

FFIEC 031 AND FFIEC 041

CALL REPORT

INSTRUCTION BOOK UPDATE

JUNE 2020

IMPORTANT NOTE

The June 2020 Call Report Instruction Book Update excludes updates pertaining to interim final rules (IFRs) and a final rule published by one or all of the banking agencies from March through June 2020 as well as Section 4013 of the 2020 Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides optional temporary relief from accounting for eligible loan modifications as troubled debt restructurings. The IFRs and final rule revise certain aspects of the agencies' regulatory capital rule, amend the Federal Reserve Board's (Board) Regulation D on reserve requirements, except certain insider loans from the Board's Regulation O, and modify the Federal Deposit Insurance Corporation's (FDIC) deposit insurance assessment rules. The agencies have received approvals from the U.S. Office of Management and Budget to implement changes to the Call Report arising from these interim final rules, the final rule, and Section 4013 of the CARES Act.

Instructions for these Call Report changes are provided in the separate standalone [June 2020 COVID-19 Related Supplemental Instructions \(Call Report\)](#), which were attached to the agencies' [Financial Institution Letter](#) for the Consolidated Reports of Condition and Income for Second Quarter 2020 and are available on the FFIEC [Reporting Forms](#) webpages for the Call Report and the FDIC [Bank Financial Reports](#) webpage. The June 2020 COVID-19 Related Supplemental Instructions (Call Report) include instructions for this quarter's new Call Report items in Schedule RC-C, Part I, Loans and Leases, on eligible loan modifications under Section 4013 and Schedule RC-M, Memoranda, on U.S. Small Business Administration Paycheck Protection Program (PPP) loans, borrowings under the Federal Reserve's PPP Liquidity Facility, and holdings of assets purchased under the Federal Reserve's Money Market Mutual Fund Liquidity Facility.

The FFIEC 031-FFIEC 041 Call Report instruction book will be updated to incorporate relevant information from the June 2020 COVID-19 Related Supplemental Instructions (Call Report) after the agencies have completed the standard Paperwork Reduction Act process for these Call Report revisions.

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.

Remove Pages

Cover Page (3-20)
13 – 14 (9-19)
RC-1 – RC-2 (6-18)
RC-5 – RC-6 (3-19) *
RC-7 – RC-8 (6-18) *
RC-A-1 – RC-A-2 (6-18)
RC-D-1 – RC-D-2 (9-18)
RC-E-21 – RC-E-22 (3-17)
RC-L-17 – RC-L-18 (6-12)
RC-O-3 – RC-O-4 (3-18)
RC-Q-3 – RC-Q-4 (3-20)
RC-R-1 – RC-R-12 (3-20)
RC-R-15 – RC-R-40 (3-20)
RC-R-45 – RC-R-64 (3-20)
RC-R-67 – RC-R-70 (3-20)
RC-R-75 – RC-R-76 (3-20)
RC-R-87 – RC-R-98 (3-20)
RC-R-101 – RC-R-106 (3-20)
RC-R-113 – RC-R-116 (3-20)
RC-R-119 – RC-R-122 (3-20)
RC-R-149 – RC-R-150 (3-20)
RC-R-157 – RC-R-158 (3-20)
RC-X-1 (6-13)
A-2c – A-2d (3-20)
A-72a – A-72b (3-20)
A-78a (9-18)

Insert Pages

Cover Page (6-20)
13 – 14 (6-20)
RC-1 – RC-2 (6-20)
RC-5 – RC-6 (6-20)
RC-7 – RC-8 (6-20)
RC-A -1 – RC-A-2 (6-20)
RC-D-1 – RC-D-2 (6-20)
RC-E-21 – RC-E-22 (6-20)
RC-L-17 – RC-L-18 (6-20)
RC-O-3 – RC-O-4 (6-20)
RC-Q-3 – RC-Q-4 (6-20)
RC-R-1 – RC-R-12 (6-20)
RC-R-15 – RC-R-40 (6-20)
RC-R-45 – RC-R-64 (6-20)
RC-R-67 – RC-R-70 (6-20)
RC-R-75 – RC-R-76 (6-20)
RC-R-87 – RC-R-98 (6-20)
RC-R-101 – RC-R-106 (6-20)
RC-R-113 – RC-R-116 (6-20)
RC-R-119 – RC-R-122 (6-20)
RC-R-149 – RC-R-150 (6-20)
RC-R-157 – RC-R-158 (6-20)
RC-X-1 (6-20)
A-2c – A-2d (6-20)
A-72a – A-72b (6-20)
A-78a (6-20)

* Do not remove pages RC-6a – RC-6c (3-19). These pages should be retained.

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

FFIEC 031 and FFIEC 041

Updated June 2020

This page intentionally left blank.

Intrabank transactions – (For banks with foreign offices.) While all intrabank transactions are to be excluded from the Call Report, one intrabank relationship that is eliminated in consolidation is required to be identified and reported in the Report of Condition. Specifically, Schedule RC-H, Selected Balance Sheet Items for Domestic Offices, requires the reporting of the net amount of "due from" or "due to" balances between the domestic offices and the foreign offices of the consolidated bank.

Deposit insurance assessments – When one FDIC-insured institution that files the FFIEC 031 or FFIEC 041 owns another FDIC-insured institution as a subsidiary, the parent institution should complete items 1 through 11 (except item 9.a) and Memorandum items 1, 2 (if applicable), and 3 (and Memorandum item 4 on the FFIEC 031 report) of Schedule RC-O by accounting for the insured institution subsidiary under the equity method of accounting instead of consolidating it, i.e., on an "unconsolidated single FDIC certificate number basis." (However, an FDIC-insured institution that owns another FDIC-insured institution should complete item 9.a of Schedule RC-O by consolidating its subsidiary institution.) In contrast, when an FDIC-insured institution consolidates entities other than FDIC-insured institutions for purposes of Schedule RC, Balance Sheet, the parent institution should complete items 1 through 11 and Memorandum items 1, 2 (if applicable), and 3 (and Memorandum item 4 on the FFIEC 031 report) of Schedule RC-O on a consolidated basis with respect to these other entities. However, all deposits of subsidiaries (except an insured depository institution subsidiary) that are consolidated and, therefore, eliminated from reported deposits on the balance sheet (Schedule RC, item 13.a or 13.b, as appropriate) must be reported in Schedule RC-O, items 1 through 3, Memorandum item 1, and, if applicable, Memorandum item 2. Similarly, the interest accrued and unpaid on these deposits, which is eliminated in consolidation from reported other liabilities on the balance sheet (Schedule RC, item 20), also must be reported in these Schedule RC-O items.

"Large institutions" and "highly complex institutions," including those that own another FDIC-insured institution as a subsidiary, should complete Memorandum items 6 through 18 of Schedule RC-O, as appropriate, on a fully consolidated basis.

Cutoff dates for consolidation – All *branches* must be consolidated as of the report date. For purposes of consolidation, the date of the financial statements of a *subsidiary* should, to the extent practicable, match the report date of the parent bank, but in no case differ by more than 93 days from the report date.

REPORTING BY TYPE OF OFFICE (For banks with foreign offices)

Some information in the Call Report is to be reported by type of office (e.g., for domestic offices, for foreign offices, or for IBFs) as well as for the consolidated bank. Where information is called for by type of office, the information reported shall be the office component of the consolidated item unless otherwise specified in the line item instructions. That is, as a general rule, the office information shall be reported at the same level of consolidation as the fully consolidated statement, shall reflect only transactions with parties outside the scope of the consolidated bank, and shall exclude all transactions between offices of the consolidated bank as defined above.

PUBLICATION REQUIREMENTS FOR THE CONSOLIDATED REPORT OF CONDITION

There are no federal requirements for a bank to publish the balance sheet of the Consolidated Report of Condition in a newspaper. However, state-chartered banks should consult with their state banking authorities concerning the applicability of any state publication requirements.

RELEASE OF INDIVIDUAL BANK REPORTS

All schedules of the Call Report submitted by each reporting bank, including the optional narrative statement at the end of the Call Report, are available to the public from the federal bank supervisory agencies with the exception of any amounts reported in Schedule RI-E, item 2.g, "FDIC deposit insurance assessments," for report dates beginning June 30, 2009; Schedule RC-O, Memorandum items 6 through 9, 14, and 15, for certain assessment-related data for report dates beginning June 30, 2011; Schedule RC-O, Memorandum item 18, for two-year probability of default data for 1-4 family residential mortgage loans and consumer loans and leases for report dates beginning June 30, 2013; Schedule RC-P, items 7.a and 7.b, for representation and warranty reserves for 1-4 family residential mortgages sold made to specified parties for report dates beginning June 30, 2012; and Schedule RC-C, Part I, Memorandum items 17.a and 17.b, for eligible loan modifications under Section 4013 of the 2020 Coronavirus Aid, Relief, and Economic Security Act for report dates beginning June 30, 2020.

