be reported as "Pledged securities" in Memorandum item 1 of that schedule. Similarly, for banks filing the FFIEC 031 report form, "loaned" securities that are reported as trading assets in Schedule RC-D, Trading Assets and Liabilities, should be reported as "Pledged securities" in Memorandum item 4.a of that schedule, if applicable.

If the securities borrowing/lending transaction meets the criteria for a sale under ASC Topic 860, the lender of the securities should remove the securities from its balance sheet, record the proceeds from the sale of the securities (including the forward repurchase commitment), and recognize any gain or loss on the transaction. The borrower of the securities should record the securities on its balance sheet at fair value and record the payment for the purchased assets (including the forward resale commitment).

Securities, Participations in Pools of: See "repurchase/resale agreements."

Transfers of Financial Assets (cont.):

interest rate and the spread between the contractual rate and the pass-through interest rate significantly exceeds an amount that would fairly compensate a substitute servicer, the excess spread is viewed as an interest-only strip. The existence of this interest-only strip results in a disproportionate sharing of the cash flows on the entire SBA loan, which means that the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan do not meet the definition of a "participating interest," which precludes sale accounting. Instead, the transfer of the guaranteed portion must be accounted for as a secured borrowing.

Accounting for a Transfer of a Participating Interest That Qualifies as a Sale – Upon the completion of a transfer of a participating interest that satisfies all three of the conditions to be accounted for as a sale, the participating institution(s) (the transferee(s)) shall recognize the participating interest(s) obtained, other assets obtained, and any liabilities incurred and initially measure them at fair value. The originating lender (the transferor) must:

- (1) Allocate the previous carrying amount of the entire financial asset between the participating interest(s) sold and the participating interest that it continues to hold based on their relative fair values at the date of the transfer.
- (2) Derecognize the participating interest(s) sold.
- (3) Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets obtained and liabilities incurred in the sale.
- (4) Recognize in earnings any gain or loss on the sale.
- (5) Report any participating interest(s) that continue to be held by the originating lender as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

Additional Considerations Pertaining to Participating Interests – When evaluating whether the transfer of a participating interest in an entire financial asset satisfies the conditions for sale accounting under ASC Topic 860, an originating lender's right of first refusal on a bona fide offer to the participating institution from a third party, a requirement for a participating institution to obtain the originating lender's permission to sell or pledge the participating interest that shall not be unreasonably withheld, or a prohibition on the participating institution's sale of the participating interest to the originating lender's competitor (if other potential willing buyers exist) is a limitation on the participating institution's rights, but is presumed not to constrain a participant from exercising its right to pledge or exchange the participating interest. However, if the participation agreement constrains the participating institution from pledging or exchanging its participating interest, the originating lender presumptively receives more than a trivial benefit, has not relinquished control over the participating interest, and should account for the transfer of the participating interest as a secured borrowing.

A loan participation agreement may give the originating lender the contractual right to repurchase a participating interest at any time. In this situation, the right to repurchase is effectively a call option on a specific participating interest, i.e., a participating interest that is not readily obtainable in the marketplace. Regardless of whether this option is freestanding or attached, it either constrains the participating institution from pledging or exchanging its participating interest or results in the originating lender maintaining effective control over the participating interest. As a consequence, the contractual right to repurchase precludes sale accounting and the transfer of the participating interest should be accounted for as a secured borrowing, not as a sale.

In addition, under a loan participation agreement, the originating lender may give the participating institution the right to resell the participating interest, but reserves the right to call the participating

Transfers of Financial Assets (cont.):

interest at any time from whoever holds it and can enforce that right by discontinuing the flow of interest to the holder of the participating interest at the call date. In this situation, the originating lender has maintained effective control over the participating interest and the transfer of the participating interest should be accounted for as a secured borrowing, not as a sale.

When an originating FDIC-insured lender transfers a loan participation with recourse, the participation generally will not be considered isolated from the transferor, i.e., the originating lender, in the event of an FDIC receivership. [Section 360.6 of the FDIC's regulations](#) limits the FDIC's ability to reclaim loan participations transferred "without recourse," as defined in the regulations, but does not limit the FDIC's ability to reclaim loan participations transferred with recourse. Under [Section 360.6](#), a participation that is subject to an agreement that requires the originating lender to repurchase the participation or to otherwise compensate the participating institution due to a default on the underlying loan is considered a participation "with recourse." As a result, a loan participation transferred "with recourse" generally should be accounted for as a secured borrowing and not as a sale for financial reporting purposes. This means that the originating lender should not remove the participation from its loan assets on the balance sheet, but should report the secured borrowing in Schedule RC-M, item 5.b, "Other borrowings."

