

March 26, 2020

**MEMORANDUM TO:** Board of Directors

**FROM:** Doreen R. Eberley, Director

**SUBJECT:** Regulatory Capital Rule: Standardized Approach for Calculating the Exposure Amount of Derivative Contracts; Notice, Early Adoption

**SUMMARY:** In light of recent economic disruptions caused by the COVID-19 virus and recent volatility in U.S. financial markets, staff of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the “agencies”) recommend that the agencies adopt a notice that would permit insured depository institutions and depository institution holding companies to implement for the first quarter of 2020, rather than April 1, 2020, as initially provided, the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (“SA-CCR rule”), which was issued in the *Federal Register* of January 24, 2020. The agencies are permitting a banking organization the flexibility to implement the SA-CCR rule, including the SA-CCR methodology and the other amendments described in the SA-CCR rule, one quarter early and on a best efforts basis if the banking organization chooses to do so.

**Recommendation:** Staff requests that the FDIC Board of Directors approve this interagency notice and authorize its publication in the *Federal Register* with an effective date as of the date of *Federal Register* publication.

**Concur:**

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Nicholas J. Podsiadly  
General Counsel

## **Discussion:**

### **I. Background**

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) recently adopted the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (SA-CCR rule).<sup>1</sup> The SA-CCR rule implements a new approach—the standardized approach for counterparty credit risk (SA-CCR)—for calculating the exposure amount of derivative contracts under the agencies’ regulatory capital rule. The SA-CCR rule also revises other aspects of the capital rule related to total leverage exposure, the denominator of the supplementary leverage ratio, and the cleared transactions framework.

SA-CCR is more risk-sensitive than the prior standardized approach for calculating the exposure amount of derivative contracts, the current exposure methodology or CEM, because SA-CCR provides for greater recognition of hedging and is calibrated to reflect more recent volatility data. In addition, SA-CCR allows clearing member banking organizations to recognize the risk-reducing effect of client collateral for purposes of calculating total leverage exposure under certain circumstances. This treatment applies to a banking organization’s exposure to its client-facing derivative transactions, which in turn facilitates clearing member banking organizations providing their clients with access to cleared transactions through central counterparties.

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<sup>1</sup> See 85 FR 4362 (January 24, 2020).

## **II. Early Adoption of the SA-CCR Rule**

This interagency notice will allow a banking organization the flexibility to implement the SA-CCR rule one quarter early and on a best efforts basis if the banking organization chooses to do so. Recent events have suddenly and significantly impacted financial markets. The spread of the COVID-19 virus has disrupted economic activity in many countries. In addition, financial markets have experienced significant volatility. The magnitude and persistence of the overall effects on the economy remain highly uncertain.

The SA-CCR rule also included several other amendments to the capital rule that are effective as of April 1, 2020. These amendments include, among others: (1) a 2 percent or a 4 percent risk-weight for cash collateral posted to a qualifying central counterparty (QCCP) subject to certain requirements; (2) the ability of a clearing member banking organization to recognize client collateral posted to a central counterparty (CCP) under certain circumstances; (3) a zero percent risk-weight for the CCP-facing portion of a transaction where a clearing member banking organization does not guarantee the performance of the CCP to the clearing member's client; and (4) the ability of a clearing member banking organization to apply a 5-day holding period for collateral associated with client-facing derivatives for purposes of the collateral haircut approach.

A banking organization that elects to adopt the SA-CCR methodology must adopt the SA-CCR methodology for all derivative contracts; it cannot implement the SA-CCR methodology for a subset of its derivative contracts. However, a banking organization may adopt some of the other amendments described in the SA-CCR rule regardless of whether it chooses to early adopt the SA-CCR methodology. The agencies are adopting this notice to permit banking organizations to implement the SA-CCR rule on a best efforts basis immediately,

and to reflect such adoption for purposes of the Call Report, FFIEC 101, and FR Y-9C, as applicable, filed as of March 31, 2020. Adopting the SA-CCR rule on a best efforts basis for the first quarter of 2020 is optional for all banking organizations subject to the capital rule. The SA-CCR rule's effective date will remain April 1, 2020, and the compliance date will remain January 1, 2022.

This notice should help to mitigate the impact of recent dislocations in the U.S. economy as a result of COVID-19. By allowing early adoption of the SA-CCR rule, the final rule allows banking organizations to implement SA-CCR's more risk-sensitive measurement of the exposure amounts of derivative contracts one quarter earlier than the SA-CCR rule provided.

**Conclusion:**

Staff requests that the FDIC Board approve this notice and authorize its publication in the *Federal Register* with an effective date as of the date of *Federal Register* publication.