In addition, the amount reported in Schedule RC-F, item 6.f, "Prepaid deposit insurance assessments," for report dates from December 31, 2009, through March 31, 2013, will not be publicly disclosed on an individual bank basis. Information reported in Schedule RC-T, Fiduciary and Related Services, on the components of fiduciary and related services income (but not "Total gross fiduciary and related services income") and on fiduciary settlements, surcharges, and losses (Memorandum item 4), will not be publicly disclosed on an individual bank basis for periods prior to March 31, 2009. Data reported in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, in column A, "Past due 30 through 89 days and still accruing," and in all of Memorandum item 1, "Loans restructured in troubled debt restructurings included in Schedule RC-N, items 1 through 7, above," will not be publicly disclosed on an individual bank basis for periods prior to March 31, 2001.

All publicly available individual institution data are posted on the FFIEC's Central Data Repository (CDR) Public Data Distribution Web site (<https://cdr.ffiec.gov/public/>) as soon as the data have been submitted, placed in an accepted status, and prepared for publication in the CDR.

A reporting institution may request confidential treatment for some or all of the portions of the Call Report that will be made publicly available if the institution is of the opinion that disclosure of specific commercial or financial information in the report would likely cause substantial harm to its competitive position. In certain limited circumstances, the reporting institution's primary federal supervisor may approve confidential treatment of some or all of the items for which such treatment has been requested if the institution has clearly provided a compelling justification for the request. A request for confidential treatment must be submitted in writing prior to the submission of the report. The written request must identify the specific items for which confidential treatment is requested, provide justification for the confidential treatment requested for the identified items, and demonstrate the specific nature of the harm that would result from public release of the information. Merely stating that competitive harm would result is not sufficient. Information for which confidential treatment is requested may subsequently be released by the reporting institution's primary federal supervisor in accordance with the terms of [12 CFR 4.16](#) (OCC), [12 CFR 261.16](#) (Federal Reserve Board), [12 CFR 309.6](#) (FDIC), or as otherwise provided by law.

APPLICABILITY OF U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES TO REGULATORY REPORTING REQUIREMENTS

For recognition and measurement purposes, the regulatory reporting requirements applicable to the Call Report shall conform to U.S. generally accepted accounting principles (GAAP) as set forth in the FASB's Accounting Standards Codification. Nevertheless, because the Call Report is an institution-level report, each institution (together with its consolidated subsidiaries) is considered an "accounting entity" for regulatory reporting purposes and normally must prepare its Call Report on a separate entity basis.

A bank or savings association that is a private company, as defined in U.S. GAAP (and discussed in the Glossary entry for "public business entity"), is permitted to use private company accounting alternatives

LINE ITEM INSTRUCTIONS FOR THE CONSOLIDATED REPORT OF CONDITION

The line item instructions should be read in conjunction with the Glossary and other sections of these instructions. See the discussion of the Organization of the Instruction Books in the General Instructions. For purposes of these Consolidated Report of Condition instructions, the [Financial Accounting Standards Board](#) (FASB) [Accounting Standards Codification](#) is referred to as "ASC."

SCHEDULE RC – BALANCE SHEET

ASSETS

Item No. Caption and Instructions

- 1** **Cash and balances due from depository institutions.** On the FFIEC 031, the sum of Schedule RC, items 1.a and 1.b, must equal Schedule RC-A, item 5, column A, "Total." On the FFIEC 041, Schedule RC-A is not applicable to banks with less than \$300 million in total assets; for banks with \$300 million or more in total assets, the sum of Schedule RC, items 1.a and 1.b, must equal Schedule RC-A, item 5, "Total."

Treatment of reciprocal balances with depository institutions – Reciprocal balances arise when two depository institutions maintain deposit accounts with each other, i.e., when a reporting bank has both a "due from" and a "due to" balance with another depository institution. Reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis in accordance with generally accepted accounting principles. Net "due from" balances should be reported in items 1.a and 1.b below, as appropriate. Net "due to" balances should be reported as deposit liabilities in Schedule RC, item 13 below. See the Glossary entry for "reciprocal balances."

- 1.a** **Noninterest-bearing balances and currency and coin.** Report the total of all noninterest-bearing balances due from depository institutions, currency and coin, cash items in process of collection, and unposted debits. On the FFIEC 031, the components of this item will also be included in the appropriate items of Schedule RC-A, column A. On the FFIEC 041, for banks with \$300 million or more in total assets, the components of this item will also be included in the appropriate items of Schedule RC-A.

For purposes of these reports, deposit accounts "due from" other depository institutions that are overdrawn are to be reported as borrowings in Schedule RC, item 16, and in Schedule RC-M, item 5.b, except overdrawn "due from" accounts 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). For further information, refer to the Glossary entry for "overdraft."

Item No. Caption and Instructions**1.a**
(cont.)Cash items in process of collection include:

- (1) Checks or drafts in process of collection that are drawn on another depository institution (or on a Federal Reserve Bank) and that are payable immediately upon presentation in the United States. This includes:
 - (a) Checks or drafts drawn on other institutions that have already been forwarded for collection but for which the reporting bank has not yet been given credit ("cash letters").
 - (b) Checks or drafts on hand that will be presented for payment or forwarded for collection on the following business day.
 - (c) Checks or drafts that have been deposited with the reporting bank's correspondent and for which the reporting bank has already been given credit, but for which the amount credited is not subject to immediate withdrawal ("ledger credit" items).

However, if the reporting bank has been given immediate credit by its correspondent for checks or drafts presented for payment or forwarded for collection and if the funds on deposit are subject to immediate withdrawal, the amount of such checks or drafts is considered part of the reporting bank's balances due from depository institutions.

- (2) Government checks drawn on the Treasurer of the United States or any other government agency that are payable immediately upon presentation and that are in process of collection.
- (3) Such other items in process of collection that are payable immediately upon presentation and that are customarily cleared or collected as cash items by depository institutions in the United States, such as:
 - (a) Redeemed United States savings bonds and food stamps.
 - (b) Amounts associated with automated payment arrangements in connection with payroll deposits, federal recurring payments, and other items that are credited to a depositor's account prior to the payment date to ensure that the funds are available on the payment date.
 - (c) Federal Reserve deferred account balances until credit has been received in accordance with the appropriate time schedules established by the Federal Reserve Banks. At that time, such balances are considered part of the reporting bank's balances due from depository institutions.
 - (d) Checks or drafts drawn on another depository institution that have been deposited in one office of the reporting bank and forwarded for collection to another office of the reporting bank.
 - (e) Brokers' security drafts and commodity or bill-of-lading drafts payable immediately upon presentation in the U.S. (See the Glossary entries for "broker's security draft" and "commodity or bill-of-lading draft" for the definitions of these terms.)

Item No. Caption and Instructions**2 Securities:**

2.a Held-to-maturity securities. For institutions that have not adopted FASB [Accounting Standards Update No. 2016-13](#) (ASU 2016-13), which governs the accounting for credit losses, report the amount from Schedule RC-B, item 8, column A, "Total amortized cost."

For institutions that have adopted ASU 2016-13, report the amortized cost of held-to-maturity securities net of any applicable allowances for credit losses, i.e., report the amount from Schedule RC-B, item 8, column A, "Total amortized cost," less the amount of allowances for credit losses on held-to-maturity securities reported in Schedule RI-B, Part II, item 7, column B, "Balance end of current period."

2.b Available-for-sale securities. Report the amount from Schedule RC-B, item 8, column D, "Total fair value."

NOTE: Item 2.c 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, including investment in mutual funds, 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 2.c blank and report their holdings of equity securities with readily determinable fair values not held for trading as available-for-sale equity securities in Schedule RC-B, item 7, and in Schedule RC, item 2.b.

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.

2.c Equity securities with readily determinable fair values not held for trading. Report the fair value of all investments in mutual funds and other equity securities (as defined in ASC Topic 321, Investments-Equity Securities) with readily determinable fair values that are not held for trading. Such securities include, but are not limited to, money market mutual funds, mutual funds that invest solely in U.S. Government securities, common stock, and perpetual preferred stock. Perpetual preferred stock does not have a stated maturity date and cannot be redeemed at the option of the investor, although it may be redeemable at the option of the issuer.

Exclude equity securities held for trading from Schedule RC, item 2.c. For purposes of the Call Report balance sheet, trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or

Item No. Caption and Instructions

2.c
(cont.) otherwise with the intent to resell in order to profit from short-term price movements, and (c) acquiring or taking positions in such items as accommodations to customers, provided that acquiring or taking such positions meets the definition of "trading" in ASC Topic 320, Investments—Debt Securities, and ASC Topic 815, Derivatives and Hedging, and the definition of "trading purposes" in ASC Topic 815. When an institution's holdings of equity securities with readily determinable fair values fall within the scope of the preceding description of trading activities, the equity securities should be reported as trading assets in Schedule RC, item 5. Otherwise, the equity securities should be reported in this item 2.c.