Reporting Transfers of Loan Participations That Do Not Qualify for Sale Accounting – If a transfer of a portion of an entire financial asset does not meet the definition of a participating interest, or if a transfer of a participating interest does not meet all of the conditions for sale accounting under ASC Topic 860, the transfer must be reported as a secured borrowing with pledge of collateral. In these situations, because the transferred loan participation does not qualify for sale accounting, the originating lender must continue to report the transferred participation (as well as the retained portion of the loan) as a loan on the Consolidated Report of Condition balance sheet (Schedule RC), normally in item 4.b, "Loans and leases held for investment," and in the appropriate loan category in Schedule RC-C, part I, Loans and Leases. The originating lender should report the transferred loan participation as a secured borrowing on the Call Report balance sheet in Schedule RC, item 16, "Other borrowed money," and in the appropriate subitem or subitems in Schedule RC-M, item 5.b, "Other borrowings;" in Schedule RC-M, item 10.b, "Amount of 'Other borrowings' that are secured;" and in Schedule RC-C, part I, Memorandum item 14, "Pledged loans and leases." As a consequence, the transferred loan participation should be included in the originating lender's loans and leases for purposes of determining the appropriate level for the lender's allowance for loan and lease losses (or allowance for credit losses, if the institution has adopted ASC Topic 326, Financial Instruments–Credit Losses).

A bank that acquires a nonqualifying loan participation (or a qualifying participating interest in a transfer that does not meet all of the conditions for sale accounting) should normally report the loan participation or participating interest in item 4.b, "Loans and leases held for investment," on the Consolidated Report of Condition balance sheet (Schedule RC) and in the loan category appropriate to the underlying loan, e.g., as a "commercial and industrial loan" in item 4 or as a "loan secured by real estate" in item 1, in Schedule RC-C, part I, Loans and Leases. Furthermore, for risk-based capital purposes, the acquiring bank should assign the loan participation or participating interest to the risk-weight category appropriate to the underlying borrower or, if relevant, the guarantor or the nature of the collateral.

"Purchased" Loans Originated By Others – Some institutions have entered into various residential mortgage loan purchase programs. These programs often function like traditional warehouse lines of credit; however, in some cases, the mortgage loan transfers are legally structured as purchases by the institution rather than as pledges of collateral to secure the funding. Under these programs, an institution provides funding to a mortgage loan originator while simultaneously obtaining an interest in the mortgage loans subject to a takeout commitment. A takeout commitment is a written commitment from an approved investor (generally, an unrelated third party) to purchase one or more mortgage loans from the originator.

Transfers of Financial Assets (cont.):

Although the facts and circumstances of each program must be carefully evaluated to determine the appropriate accounting, an institution should generally account for a mortgage purchase program with continuing involvement by the originator, including takeout commitments, as a secured borrowing with pledge of collateral, i.e., a loan to the originator secured by the residential mortgage loans, rather than a purchase of mortgage loans.

When loans obtained in a mortgage purchase program do not qualify for sale accounting, the financing provided to the originator (if not held for trading purposes) should be reported in Schedule RC-C, Part I, item 9.a, "Loans to nondepository financial institutions," and on the balance sheet in Schedule RC, item 4.a, "Loans and leases held for sale," or item 4.b, "Loans and leases, net of unearned income," as appropriate. For risk-based capital purposes, a loan to a mortgage loan originator secured by residential mortgages that is reported in Schedule RC-C, Part I, item 9.a, should be assigned a 100 percent risk weight, or if relevant, the risk weight category appropriate to the exposure as discussed in the regulatory capital rules, and included in the appropriate column of Schedule RC-R, Part II, item 4.d or 5.d, based on its balance sheet classification.

In situations where the transaction between the mortgage loan originator and the transferee (acquiring) institution is accounted for as a secured borrowing with pledge of collateral, the transferee (acquiring) institution's designation of the financing provided to the originator as held for sale is appropriate only when the conditions in ASC Subtopic 310-10, Receivables – Overall (formerly AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others") and the [2001 Interagency Guidance on Certain Loans Held for Sale](#) have been met. In these situations, the mortgage loan originator's planned sale of the pledged collateral (i.e., the individual residential mortgage loans) to a takeout investor is not relevant to the transferee institution's designation of the loan to the originator as held for investment or held for sale. In situations where the transferee institution simultaneously extends a loan to the originator and transfers an interest (for example, a participation interest) in the loan to the originator to another party, the transfer to the other party also should be evaluated to determine whether the conditions in ASC Topic 860 for sale accounting treatment have been met. If this transfer qualifies to be accounted for as a sale, the portion of the loan to the originator that is retained by the transferee institution should be classified as held for investment when the transferee has the intent and ability to hold that portion for the foreseeable future or until maturity or payoff (which is generally in the near term).