**Staff Contacts:**

**RMS/Capital Markets**

Bobby Bean, Associate Director (ext. 8-6705)

Irina Leonova, Acting Chief, Capital Strategies Section (ext. 8-3843)

Peter Yen, Senior Policy Analyst (ext. 8-6568)

**Legal**

Michael Phillips, Counsel (ext. 8-3581)

Catherine Wood, Counsel (ext. 8-3788)

Jennifer Jones, Counsel (ext. 8-6768)

## RESOLUTION

**WHEREAS**, the International Lending Supervision Act of 1983 prescribes that the Federal Deposit Insurance Corporation (“FDIC”) and the other Federal banking agencies (collectively, “agencies”) require banking organizations to achieve and maintain adequate capital by establishing minimum levels of capital for such banking organizations; and

**WHEREAS**, section 38 of the Federal Deposit Insurance Act prescribes that the capital standards of the FDIC and the other agencies include leverage and risk-based capital requirements and provides certain prompt corrective action requirements; and

**WHEREAS**, section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act establishes generally applicable risk-based and leverage capital requirements as minimum capital requirements; and

**WHEREAS**, FDIC rules in 12 CFR part 324 set forth the leverage and risk-based capital requirements for all FDIC-supervised institutions (“FDIC capital rule”); and

**WHEREAS**, the agencies adopted the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (“SA-CCR final rule”) in the *Federal Register* on January 24, 2020; and

**WHEREAS**, the SA-CCR rule implements a new approach, the standardized approach for counterparty credit risk, for calculating the exposure amount of derivative contracts under the agencies’ capital rules; and

**WHEREAS**, in light of recent economic disruptions caused by the COVID-19 virus and recent volatility in U.S. financial markets, staff of the agencies recommend that the agencies adopt a *Federal Register* notice that would permit insured depository institutions and depository

institution holding companies to implement for the first quarter of 2020, rather than April 1, 2020, as initially provided in the SA-CCR final rule on a best efforts basis; and

**WHEREAS**, staff requests that the FDIC Board of Directors (“FDIC Board”) approve the attached interagency notice for publication in the *Federal Register* with an effective date as of the date of *Federal Register* publication.

**NOW, THEREFORE, BE IT RESOLVED**, that the FDIC Board hereby adopts and issues the attached interagency notice as set forth in the attached *Federal Register* document, and authorizes the Executive Secretary, or his designee, to cause the attached interagency notice to be published in the *Federal Register* in a form and manner acceptable to the Executive Secretary, or his designee, and the General Counsel, or his designee.

**BE IT FURTHER RESOLVED**, that the FDIC Board hereby authorizes the Executive Secretary, or his designee, and the General Counsel, or his designee, to make technical, non-substantive or conforming changes to the text of the attached *Federal Register* document to ensure that the FDIC can publish this interagency notice in the *Federal Register*, and to take such other actions and issue such other documents incident and related to the foregoing as they may deem necessary or appropriate to fulfill the FDIC Board’s objectives in connection with this matter.

**DEPARTMENT OF TREASURY**  
**Office of the Comptroller of the Currency**  
**12 CFR Part 3**  
**[Docket ID OCC-2017-0018]**

**FEDERAL RESERVE SYSTEM**  
**12 CFR Part 217**  
**[Regulation Q; Docket No. R-1576]**

**FEDERAL DEPOSIT INSURANCE CORPORATION**  
**12 CFR Part 324**

**Standardized Approach for Calculating the Exposure Amount of Derivative Contracts**

**AGENCIES:** Office of the Comptroller of the Currency, Treasury; the Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation.

**ACTION:** Notice.

**SUMMARY:** In light of recent economic disruptions caused by the COVID-19 virus and recent volatility in U.S. financial markets, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are issuing a notice to allow depository institutions and depository institution holding companies to implement the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (SA-CCR rule) for the first quarter of 2020, on a best efforts basis.

**DATES:** This notice is effective [INSERT DATE OF FEDERAL REGISTER PUBLICATION].

**FOR FURTHER INFORMATION CONTACT:**

*OCC:* Margot Schwadron, Director, or Guowei Zhang, Risk Expert, Capital and Regulatory Policy, (202) 649-6370; or Carl Kaminski, Special Counsel, Kevin Korzeniewski,



Counsel, Daniel Perez, Senior Attorney, Chief Counsel’s Office, (202) 649-5490; the Office of the Comptroller of the Currency, 400 7<sup>th</sup> Street SW., Washington, DC 20219.

*Board:* Constance M. Horsley, Deputy Associate Director, (202) 452-5239; Teresa A. Scott, Manager, (202) 475-6316; Eusebius Luk, Senior Financial Institution Policy Analyst I, (202) 452-2874; Division of Supervision and Regulation; or Benjamin W. McDonough, Assistant General Counsel, (202) 452-2036; Mark Buresh, Senior Counsel, (202) 452-5270; Jonah Kind, Senior Attorney, (202) 452-2045; Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551. For the hearing impaired only, Telecommunication Device for the Deaf, (202) 263-4869.

*FDIC:* Bobby R. Bean, Associate Director, bbean@fdic.gov; Irina Leonova, Acting Chief, Capital Strategies Section, ileonova@fdic.gov; Peter Yen, Senior Policy Analyst, pyen@fdic.gov, Capital Markets Branch, Division of Risk Management Supervision, (202) 898-6888; or Michael Phillips, Counsel, mphilips@fdic.gov; Catherine Wood, Counsel, cawood@fdic.gov; Supervision Branch, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

**SUPPLEMENTARY INFORMATION:** The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) recently adopted the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (SA-CCR rule).<sup>1</sup> The SA-CCR rule implements a new approach—the standardized approach for counterparty credit risk (SA-CCR methodology)—for calculating the exposure amount of derivative contracts under the agencies’ regulatory capital rule (capital rule). The SA-CCR rule also revises other aspects

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<sup>1</sup> See 85 FR 4362 (January 24, 2020).

of the capital rule related to total leverage exposure (the denominator of the supplementary leverage ratio) and the cleared transactions framework.