According to ASC Topic 321, the fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. ("Restricted stock" meets that definition if the restriction terminates within one year.) The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above. The fair value of an investment in a mutual fund (or in a structure similar to a mutual fund, i.e., a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Investments in mutual funds and other equity securities with readily determinable fair values may have been purchased by the reporting institution or acquired for debts previously contracted.

Include in this item common stock and perpetual preferred stock of the Federal National Mortgage Association (Fannie Mae), common stock and perpetual preferred stock of the Federal Home Loan Mortgage Corporation (Freddie Mac), Class A voting and Class C non-voting common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac), and common and preferred stock of SLM Corporation (the private-sector successor to the Student Loan Marketing Association).

Exclude from equity securities with readily determinable fair values not held for trading:

- (1) Federal Reserve Bank stock (report as an equity investment without a readily determinable fair value in Schedule RC-F, item 4).
- (2) Federal Home Loan Bank stock (report as an equity investment without a readily determinable fair value in Schedule RC-F, item 4).
- (3) Common and preferred stocks without readily determinable fair values, such as stock of bankers' banks and Class B voting common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac) (report in Schedule RC-F, item 4).
- (4) Preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock), including trust preferred securities subject to mandatory redemption (report such preferred stock as an other debt security in Schedule RC-B, item 6).
- (5) "Restricted stock," i.e., equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year (if the restriction does not terminate within one year, report "restricted stock" as an equity investment without a readily determinable fair value in Schedule RC-F, item 4).

Item No. Caption and Instructions

- 5 Trading assets.** Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale; (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements; or (c) acquiring or taking positions in such items as accommodations to customers, provided that acquiring or taking such positions meets the definition of "trading" in ASC Topic 320, Investments–Debt Securities, and ASC Topic 815, Derivatives and Hedging, and the definition of "trading purposes" in ASC Topic 815. Assets and other financial instruments held for trading shall be consistently valued at fair value as defined by ASC Topic 820, Fair Value Measurement.

For purposes of the Consolidated Reports of Condition and Income, all debt securities within the scope of ASC Topic 320, Investments–Debt Securities, that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than debt securities within the scope of ASC Topic 320 for which a fair value option is elected) as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities as accumulating loans for sale or securitization; (2) to benefit from actual or expected price movements; or (3) to lock in arbitrage profits.

Do not include in this item the carrying value of any available-for-sale securities, any loans that are held for sale (and are not classified as trading in accordance with the preceding instruction), and any leases that are held for sale. Available-for-sale debt securities are reported in Schedule RC, item 2.b, and in Schedule RC-B, columns C and D. Loans (not classified as trading) and leases held for sale should be reported in Schedule RC, item 4.a, "Loans and leases held for sale," and in Schedule RC-C.

Trading assets also include derivatives with a positive fair value resulting from the "marking to market" of interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts held for trading purposes as of the report date. Derivative contracts with the same counterparty that have positive fair values and negative fair values and meet the criteria for a valid right of setoff contained in ASC Subtopic 210-20, Balance Sheet – Offsetting (e.g., those contracts subject to a qualifying master netting agreement), may be reported on a net basis using this item and Schedule RC, item 15, "Trading liabilities," as appropriate. (See the Glossary entry for "offsetting.")

For those banks that must complete Schedule RC-D, this item must equal Schedule RC-D, item 12, "Total trading assets," and Schedule RC-Q, sum of items 5.a and 5.b, column A.

Item No. Caption and Instructions

- 6 Premises and fixed assets.** Report the book value, less accumulated depreciation or amortization, of all premises, equipment, furniture and fixtures purchased directly or acquired by means of a capital lease. 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.

Do not deduct mortgages or other liens on such property (report in Schedule RC, item 16, "Other borrowed money").

Include as premises and fixed assets:

- (1) Premises that are actually owned and occupied (or to be occupied, if under construction) by the bank, its branches, or its consolidated subsidiaries.
- (2) Leasehold improvements, vaults, and fixed machinery and equipment.
- (3) Remodeling costs to existing premises.
- (4) Real estate acquired and intended to be used for future expansion.
- (5) Parking lots that are used by customers or employees of the bank, its branches, and its consolidated subsidiaries.
- (6) Furniture, fixtures, and movable equipment of the bank, its branches, and its consolidated subsidiaries.
- (7) Automobiles, airplanes, and other vehicles owned by the bank and used in the conduct of its business.
- (8) The amount of capital lease property (with the bank as lessee): premises, furniture, fixtures, and equipment. See the discussion of accounting with bank as lessee in the Glossary entry for "lease accounting."
- (9) (a) Stocks and bonds issued by nonmajority-owned corporations and
(b) Investments in limited partnerships or limited liability companies (other than investments so minor that the institution has virtually no influence over the partnership or company)
whose principal activity is the ownership of land, buildings, equipment, furniture, or fixtures occupied or used (or to be occupied or used) by the bank, its branches, or its consolidated subsidiaries. For institutions that have adopted ASU 2016-01 (see the Note preceding the instructions for Schedule RC, item 2.c), report such stocks and investments at (i) fair value or (ii) if chosen by the reporting institution for an equity investment that does not have a readily determinable fair value, 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.

SCHEDULE RC-A – CASH AND BALANCES DUE FROM DEPOSITORY INSTITUTIONS

General Instructions

Schedule RC-A is to be completed by banks with foreign offices or with \$300 million or more in total assets.

On the FFIEC 031, this schedule has two columns for banks with foreign offices to report detail on "Cash and balances due from depository institutions." In column A report amounts for the fully consolidated bank, and in column B report amounts for domestic offices only. See the Glossary entry for "domestic office" for the definition of this term. Refer to the General Instructions section of this book for a detailed discussion of consolidation.

On the FFIEC 041, this schedule has a single column for banks with \$300 million or more in total assets to report detail on "Cash and balances due from depository institutions."

For banks that elect to report balances due from depository institutions at fair value under a fair value option, report the fair value of those balances in the same items and columns as similar balances to which a fair value option has not been applied.

For purposes of these reports, deposit accounts "due from" other depository institutions that are overdrawn are to be reported as other borrowings with a remaining maturity of one year or less in Schedule RC-M, item 5.b.(1), except overdrawn "due from" accounts 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). For further information, refer to the Glossary entry for "overdraft."

Treatment of reciprocal balances with depository institutions -- Reciprocal balances arise when two depository institutions maintain deposit accounts with each other, i.e., when a reporting bank has both a "due from" and a "due to" balance with another depository institution. Reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis in accordance with generally accepted accounting principles. Net "due from" balances should be reported in this schedule. Net "due to" balances should be reported as deposit liabilities in Schedule RC-E. See the Glossary entry for "reciprocal balances."

Exclude from this schedule:

- (1) All intrabank transactions, i.e., all transactions between any offices of the consolidated bank.
- (2) Claims on banks or other depository institutions that the reporting bank holds for trading purposes (report in Schedule RC, item 5, "Trading assets").
- (3) Deposit accounts "due to" other depository institutions that are overdrawn (report in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks").
- (4) Loans to depository institutions (report in Schedule RC-C, part I, item 2).
- (5) Investments in money market mutual funds, which, for purposes of these reports, are to be reported as investments in equity securities.

Item Instructions**Item No. Caption and Instructions**

- 1 Cash items in process of collection, unposted debits, and currency and coin.** On the FFIEC 031, report this item as a single total for the fully consolidated bank in column A, but with a breakdown between cash items in process of collection and unposted debits (Schedule RC-A, item 1.a) and currency and coin (Schedule RC-A, item 1.b) for domestic offices of the bank in column B. On the FFIEC 041, report cash items in process of collection and unposted debits in Schedule RC-A, item 1.a, and currency and coin in Schedule RC-A, item 1.b.

Cash items in process of collection include:

- (1) Checks or drafts in process of collection that are drawn on another depository institution (or on a Federal Reserve Bank) and that are payable immediately upon presentation in the United States (or, for purposes of the FFIEC 031, in the country where the reporting bank's office which is clearing or collecting the check or draft is located). This includes:
 - (a) Checks or drafts drawn on other institutions that have already been forwarded for collection but for which the reporting bank has not yet been given credit ("cash letters").
 - (b) Checks or drafts on hand that will be presented for payment or forwarded for collection on the following business day.
 - (c) Checks or drafts that have been deposited with the reporting bank's correspondent and for which the reporting bank has already been given credit, but for which the amount credited is not subject to immediate withdrawal ("ledger credit" items).