Financial Assets Subject to Prepayment – Financial assets such as interest-only strips receivable, other beneficial interests, loans, debt securities, and other receivables, but excluding financial instruments that must be accounted for as derivatives, that can contractually be prepaid or otherwise settled in such a way that the holder of the financial asset would not recover substantially all of its recorded investment do not qualify to be accounted for at amortized cost. After their initial recording on the balance sheet, financial assets of this type must be subsequently measured at fair value like available-for-sale securities or trading securities.

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Traveler's Letter of Credit: See "letter of credit."

Treasury Receipts: See "coupon stripping, Treasury receipts, and STRIPS."

Treasury Stock: Treasury stock is stock that the bank has issued and subsequently acquired, but that has not been retired or resold. As a general rule, treasury stock, whether carried at cost or at par value, is a deduction from a bank's total equity capital. For purposes of the Reports of Condition and Income, the carrying value of treasury stock should be reported (as a negative number) in Schedule RC, item 26.c, "Other equity capital components."

"Gains" and "losses" on the sale, retirement, or other disposal of treasury stock are not to be reported in Schedule RI, Income Statement, but should be reflected in Schedule RI-A, item 6, "Treasury stock transactions, net." Such gains and losses, as well as the excess of the cost over the par value of treasury stock carried at par, are generally to be treated as adjustments to Schedule RC, item 25, "Surplus."

For further information, see ASC Subtopic 505-30, Equity – Treasury Stock (formerly Accounting Research Bulletin No. 43, Chapter 1, Section B, as amended by APB Opinion No. 6, "Status of Accounting Research Bulletins").

Troubled Debt Restructurings: The accounting standards for troubled debt restructurings are set forth in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan") and, for institutions that have adopted ASC Topic 326, Financial Instruments–Credit Losses, in ASC Topic 326. Institutions should refer to the Glossary entries for "allowance for loan and lease losses" and "allowance for credit losses," as applicable, when considering measurement of the allowance for loan losses or allowance for credit losses (allowance, when used interchangeably) for TDRs.

A troubled debt restructuring (TDR) is a restructuring in which an institution, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan or other debt instrument (hereafter referred to collectively as a "loan") may include, but is not necessarily limited to: (1) the transfer from the borrower to the institution of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (see the Glossary entry for "foreclosed assets" for further information), (2) a modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a TDR. Modifications of loans should be evaluated to determine if a TDR exists in totality. In some instances a borrower may have been able to add additional collateral or a guarantor to a loan which fully compensates for a concession made by the institution.

See the Glossary entry for "nonaccrual status" for a discussion of the conditions under which a nonaccrual asset which has undergone a TDR (including those that involve a multiple note structure) may be returned to accrual status.

Troubled Debt Restructurings (cont.):

A TDR in which an institution receives physical possession of the borrower's assets should be accounted for in accordance with ASC Subtopic 310-40. Thus, in such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Glossary entry for "foreclosed assets."

A TDR may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two-step process: (i) the recorded amount (or amortized cost basis if the institution has adopted ASC Topic 326) of the loan is reduced by the fair value (less cost to sell, if appropriate) of the property received, and (ii) the institution should measure any impairment (or expected credit losses if the institution has adopted ASC Topic 326) on the remaining recorded balance, or amortized cost basis, as applicable, of the restructured loan in accordance with ASC Topic 310 (or ASC Subtopic 326-20 if the institution has adopted ASC Topic 326) and record any related allowance.

A TDR may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower's funds, should be accounted for as modifications of terms. Restructurings in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a "new" loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at its fair value.

A credit analysis should be performed for a TDR in conjunction with its restructuring to determine its collectibility and estimated allowance. When available information confirms that a specific TDR, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against the allowance at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The institution should periodically evaluate the collectibility of the TDR so as to determine whether any additional amounts should be charged to the allowance, or, if the restructuring involved a financial asset other than a loan, to another appropriate account.

Once an obligation has been restructured in a TDR, it continues to be considered a TDR until paid in full or otherwise settled, sold, or charged off (or meets the conditions discussed below under "Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring"). The loan must be reported in the appropriate loan category in Schedule RC-C, Part I, items 1 through 9, and in the appropriate loan category in:

- Schedule RC-C, Part I, Memorandum item 1, if it is in compliance with its modified terms, or
- Schedule RC-N, items 1 through 7, and Memorandum item 1, if it is not in compliance with its modified terms.