The agencies are permitting a banking organization the flexibility to implement the SA-CCR rule, including the SA-CCR methodology and the other amendments described in the SA-CCR rule, one quarter early and on a best efforts basis if the banking organization chooses to do so.<sup>2</sup>

Recent events have suddenly and significantly impacted financial markets. The spread of the COVID-19 virus has disrupted economic activity in many countries. In addition, financial markets have experienced significant volatility. The magnitude and persistence of the overall effects on the economy remain highly uncertain. The notice should help to mitigate the impact of recent dislocations in the U.S. economy as a result of COVID-19. By allowing early adoption of the SA-CCR rule, the notice allows banking organizations to implement the SA-CCR methodology's more risk-sensitive measurement of the exposure amounts of derivative contracts one quarter earlier than the SA-CCR rule provided. For purposes of any early adoption of the SA-CCR rule, the agencies understand that banking organizations are in the process of refining their systems to implement the SA-CCR rule and, therefore, for purposes of the first quarter, early adoption would be on a best efforts basis.

The SA-CCR rule was issued with an effective date of April 1, 2020. The SA-CCR rule provides banking organizations the option to adopt the SA-CCR methodology for derivative contracts beginning on April 1, 2020. For advanced approaches banking organizations, adoption of the SA-CCR methodology is mandatory beginning January 1, 2022. As a result, by no later

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<sup>2</sup> The SA-CCR rule had an original effective date of April 1, 2020, the first day of the calendar quarter following publication in the Federal Register, pursuant to 12 U.S.C. 4802(b)(1). Banking organizations may elect to comply before the effective date pursuant to 12 U.S.C. 4802(b)(2).

than January 1, 2022, advanced approaches banking organizations must use the SA-CCR methodology for purposes of standardized total risk-weighted assets and the supplementary leverage ratio, and must use either the SA-CCR methodology or the internal models methodology for purposes of advanced approaches total risk-weighted assets. The SA-CCR rule provides non-advanced approaches banking organization the option to adopt the SA-CCR methodology for purposes of standardized total risk-weighted assets and, if applicable, the supplementary leverage ratio, beginning April 1, 2020. As a result, banking organizations could adopt the SA-CCR methodology as early as April 1, 2020, and advanced approaches banking organizations are required to adopt the SA-CCR methodology beginning January 1, 2022.

The SA-CCR rule also included several other amendments to the capital rule that are effective as of April 1, 2020. These amendments include, among others: (1) a 2 percent or a 4 percent risk-weight for cash collateral posted to a qualifying central counterparty (QCCP) subject to certain requirements; (2) the ability of a clearing member banking organization to recognize client collateral posted to a central counterparty (CCP) under certain circumstances; (3) a zero percent risk-weight for the CCP-facing portion of a transaction where a clearing member banking organization does not guarantee the performance of the CCP to the clearing member's client; and (4) the ability of a clearing member banking organization to apply a 5-day holding period for collateral associated with client-facing derivatives for purposes of the collateral haircut approach.

The agencies are allowing banking organizations to implement the SA-CCR rule, including the SA-CCR methodology and the other amendments, on a best efforts basis immediately. A banking organization that elects to adopt the SA-CCR methodology must adopt the SA-CCR methodology for all derivative contracts; it cannot implement the SA-CCR

methodology for a subset of its derivative contracts. However, a banking organization may adopt some of the other amendments described in the SA-CCR rule regardless of whether it chooses to early adopt the SA-CCR methodology.<sup>3</sup>

The agencies expect to make related amendments to the Call Report, FFIEC 101, and FR Y-9C, as applicable, filed as of March 31, 2020, to reflect this notice. These amendments will be addressed in a separate Federal Register notice or notices. Adopting the SA-CCR rule on a best efforts basis for the first quarter of 2020 is optional for all banking organizations subject to the capital rule. The SA-CCR rule effective date will remain April 1, 2020, and the mandatory compliance date will remain January 1, 2022.

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<sup>3</sup> Certain of the other amendments, such as the ability of a banking organization to use SA-CCR for the calculation of exposure under the OCC's lending limits rule, are dependent on the banking organization adopting the SA-CCR methodology.

Dated: [--].

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**Morris R. Morgan**  
First Deputy Comptroller  
*Office of the Comptroller of the Currency*

By order of the Board of Governors of the Federal Reserve System, [--].

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**Ann E. Misback,**  
*Secretary of the Board.*

Federal Deposit Insurance Corporation.  
By order of the Board of Directors.  
Dated at Washington, DC, on [--].

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**Robert E. Feldman,**  
*Executive Secretary.*