However, if the reporting bank has been given immediate credit by its correspondent for checks or drafts presented for payment or forwarded for collection and if the funds on deposit are subject to immediate withdrawal, report the amount of such checks or drafts in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S.," or item 3, "Balances due from banks in foreign countries and foreign central banks."
- (2) Government checks drawn on the Treasurer of the United States or any other government agency that are payable immediately upon presentation and that are in process of collection.
- (3) Such other items in process of collection that are payable immediately upon presentation and that are customarily cleared or collected as cash items by depository institutions in the United States or in such other country where the reporting bank's office which is clearing or collecting the item is located, such as:
 - (a) Redeemed United States savings bonds and food stamps.
 - (b) Amounts associated with automated payment arrangements in connection with payroll deposits, federal recurring payments, and other items that are credited to a depositor's account prior to the payment date to ensure that the funds are available on the payment date.

SCHEDULE RC-D – TRADING ASSETS AND LIABILITIES

General Instructions

Schedule RC-D is to be completed by banks that:

- (1) Reported total trading assets of \$10 million or more in any of the four preceding calendar quarters, or
- (2) Meet the FDIC's definition of a large or highly complex institution for deposit insurance assessment purposes.

Memorandum items 2 through 10 of Schedule RC-D are not applicable to banks filing the FFIEC 041 report form. On the FFIEC 031 report form, Memorandum items 2 through 10 of Schedule RC-D are to be completed by banks with \$10 billion or more in total trading assets.

Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements, and (c) acquiring or taking positions in such items as accommodations to customers, provided that acquiring or taking such positions meets the definition of "trading" in ASC Topic 320, Investments–Debt Securities, and ASC Topic 815, Derivatives and Hedging, and the definition of "trading purposes" in ASC Topic 815.

For purposes of the Consolidated Reports of Condition and Income, all debt securities within the scope of ASC Topic 320, Investments–Debt Securities, that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than debt securities within the scope of ASC Topic 320) and liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (a) for market making activities, including such activities as accumulating loans for sale or securitization; (b) to benefit from actual or expected price movements; or (c) to lock in arbitrage profits. When reporting loans classified as trading in Schedule RC-D, banks should include only the fair value of the funded portion of the loan in item 6 of this schedule. If the unfunded portion of the loan, if any, is classified as trading (and does not meet the definition of a derivative), the fair value of the commitment to lend should be reported as an "Other trading asset" or an "Other trading liability," as appropriate, in Schedule RC-D, item 9 or item 13.b, respectively.

Assets, liabilities, and other financial instruments classified as trading shall be consistently valued at fair value as defined by ASC Topic 820, Fair Value Measurement.

Exclude from this schedule all available-for-sale securities and all loans and leases that do not satisfy the criteria for classification as trading as described above. (Also see the Glossary entry for "trading account.") Available-for-sale securities are generally reported in Schedule RC, item 2.b, and in Schedule RC-B, columns C and D. However, a bank may have certain assets that fall within the definition of "securities" in ASC Topic 320 (e.g., nonrated industrial development obligations) that the bank has designated as "available-for-sale" which are reported for purposes of the Consolidated Report of Condition in a balance sheet category other than "Securities" (e.g., "Loans and lease financing receivables"). Loans and leases that do not satisfy the criteria for the trading account should be reported in Schedule RC, item 4.a or item 4.b, and in Schedule RC-C.

Item Instructions**Item No. Caption and Instructions****ASSETS**

- 1** **U.S. Treasury securities.** Report the total fair value of securities issued by the U.S. Treasury (as defined for Schedule RC-B, item 1, "U.S. Treasury securities") held for trading.
- 2** **U.S. Government agency obligations.** Report the total fair value of all obligations of U.S. Government agencies (as defined for Schedule RC-B, item 2, "U.S. Government agency and sponsored agency obligations") held for trading. Exclude mortgage-backed securities.
- 3** **Securities issued by states and political subdivisions in the U.S.** Report the total fair value of all securities issued by states and political subdivisions in the United States (as defined for Schedule RC-B, item 3, "Securities issued by states and political subdivisions in the U.S.") held for trading.
- 4** **Mortgage-backed securities.** Report in the appropriate subitem the total fair value of all mortgage-backed securities held for trading.
- 4.a** **Residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA.** Report the total fair value of all residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA," and item 4.a.(2), Residential pass-through securities "Issued by FNMA and FHLMC") held for trading.
- 4.b** **Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored agencies.** Report the total fair value of all other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies (as defined for Schedule RC-B, item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies") held for trading.
- U.S. Government agencies include, but are not limited to, such agencies as the Government National Mortgage Association (GNMA), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA). U.S. Government-sponsored agencies include, but are not limited to, such agencies as the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA).
- 4.c** **All other residential MBS.** Report the total fair value of all other residential mortgage-backed securities (as defined for Schedule RC-B, item 4.a.(3), "Other [residential mortgage] pass-through securities," item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," and item 4.b.(3), "All other residential MBS") held for trading.
- 4.d** **Commercial MBS issued or guaranteed by U.S. Government agencies or sponsored agencies.** Report the total fair value of all commercial mortgage-backed securities (as defined for Schedule RC-B, item 4.c, "Commercial MBS") issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies that are held for trading. Also include commercial mortgage pass-through securities guaranteed by the Small Business Administration.

Schedule RC-E, Part II. Deposits in Foreign Offices (FFIEC 031 only)**General Instructions**

Part II of Schedule RC-E is not applicable to banks filing the FFIEC 041 report forms.

For purposes of this report, IBFs are to be treated as foreign offices and their deposit liabilities should be reported only in Schedule RC-E, Part II. Also included in this part are deposit liabilities of all offices of Edge and Agreement subsidiaries and deposit liabilities of offices in foreign countries, regardless of whether a deposit liability carried on the books and records of an office in a foreign country may also be payable at an office of the reporting institution in the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions.

The definition of deposits in Schedule RC-E, Part I, will apply directly to deposit liabilities of branches in Puerto Rico and U.S. territories and possessions and to the domestic offices of Edge and Agreement subsidiaries. However, for all other "foreign offices," the definition of deposits in Schedule RC-E, Part I, must be adjusted for any differences in statutory and regulatory requirements and in institutional practices in foreign countries.

For these other foreign offices include as deposits:

- (1) Liabilities readily identifiable as deposits because of name or definition.
- (2) All foreign office liabilities identical to those described for domestic offices that have different names in different countries.
- (3) Liabilities that, owing to law, custom, or banking practice in foreign countries, have characteristics similar to those defined for Schedule RC-E, Part I.
- (4) Any other foreign office liability that is treated as a deposit by the laws, local custom, or banking practice of the country in which it is booked.

Report any nondeposit borrowing of an office in a foreign country as a borrowing in Schedule RC-M, item 5.b, "Other borrowings," or in other items, as appropriate.

When it is not clear whether a liability in a foreign office should be treated as a deposit or as a borrowing, treat it as a deposit. Report all deposits in IBFs in Schedule RC-E, Part II, whether in the form of deposits, borrowings, placements, or similar instruments. Exclude IBF liabilities in the form of securities sold under agreements to repurchase (report in Schedule RC, item 14.b), borrowings of immediately available funds that have an original maturity of one business day or roll over under a continuing contract that are not securities repurchase agreements (report in Schedule RC-M, item 5.b), and accrued liabilities, such as interest accrued but unpaid (report in Schedule RC-G, item 1.b).

For a discussion of deposits in foreign offices, see the Glossary entry for "borrowings and deposits in foreign offices."

Reciprocal balances between foreign offices of the reporting bank and other depository institutions may be reported on a net basis in accordance with generally accepted accounting principles.

Part II. Deposits in Foreign Offices (cont.)**Item Instructions****Item No. Caption and Instructions**

NOTE: Items 1 through 6 are to be completed by institutions with \$10 billion or more in total assets.

- 1 Deposits of individuals, partnerships, and corporations (include all certified and official checks).** Report all balances in foreign offices standing to the credit of individuals, partnerships, and corporations (as defined for Schedule RC-E, Part I, item 1). Report all certified and official checks issued by foreign offices of the reporting bank (as defined for Schedule RC-E, Part I, item 1). Also report all other liabilities that, owing to law, custom, or banking practice in foreign countries, have characteristics similar to those specified for domestic offices.

- 2 Deposits of U.S. banks (including IBFs and foreign branches of U.S. banks) and other U.S. depository institutions.** Report all deposit balances in foreign offices of the reporting bank standing to the credit of banks and other depository institutions headquartered and chartered in the United States. Include both U.S. and non-U.S. branches of U.S. commercial banks and other depository institutions as well as IBFs established by U.S. commercial banks. Exclude U.S. branches and agencies of foreign banks and IBFs established by such branches and agencies. (See the Glossary entry for "banks, U.S. and foreign" for the definition of U.S. banks and the Glossary entry for "depository institutions in the U.S." for further discussion of this term).