However, for a loan that is a TDR for which the concession did not include a reduction of principal, if the restructuring agreement specifies a contractual interest rate that is a market interest rate at the time of the restructuring and the loan is in compliance with its modified terms, the loan need not continue to be reported as a TDR in Schedule RC-C, Part I, Memorandum item 1, in calendar years after the year in which the restructuring took place. A market interest rate is a contractual interest rate that at the time of the restructuring is greater than or equal to the rate that the institution was willing to accept for a new loan with comparable risk. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

Troubled Debt Restructurings (cont.):

Accounting for a Subsequent Restructuring of a TDR – When a loan has previously been modified in a TDR, the lending institution and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR loan should be carefully evaluated to determine the appropriate reporting by the institution under U.S. GAAP. Under certain circumstances it may be acceptable not to report a subsequently restructured loan as a TDR. The banking agencies will not object to an institution no longer reporting such a loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the institution than those it would offer for such new debt. When determining whether the borrower is experiencing financial difficulties, the institution's assessment of the borrower's financial condition and prospects for repayment after the restructuring should be supported by a current, well-documented credit evaluation performed at the time of the restructuring. When assessing whether a concession has been granted by the institution, the agencies consider any principal forgiveness on a cumulative basis to be a continuing concession. Accordingly, a TDR loan with any principal forgiveness would retain the TDR designation after subsequent restructurings.

If at the time of the subsequent restructuring the institution appropriately demonstrates that a loan meets the conditions discussed above, the loan need no longer be disclosed as a TDR in the Call Report.

The recorded investment or amortized cost basis, as applicable, should not change at the time of the subsequent restructuring (unless cash is advanced or received). When there have been charge-offs prior to the subsequent restructuring, consistent with Call Report instructions, any expected recoveries of amounts previously charged off are not added to the recorded investment in, or the amortized cost basis of, the TDR, as applicable. For institutions that have not adopted ASC Topic 326, no recoveries should be recognized until collections on amounts previously charged off have been received. For institutions that have adopted ASC Topic 326, expected recoveries of amounts previously charged off should be considered as part of the allowance estimate but are not included in the amortized cost basis of the TDR. Similarly, if interest payments were applied to the recorded investment in, or amortized cost basis of, the TDR, as applicable, prior to the subsequent restructuring, the application of these payments to the recorded investment or amortized cost basis, as applicable, should not be reversed nor reported as interest income at the time of the subsequent restructuring.

If the TDR designation is removed from a loan that meets the conditions discussed above and the loan is later modified in a TDR, the loan should be reported as a TDR.

Measurement of Impairment on a TDR when ASC Topic 326 Has Not Been Adopted – This section of this Glossary entry applies to institutions that have not adopted ASC Topic 326. Institutions that have adopted ASC Topic 326 should refer to the "Measurement of Expected Credit Losses on a TDR when ASC Topic 326 Has Been Adopted" section below.

All loans whose terms have been modified in a TDR, including both commercial and retail loans, are impaired loans. Therefore, an institution should measure any impairment on the restructured loan in accordance with ASC Topic 310, Receivables, and should refer to the Glossary entry for "loan impairment."

An institution measuring the allowance on a TDR that is not collateral dependent using the present value of expected future cash flows method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a "teaser" or starter rate

Troubled Debt Restructurings (cont.):

that is less than the loan's fully indexed rate, the starter rate is not the original effective interest rate. ASC Topic 310 also permits an institution to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent TDRs, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.

For a subsequently restructured TDR, if at the time of the subsequent restructuring the institution appropriately determines that the loan no longer meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310 and the Glossary entry for "loan impairment." Accordingly, going forward, the loan's allowance should be measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies.

For a subsequently restructured TDR on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the TDR should continue to be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310.

Measurement of Expected Credit Losses on a TDR when ASC Topic 326 Has Been Adopted – This section of this Glossary entry applies to institutions that have adopted ASC Topic 326. Institutions that have not adopted ASC Topic 326 should continue to refer to the "Measurement of Impairment on a TDR when ASC Topic 326 Has Not Been Adopted" section above.

An institution should measure any expected credit losses on loans whose terms have been modified in a TDR in accordance with ASC Topic 326 as set forth in the Glossary entry for "allowance for credit losses." ASC Topic 326 allows an institution to use any appropriate loss estimation method to estimate ACLs for TDRs. However, there are circumstances when specific measurement methods are required. For purposes of the Consolidated Reports of Condition and Income, if a TDR, or a loan for which a TDR is reasonably expected, is collateral-dependent, the ACL must be estimated using the fair value of collateral.

An institution measuring the allowance on a TDR, or a pool of TDRs with shared risk characteristics, using the present value of expected future cash flow method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a "teaser" or starter rate that is less than the loan's fully indexed rate, the starter rate is not the original effective interest rate.

When there is a reasonable expectation of executing a TDR or if a TDR has been executed, the expected effect of the modification (e.g., a term extension or an interest rate concession) is included in the estimate of the allowance.

If the TDR designation is removed from a loan balance when it is appropriate for the loan to no longer be reported as a TDR, given the change in the loan's risk characteristics, the institution should determine whether the loan should be included in a pool of loans with similar risk characteristics for allowance measurement purposes or evaluated for expected credit losses on an individual basis.

See also the Glossary entries for "allowance for credit losses" or "allowance for loan and lease losses," as applicable, "amortized cost basis," and "foreclosed assets."