- 3 Deposits of foreign banks (including U.S. branches and agencies of foreign banks, including their IBFs).** Report all balances in foreign offices of the reporting bank standing to the credit of banks headquartered and chartered in foreign countries. Include both U.S. and non-U.S. branches of foreign banks and IBFs established by U.S. branches and agencies of foreign banks. Exclude foreign offices of U.S. banks. (See the Glossary entry for "banks, U.S. and foreign" for the definition of foreign banks.)

- 4 Deposits of foreign governments and official institutions.** Report all balances in foreign offices standing to the credit of foreign governments and official institutions, including foreign central banks. (See the Glossary entry for "foreign governments and official institutions" for the definition of this term.)

- 5 Deposits of U.S. Government and states and political subdivisions in the U.S.** Report all balances in foreign offices standing to the credit of the U.S. Government and states and political subdivisions in the U.S. (as defined for Schedule RC-E, Part I, items 2 and 3).

- 6 Total.** Report the sum of items 1 through 5. This item must equal Schedule RC, item 13.b, "Deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs."

Item No. Caption and Instructions

- 13 Total gross notional amount of derivative contracts held for trading.** Report, in the appropriate column, the total notional amount or par value of those derivative contracts reported in Schedule RC-L, item 12, above that are held for trading purposes. Contracts held for trading purposes include those used in dealing and other trading activities. Derivative instruments used to hedge trading activities should also be reported in this item.

Derivative trading activities include (a) regularly dealing in interest rate contracts, foreign exchange contracts, equity derivative contracts, and commodity and other contracts meeting the definition of a “derivative instrument” in, and accounted for in accordance with, ASC Topic 815, Derivatives and Hedging, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell (or repurchase) in order to profit from short-term price movements, and (c) acquiring or taking positions in such items as accommodations to customers, provided that acquiring or taking such positions meets the definitions of “trading” and “trading purposes” in ASC Topic 815. The notional amount of those derivative positions acquired or taken as accommodations to customers not meeting the definitions of “trading” and “trading purposes” in ASC Topic 815 should be reported in Schedule RC-L, item 14, “Total gross notional amount of derivative contracts held for purposes other than trading.”

The reporting bank's trading department may have entered into a derivative contract with another department or business unit within the consolidated bank (and which has been reported on a net basis in accordance with the instructions to Schedule RC-L, item 12 above). If the trading department has also entered into a matching contract with a counterparty outside the consolidated bank, the contract with the outside counterparty should be designated as held for trading or as held for purposes other than trading consistent with the contract's designation for other financial reporting purposes.

- 14 Total gross notional amount of derivative contracts held for purposes other than trading.** Report, in the appropriate column, the total notional amount or par value of those contracts reported in Schedule RC-L, item 12, above, that are held for purposes other than trading.

- 14.a Interest rate swaps where the bank has agreed to pay a fixed rate.** Report the notional amount of all outstanding interest rate swaps included in Schedule RC-L, item 14, column A, above, on which the reporting bank is obligated to pay a fixed rate. The interest rate swaps that are reported in this item will also have been reported in Schedule RC-L, item 12.e, column A. Interest rate swaps that are held for trading should not be reported in this item 14.a.

A fixed interest rate is a rate that is specified at the origination of the transaction, is fixed and invariable during the term of the interest rate swap, and is known to both the bank and the swap counterparty. Also treated as a fixed interest rate is a predetermined interest rate which is a rate that changes during the term of the interest rate swap on a predetermined basis, with the exact rate of interest over the life of the swap known with certainty to both the bank and the swap counterparty at the origination of the transaction.

- 15 Gross fair values of derivative contracts.** Report in the appropriate column and subitem the fair value of all derivative contracts reported in Schedule RC-L, items 13 and 14, above. For each of the four types of underlying risk exposure in columns A through D, the gross positive and gross negative fair values will be reported separately for (i) contracts held for trading purposes (in item 15.a) and (ii) contracts held for purposes other than trading (in item 15.b). Guidance for reporting by type of underlying risk exposure is provided in the instructions for Schedule RC-L, item 12, above. Guidance for reporting by purpose is provided in the instructions for Schedule RC-L, items 13 and 14, above.

Item No. Caption and Instructions

15
(cont.) All transactions within the consolidated bank should be reported on a net basis. No other netting of contracts is permitted for purposes of this item. Therefore, do not net (1) obligations of the reporting bank to buy against the bank's obligations to sell, (2) written options against purchased options, (3) positive fair values against negative fair values, or (4) contracts subject to bilateral netting agreements.

According to ASC Topic 820, Fair Value Measurement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the asset's or liability's principal (or most advantageous) market at the measurement date. For purposes of item 15, the reporting bank should determine the fair value of its derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes, consistent with the guidance in ASC Topic 820.

15.a **Contracts held for trading.** Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for trading that are reported in Schedule RC-L, item 13, above.

15.a.(1) **Gross positive fair value.** Report in the appropriate column the total fair value of those contracts reported in Schedule RC-L, item 13, above, with positive fair values.

15.a.(2) **Gross negative fair value.** Report in the appropriate column the total fair value of those contracts reported in Schedule RC-L, item 13, above, with negative fair values. Report the total fair value as an absolute value, do not report with a minus (-) sign.

15.b **Contracts held for purposes other than trading.** Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for purposes other than trading that are reported in Schedule RC-L, item 14, above.

15.b.(1) **Gross positive fair value.** Report in the appropriate column the total fair value of those contracts reported in Schedule RC-L, item 14, above, with positive fair values.

15.b.(2) **Gross negative fair value.** Report in the appropriate column the total fair value of those contracts reported in Schedule RC-L, item 14, above, with negative fair values. Report the total fair value as an absolute value, do not report with a minus (-) sign.

Item No. Caption and Instructions

- 2**
(cont.)
- (2) *Reciprocal balances*: Any demand deposit due from or cash item in the process of collection due from any depository institution (not including a foreign bank or foreign office of another U.S. depository institution) up to the total amount of deposit balances due to and cash items in the process of collection due such depository institution.
- (3) *Drafts drawn on other depository institutions*: Any outstanding drafts (including advices and authorization to charge the depository institution's balance in another bank) drawn in the regular course of business by the reporting depository institution.
- (4) *Pass-through reserve balances*: Reserve balances passed through to the Federal Reserve by the reporting institution that are also reflected as deposit liabilities of the reporting institution. This exclusion is not applicable to an institution that does not act as a correspondent bank in any pass-through reserve balance relationship. A state nonmember bank generally cannot act as a pass-through correspondent unless it maintains an account for its own reserve balances directly with the Federal Reserve.
- (5) *Depository institution investment contracts*: Liabilities arising from depository institution investment contracts that are not treated as insured deposits under section 11(a)(5) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(5)). A Depository Institution Investment Contract is a separately negotiated depository agreement between an employee benefit plan and an insured depository institution that guarantees a specified rate for all deposits made over a prescribed period and expressly permits benefit-responsive withdrawals or transfers.
- (6) *Accumulated deposits*: Deposits accumulated for the payment of personal loans that are assigned or pledged to assure payment of the loans at maturity. Deposits that simply serve as collateral for loans are not an allowable exclusion.

NOTE: Item 3 is applicable only to banks filing the FFIEC 031 report form.

- 3** **Total foreign deposits, including interest accrued and unpaid thereon (included in item 2 above).** Report on an unconsolidated single FDIC certificate number basis the total amount of foreign deposits (including International Banking Facility deposits), including interest accrued and unpaid on these deposits, as of the calendar quarter-end report date included in Schedule RC-O, item 2 above.
- 4** **Average consolidated total assets for the calendar quarter.** Report average consolidated total assets for the calendar quarter on a single FDIC certificate number basis in accordance with the guidance on "Averaging method" and "Measuring average consolidated total assets" below. For purposes of this item, average consolidated total assets is not a quarterly average of total assets measured in accordance with the instructions for Schedule RC, item 12, "Total assets."

Averaging methods – An institution that reported \$1 billion or more in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, and any institution that becomes FDIC-insured after March 31, 2011, must report average consolidated total assets in this item on a daily average basis. An institution that reported less than \$1 billion in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, may report average consolidated total assets in this item on a weekly average basis, or it may at any time opt permanently to report average consolidated total assets on a daily average basis. Once an institution that reports average consolidated total assets using a weekly average

Item No. Caption and Instructions

4 reports average consolidated total assets of \$1 billion or more in this item for two consecutive quarters, it must permanently report average consolidated total assets using daily averaging beginning the next quarter.

(cont.)

Daily average consolidated total assets should be calculated by adding the institution's consolidated total assets as of the close of business for each day of the calendar quarter and dividing by the number of days in the calendar quarter (the number of days in a quarter ranges from 90 days to 92 days). For days that an institution is closed (e.g., Saturdays, Sundays, or holidays), the amount from the previous business day would be used. An institution is considered closed if there are no transactions posted to the general ledger as of that date.

Weekly average consolidated total assets should be calculated by adding the institution's consolidated total assets as of the close of business on each Wednesday during the calendar quarter and dividing by the number of Wednesdays in the quarter.

An institution that becomes newly insured and begins operating during the calendar quarter should report average consolidated total assets on a daily average basis. Daily average consolidated total assets for such an institution should be calculated by adding the institution's consolidated total assets as of the close of business for each day during the quarter since it became insured and operational, and dividing by the number of calendar days since it became insured and operational.

Measuring average consolidated total assets – Average consolidated total assets should be measured in accordance with the instructions for Schedule RC-K, item 9, average "Total assets" (i.e., including the adjustments for available-for-sale debt and equity securities), except as follows:

- (1) If the reporting institution has an FDIC-insured depository institution subsidiary, the subsidiary should not be consolidated. Instead, the reporting institution's investment in this subsidiary should be included in average consolidated total assets using the equity method of accounting.
- (2) If the reporting institution is the surviving or resulting institution in a merger or consolidation that occurred during the calendar quarter, the reporting institution should calculate its average consolidated total assets by including the consolidated total assets of all FDIC-insured depository institutions that were merged or consolidated into the reporting institution as if the merger or consolidation occurred on the first day of the calendar quarter. Acceptable methods for including a merged or consolidated FDIC-insured depository institution's consolidated total assets in this calculation for the days during the calendar quarter preceding the merger or consolidation date include using either (a) the acquisition date fair value of the merged or consolidated institution's consolidated total assets for all days (or all Wednesdays) during the calendar quarter preceding the acquisition date or (b) the merged or consolidated institution's consolidated total assets, as defined for Schedule RC-K, item 9, average "Total assets," for each day (or each Wednesday) during the calendar quarter preceding the acquisition date.¹

¹ This approach to calculating average consolidated total assets for purposes of Schedule RC-O, item 4, does not apply if the reporting institution is the surviving or resulting institution in a merger or consolidation during the calendar quarter involving an entity, such as a credit union, that is not an FDIC-insured depository institution. In such a merger or consolidation, the reporting institution should apply the guidance on business combinations in the General Instructions for Schedule RC-K when measuring average consolidated total assets for purposes of Schedule RC-O, item 4.

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. For purposes of the Consolidated Reports of Condition and Income, all debt securities within the scope of ASC Topic 320, Investments-Debt Securities, that an institution has elected to report at fair value under a fair value option should be classified as trading securities.
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).

- | <u>Item No.</u> | <u>Caption and Instructions</u> |
|-----------------|---|
| 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](#).

These instructions exclude updates pertaining to the regulatory capital-related interim final rules (IFRs) issued by the banking agencies from March through June 2020. See the separate standalone [June 2020 COVID-19 Related Supplemental Instructions \(Call Report\)](#) for instructional changes related to these IFRs.

Part I. Regulatory Capital Components and Ratios

Contents – Part I. Regulatory Capital Components and Ratios

General Instructions for Schedule RC-R, Part I	RC-R-2
Community Bank Leverage Ratio Framework	RC-R-2
Advanced Approaches Institutions	RC-R-3
Item Instructions for Schedule RC-R, Part I	RC-R-4
Common Equity Tier 1 Capital	RC-R-4
Common Equity Tier 1 Capital: Adjustments and Deductions	RC-R-9
Additional Tier 1 Capital	RC-R-31
Tier 1 Capital	RC-R-39
Total Assets for the Leverage Ratio	RC-R-39
Leverage Ratio	RC-R-42
Qualifying Criteria and Other Information for CBLR Institutions	RC-R-42
Tier 2 Capital	RC-R-45
Total Capital	RC-R-55
Total Risk-Weighted Assets	RC-R-55
Risk-Based Capital Ratios	RC-R-55
Capital Buffer	RC-R-56
Supplementary Leverage Ratio	RC-R-60

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. 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.²

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.

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.

² 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, 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.

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 3-year CECL transition provision (3-year 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 3-year 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 3-year 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 for the 3-year CECL transition provision:***Assumptions:***

- For example, consider an institution that elects to apply the 3-year CECL transition and 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 3-year 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 3-year 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 3-year 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 3-year 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 3-year CECL transition provision of the 3-year CECL electing institution is transitioned into regulatory capital according to the schedule provided in Table 1 below.

Table 1 – Example of a 3-Year CECL Transition Provision Schedule

Dollar Amounts in Thousands	Transitional Amounts	Transitional Amounts Applicable During Each Year of the 3-Year 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 should leave item 2.a blank.

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
(cont.)

(i) All institutions, except advanced approaches institutions

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 (\$9 from Step 4 or \$12 (\$7+\$5) from the assumptions) = \$9</i>

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

- 4** **(ii) *Advanced approaches institutions:***
(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. ¹	$\$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

- 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.

¹ 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 capital buffers.

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

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

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 (cont.) 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.

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 are not yet required to adopt [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 are required to 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 are not yet required to adopt 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 are required to 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 are not yet required to adopt 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 are required to 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****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):***

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):

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.

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.

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

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):

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.

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.

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

13	13.a	
(cont.)	(cont.)	
		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:
		(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. 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:

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

- | | | |
|---|------------------------|--|
| - | 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> |
|---|------------------------|--|

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, 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.

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.

- | | | |
|----|------|--|
| 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> |
|----|------|--|

Part I. (cont.)

FFIEC 041 FFIEC 031

Item No. Item No. Caption and Instructions

- | | | |
|------------------------------|--------------------------------|---|
| <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> |
|------------------------------|--------------------------------|---|

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. Item 14.b is not applicable to institutions that file the FFIEC 041.

- | | | |
|----------|--------------------|---|
| <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> |
|----------|--------------------|---|

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

- **14.b** For advanced approaches institutions, apply a 250 percent risk-weight to MSAs that are not deducted from common equity tier 1 capital, without regard to any associated DTLs.
(cont.)

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 $\$20 - \$6 = \$14$

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.

- 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.

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 \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 $\$20 - \$15 = \$5$

NOTE: On the FFIEC 031, item 15.b is to be completed only by advanced approaches institutions. 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.

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, 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 $\$20 - \$6 = \$14$

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. Item 16 is not applicable to institutions that file the FFIEC 041.

- | | | |
|---|----|--|
| - | 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> |
|---|----|--|

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).

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.

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	$\$10 + 13 + \$13 = \$36$

This page intentionally left blank.

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:	
	<ul style="list-style-type: none"> 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:	
	<ul style="list-style-type: none"> 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:	
	<ul style="list-style-type: none"> 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). 	<ul style="list-style-type: none"> a. $\\$12 \times (10/60) = \\2 b. $\\$12 \times (20/60) = \\4 c. $\\$12 \times (30/60) = \\$6.$

Part I. (cont.)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):***

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):

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.

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.**

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:

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.

Part I. (cont.)

Item No. Caption and Instructions

- 22** • The parent banking organization’s additional tier 1 capital instruments before minority interest and additional tier 1 deductions equal \$15.
- (cont.) • 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:

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:

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 capital buffers.

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

- 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) 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.

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) 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

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

- 24**
(cont.) (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) 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.

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.
- (cont.)
- (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 3-year CECL transition provision (3-year 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 3-year 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:***

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:

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

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:

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).

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:

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.

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 \text{ (from examples in items 4 and 22)}) = \13.48 .

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 capital buffers.

Part I. (cont.)

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 3-year CECL transition provision (3-year CECL electing institution) should decrease its applicable AACL transitional amount in accordance with section 301 of the regulatory capital rules. Specifically, a 3-year 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. 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.
---------------	-----------------	---

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.
---	------	--

**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 are not yet required to adopt 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 are required to 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>
----	--

(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
(cont.) 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).

(i) Non-advanced approaches institutions:

(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

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) 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.

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.

- (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.
- (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**Item No. Caption and Instructions**

- 52** **Institution-specific capital buffer necessary to avoid limitations on distributions and discretionary bonus payments.**

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 an institution-specific capital buffer¹ above its minimum risk-based capital requirements.

- 52.a** **Capital conservation buffer.** Report the institution's capital 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 buffer to be reported in this item 52.a for the June 30, 2020, report date would be based on the capital ratios reported in Schedule RC-R, Part I, of the Call Report for June 30, 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 capital buffer is in place or if the institution is subject to countercyclical capital buffers in other jurisdictions. The total applicable capital buffer requirement applicable to an advanced approaches institution or Category III institution as of the quarter-end report date should be reported in Schedule RC-R, Part I, item 52.b.

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 requirement for the reporting institution as specified in the capital rule. The total applicable capital buffer requirement is the sum of the capital conservation buffer (2.5000 percent) plus any countercyclical capital buffer that is in place plus any countercyclical capital buffers in other jurisdictions to which the institution is subject.

NOTE: Non-advanced approaches institutions other than Category III institutions must complete Schedule RC-R, Part I, item 53, only if the amount reported in Schedule RC-R, Part I, item 52.a, above, is less than or equal to 2.5000 percent. Advanced approaches institutions and Category III institutions must complete Schedule RC-R, Part I, item 53, only if the amount reported in Schedule RC-R, Part I, item 52.a, above, is less than or equal to the amount reported in Schedule RC-R, Part I, item 52.b, above.

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

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

53
(cont.) 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).

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.

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: Non-advanced approaches institutions other than Category III institutions must complete Schedule RC-R, Part I, item 54, only if the amount reported in Schedule RC-R, Part I, item 52.a, in the Call Report for the previous calendar quarter-end report date was less than or equal to 2.5000 percent. Advanced approaches institutions and Category III institutions must complete Schedule RC-R, Part I, item 54, only if the amount reported in Schedule RC-R, Part I, item 52.a, in the Call Report for the previous calendar quarter-end report date was less than or equal to the amount reported in Schedule RC-R, Part I, item 52.b, in the Call Report for the previous calendar quarter-end report date.

Item No. Caption and Instructions

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

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

- 54** For example:
- (cont.) • A non-advanced approaches institution other than a Category III institution must report the amount of distributions and discretionary bonus payments made during the calendar quarter ending June 30, 2020, in this item 54 in its June 30, 2020, Call Report only if the amount of its capital conservation buffer as reported in Schedule RC-R, Part I, item 52.a, in its March 31, 2020, Call Report was less than or equal to 2.5000 percent
- An institution that is an advanced approaches institution or a Category III institution must report the amount of distributions and discretionary bonus payments made during the calendar quarter ending June 30, 2020, in this item 54 in its June 30, 2020, Call Report only if the amount of its capital buffer as reported in Schedule RC-R, Part I, item 52.a, in its March 31, 2020, Call Report was less than or equal to the amount reported in Schedule RC-R, Part I, item 52.b, in its March 31, 2020, Call Report.

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:
 - (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.

Part I. (cont.)**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.

55.a **Total leverage exposure.** Report the institution’s total leverage exposure as measured in accordance with section 10(c)(4)(ii)(A) through (H) of the regulatory capital rules, as adjusted pursuant to section 10(c)(4)(ii)(I) for a clearing member institution and section 10(c)(4)(ii)(J) for a custody bank.

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 3-year CECL transition provision (3-year 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 3-year 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

These instructions exclude updates pertaining to the regulatory capital-related interim final rules (IFRs) issued by the banking agencies from March through June 2020. See the separate standalone [June 2020 COVID-19 Related Supplemental Instructions \(Call Report\)](#) for instructional changes related to these IFRs.

Contents – Part II. Risk-Weighted Assets

Community Bank Leverage Ratio Framework	RC-R-62
General Instructions for Schedule RC-R, Part II	RC-R-62
Exposure Amount Subject to Risk Weighting	RC-R-63
Amounts to Report in Column B	RC-R-64
Treatment of Collateral and Guarantees	RC-R-66
a. Collateralized Transactions	RC-R-66
b. Guarantees and Credit Derivatives	RC-R-67
Treatment of Equity Exposures	RC-R-67
Treatment of Sales of 1-4 Family Residential First Mortgage Loans with Credit-Enhancing Representations and Warranties	RC-R-69
Treatment of Exposures to Sovereign Entities and Foreign Banks	RC-R-70
Summary of Risk Weights for Exposures to Government and Public Sector Entities	RC-R-72
Risk-Weighted Assets for Securitization Exposures	RC-R-72
a. Exposure Amount Calculation	RC-R-73
b. Simplified Supervisory Formula Approach	RC-R-74
c. Gross-Up Approach	RC-R-76
d. 1,250 Percent Risk Weight Approach	RC-R-78
Banks That Are Subject to the Market Risk Capital Rule	RC-R-79
Adjustments for Financial Subsidiaries	RC-R-80
Treatment of Embedded Derivatives	RC-R-81
Reporting Exposures Hedged with Cleared Eligible Credit Derivatives	RC-R-82
Treatment of Certain Centrally Cleared Derivative Contracts	RC-R-82
Treatment of FDIC Loss-Sharing Agreements	RC-R-84
Allocated Transfer Risk Reserve	RC-R-84
Item Instructions for Schedule RC-R, Part II	RC-R-85
Balance Sheet Asset Categories	RC-R-85
Securitization Exposures: On- and Off-Balance Sheet	RC-R-126
Total Assets	RC-R-132
Derivatives, Off-Balance Sheet Items, and Other Items Subject To Risk Weighting (Excluding Securitization Exposures)	RC-R-133
Totals	RC-R-157
Memoranda	RC-R-160

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.

Part II. (cont.)**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 value² of the exposure.
- (2) For a security³ 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)⁴ 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,⁵ 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.

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 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 U.S. generally accepted accounting principles (GAAP). For all assets other than available-for-sale debt securities or purchased credit-deteriorated assets, the carrying value is not reduced by any associated credit loss allowance that is determined in accordance with U.S. GAAP.

³ Not including: (1) a securitization exposure, (2) an equity exposure, or (3) preferred stock classified as an equity security under U.S. GAAP.

⁴ 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."

⁵ 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.)**

- (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.
- (8) For an exposure that is a securitization exposure, the exposure amount determined under §.42 of the regulatory capital rules.

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, 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, 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, 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.*

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: 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.

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

- For advanced approaches institutions: 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

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.)**

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 depend on the tranche's attachment point and detachment point relative to K_A .

Case 1: If the detachment point, parameter D , is less than or equal to K_A , the exposure is assigned a risk weight of 1,250 percent.

Case 2: If the attachment point, parameter A , is less than K_A and the detachment point, parameter D , is greater than K_A , the risk weight is a weighted average of 1,250 percent and 1,250 percent times K_{SSFA} , calculated as shown below:

$$RW = \left[\left(\frac{K_A - A}{D - A} \right) \times 1,250 \text{ percent} \right] + \left[\left(\frac{D - K_A}{D - A} \right) \times 1,250 \text{ percent} \times K_{SSFA} \right]$$

Case 3: If the attachment point, parameter A , is greater than or equal to K_A , the risk weight is the product of K_{SSFA} and 1,250 percent, as shown in the following equation:

$$RW = 1,250 \text{ percent} \times K_{SSFA}$$

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.)**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*, 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*, 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:

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 are not yet required to adopt 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 are required to 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** Exposure amount to be used for purposes of risk weighting by a bank that has made the
(cont.) AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
- For institutions that are not yet required to adopt 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 are required to 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 is not yet required to adopt 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 is required to have 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*, 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 is not yet required to adopt ASU 2016-01) or item 2.c (for a bank that is required to have 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*, 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 is not yet required to adopt ASU 2016-01) or item 2.c (for a bank that is required to have 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 is not yet required to adopt ASU 2016-01) or item 2.c (for a bank that is required to have 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.

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 is not yet required to adopt ASU 2016-01) or item 2.c (for a bank that is required to have 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, 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 is not yet required to adopt ASU 2016-01) or item 2.c (for a bank that is required to have 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, 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.

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 is not yet required to adopt ASU 2016-01) or item 2.c (for a bank that is required to have 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 is not yet required to adopt 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 is required to have 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 is not yet required to adopt 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 is required to have 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 is not yet required to adopt ASU 2016-01) or item 2.c (for a bank that is required to have 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 is not yet required to adopt ASU 2016-01) or items 2.b and 2.c (for a bank that is required to have 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 is not yet required to adopt ASU 2016-01) or Schedule RC, item 2.c, "Equity securities with readily determinable fair values not held for trading" (for a bank that is required to have 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.

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

- 3.a** (cont.)
- *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.
 - 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**
(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.

HVCRE exposure means:

- (1) A credit facility secured by land or improved real property that, prior to being reclassified by the institution as a non-HVCRE exposure pursuant to paragraph (6) of this definition—
 - (i) Primarily finances, has financed, or refinances the acquisition, development, or construction of real property;
 - (ii) Has the purpose of providing financing to acquire, develop, or improve such real property into income-producing real property; and
 - (iii) Is dependent upon future income or sales proceeds from, or refinancing of, such real property for the repayment of such credit facility.
- (2) An HVCRE exposure does not include a credit facility financing—
 - (i) The acquisition, development, or construction of properties that are—
 - (A) One- to four-family residential properties. Credit facilities that do not finance the construction of one- to four-family residential structures, but instead solely finance improvements such as the laying of sewers, water pipes, and similar improvements to land, do not qualify for the one- to four-family residential properties exclusion;
 - (B) Real property that would qualify as an investment in community development; or
 - (C) Agricultural land;
 - (ii) The acquisition or refinancing of existing income-producing real property secured by a mortgage on such property, if the cash flow being generated by the real property is sufficient to support the debt service and expenses of the real property, in accordance with the institution's applicable loan underwriting criteria for permanent financings;
 - (iii) Improvements to existing income-producing improved real property secured by a mortgage on such property, if the cash flow being generated by the real property is sufficient to support the debt service and expenses of the real property, in accordance with the institution's applicable loan underwriting criteria for permanent financings; or
 - (iv) Commercial real property projects in which—
 - (A) The loan-to-value ratio is less than or equal to the applicable maximum supervisory loan-to-value ratio as determined by an institution's primary federal regulator;
 - (B) The borrower has contributed capital of at least 15 percent of the real property's appraised, 'as completed' value to the project in the form of—
 - (1) Cash;
 - (2) Unencumbered readily marketable assets;
 - (3) Paid development expenses out-of-pocket; or
 - (4) Contributed real property or improvements; and
 - (C) The borrower contributed the minimum amount of capital described under paragraph (2)(iv)(B) of this definition before the institution advances funds (other than the advance of a nominal sum made in order to secure the institution's lien against the real property) under the credit facility, and such minimum amount of capital contributed by the borrower is contractually required to remain in the project until the HVCRE exposure has been reclassified by the institution as a non-HVCRE exposure under paragraph (6) of this definition;
- (3) An HVCRE exposure does not include any loan made prior to January 1, 2015;
- (4) An HVCRE exposure does not include a credit facility reclassified as a non-HVCRE exposure under paragraph (6) of this definition.
- (5) Value of contributed real property: For the purposes of this HVCRE exposure definition, the value of any real property contributed by a borrower as a capital contribution is the appraised value of the property as determined under standards prescribed pursuant to section 1110 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3339), in connection with the extension of the credit facility or loan to such borrower.
- (6) Reclassification as a non-HVCRE exposure: For purposes of this HVCRE exposure definition and with respect to a credit facility and an institution, an institution may reclassify an HVCRE exposure as a non-HVCRE exposure upon—
 - (i) The substantial completion of the development or construction of the real property being financed by the credit facility; and
 - (ii) Cash flow being generated by the real property being sufficient to support the debt service and expenses of the real property, in accordance with the institution's applicable loan underwriting criteria for permanent financings.
- (7) For purposes of this definition, an institution is not required to reclassify a credit facility that was originated on or after January 1, 2015, and prior to April 1, 2020.

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

- 4.b**
(cont.)
- *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.
 - *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

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

- 4.c** 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).
- (cont.)
- *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.
 - *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

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

4.c uncollateralized or collateralized by other qualifying collateral would be reported in
(cont.) 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.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

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

- 4.c**
(cont.) 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 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.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, 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.

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

- 7**
(cont.)
- In column B for advanced approaches institutions, 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,

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, 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, 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.
 - The fair value of high volatility commercial real estate exposures, as defined in §.2 of the regulatory capital rules, included in Schedule RC, item 5, 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*

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*, 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.

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

- 8**
(cont.)
- *In column B for advanced approaches institutions, 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 3-year CECL transition provision (3-year 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 3-year 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;

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. 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.

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
(cont.) derivative contract cleared through a central counterparty or a qualified central counterparty, 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. 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.

	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
(cont.) When using CEM, 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 (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**

- 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),
 - Items 13.a, 14.a, and 15.a, column A, on the FFIEC 031 for non-advanced approaches institutions; items 13.b, 14.b, 15.b, and 16, column B, for advanced approaches institutions; and items 13 through 15 on the FFIEC 041,

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;

OPTIONAL NARRATIVE STATEMENT CONCERNING THE AMOUNTS REPORTED IN THE CONSOLIDATED REPORTS OF CONDITION AND INCOME

The management of the reporting bank may, if it wishes, submit a brief narrative statement on the amounts reported in the Consolidated Reports of Condition and Income. This optional statement will be made available to the public, along with the publicly available data in the Consolidated Reports of Condition and Income, in response to any request for individual bank report data. However, the information reported in Schedule RI-E, item 2.g; Schedule RC-C, Part I, Memorandum items 17.a and 17.b; Schedule RC-O, Memorandum items 6 through 9, 14, 15, and 18; and Schedule RC-P, items 7.a and 7.b, is regarded as confidential and will not be made available to the public on an individual institution basis. **BANKS CHOOSING TO SUBMIT THE NARRATIVE STATEMENT SHOULD ENSURE THAT THE STATEMENT DOES NOT CONTAIN THE NAMES OR OTHER IDENTIFICATIONS OF INDIVIDUAL BANK CUSTOMERS, REFERENCES TO THE AMOUNTS REPORTED IN THE CONFIDENTIAL ITEMS IDENTIFIED ABOVE, OR ANY OTHER INFORMATION THAT THEY ARE NOT WILLING TO HAVE MADE PUBLIC OR THAT WOULD COMPROMISE THE PRIVACY OF THEIR CUSTOMERS.** Banks choosing not to make a statement may check the "No comment" box and should make no entries of any kind in the space provided for the narrative statement; i.e., **DO NOT** enter in this space such phrases as "No statement," "Not applicable," "N/A," "No comment," and "None."

The optional statement must be entered on the sheet provided by the agencies. The statement should not exceed 100 words. Further, regardless of the number of words, the statement must not exceed 750 characters, including punctuation, indentation, and standard spacing between words and sentences. If any submission should exceed 750 characters, as defined, it will be truncated at 750 characters with no notice to the submitting bank and the truncated statement will appear as the bank's statement both on agency computerized records and in computer-file releases to the public.

All information furnished by the bank in the narrative statement must be accurate and not misleading. Appropriate efforts shall be taken by the submitting bank to ensure the statement's accuracy.

If, subsequent to the original submission, material changes are submitted for the data reported in the Consolidated Reports of Condition and Income, the existing narrative statement will be deleted from the files, and from disclosure; the bank, at its option, may replace it with a statement appropriate to the amended data.

The optional narrative statement will appear in agency records and in release to the public exactly as submitted (or amended as described in the preceding paragraph) by the management of the bank (except for the truncation of statements exceeding the 750-character limit described above). **THE STATEMENT WILL NOT BE EDITED OR SCREENED IN ANY WAY BY THE SUPERVISORY AGENCIES FOR ACCURACY OR RELEVANCE. DISCLOSURE OF THE STATEMENT SHALL NOT SIGNIFY THAT ANY FEDERAL SUPERVISORY AGENCY HAS VERIFIED OR CONFIRMED THE ACCURACY OF THE INFORMATION CONTAINED THEREIN. A STATEMENT TO THIS EFFECT WILL APPEAR ON ANY PUBLIC RELEASE OF THE OPTIONAL STATEMENT SUBMITTED BY THE MANAGEMENT OF THE REPORTING BANK.**

This page intentionally left blank.

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." For more information on the allowance for credit losses (ACL), institutions should also refer to the [Interagency Policy Statement on Allowances for Credit Losses](#) issued in May 2020.

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.

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. For additional information on the maintenance of appropriate allowances for credit losses, institutions should refer to the [Interagency Policy Statement on Allowances for Credit Losses](#) issued in May 2020.

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.

Trading Account: Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements, and (c) acquiring or taking positions in such items as accommodations to customers, provided that acquiring or taking such positions meets the definition of “trading” in ASC Topic 320, Investments–Debt Securities, and ASC Topic 815, Derivatives and Hedging, and the definition of “trading purposes” in ASC Topic 815.

For purposes of the Consolidated Reports of Condition and Income, all debt securities within the scope of ASC Topic 320, Investments–Debt Securities, that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than debt securities within the scope of ASC Topic 320 for which a fair value option is elected) and liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities as accumulating loans for sale or securitization; (2) to benefit from actual or expected price movements; or (3) to lock in arbitrage profits.

All trading assets should be segregated from a bank's other assets and reported in Schedule RC, item 5, "Trading assets." In addition, banks that (1) reported total trading assets (Schedule RC, item 5) of \$10 million or more in any of the four preceding calendar quarters, or (2) meet the FDIC's definition of a large or highly complex institution for deposit insurance assessment purposes should detail the types of assets and liabilities in the trading account in Schedule RC-D, Trading Assets and Liabilities, and the levels within the fair value measurement hierarchy in which the trading assets and liabilities fall in

This page intentionally left blank.