

## SCHEDULE HC-R – REGULATORY CAPITAL

### General Instructions for HC-R

The instructions for Schedule HC-R should be read in conjunction with the regulatory capital rules issued by the Federal Reserve.

Under the Federal Reserve’s regulatory capital rules, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar or exposure amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the holding company’s total risk-weighted assets which comprises the denominator of the risk-based capital ratio.

The term “exposure” generally refers to loans to, securities issued by, balances due from, accrued interest receivable from, and all other exposures against the various entities with which the reporting holding company conducts its business. Generally, the exposure amount for on-balance sheet assets is the carrying value. In the case of derivative contracts, the exposure amount, or credit equivalent amount, is the sum of the current credit exposure (fair value of the contract, if positive) and the potential future exposure, subject to any applicable netting agreements. In the case of most off-balance sheet items, the exposure amount, or credit equivalent amount, is determined by multiplying the face value or notional amount of the off-balance sheet item by a credit conversion factor.

The revised regulatory capital rules also provide a definition in § .2 for the term *exposure amount*. The definition of exposure amount (discussed further below in these instructions) is used to determine the amount of an exposure that holding companies will report and risk weight on this schedule.

Credit Conversion Factors for Off-Balance Sheet Items – A summary of the credit conversion factors (CCFs) follows. For further information on these factors, refer to the regulatory capital rules. Note that where a holding company commits to provide a commitment, the holding company may apply the lower of the two applicable CCFs. Where a holding company provides a commitment structured as a syndication or participation, the holding company is only required to calculate the exposure amount for its pro rata share. For off-balance sheet items reported in Schedule HC-R, Part II, items 12 to 22, the reporting holding company would only be required to report its pro rata share.

Off-balance sheet items subject to a zero percent conversion factor:

- (1) Unused portions of commitments that are unconditionally cancellable at any time by the holding company.

Off-balance sheet items subject to a 20 percent conversion factor:

- (1) Commercial and similar letters of credit with an original maturity of one year or less, including short-term, self-liquidating, trade-related contingent items that arise from the movement of goods.
- (2) Commitments with an original maturity of one year or less that are not unconditionally cancelable.

Off-balance sheet items subject to a 50 percent conversion factor:

- (1) Transaction-related contingent items, including performance standby letters of credit, bid bonds, performance bonds, and warranties.
- (2) Commercial and similar letters of credit with an original maturity exceeding one year.
- (3) Commitments with an original maturity exceeding one year that are not unconditionally cancelable by the holding company, including underwriting commitments, and commercial credit lines.

Off-balance sheet items subject to a 100 percent conversion factor:

- (1) Financial standby letters of credit.
- (2) Repo-style transactions, including off-balance sheet securities lending transactions, off-balance sheet securities borrowing transactions, securities purchased under agreements to resell, and securities sold under agreements to repurchase.
- (3) Guarantees, certain credit-enhancing representations and warranties, and forward agreements.

## **Part II: Risk-Weighted Assets**

### **General Instructions for Part II**

The instructions for Schedule HC-R, Part II, items 1 through 23 provide general directions for the allocation of holding company balance sheet assets and 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 11 only, to the items adjusted from the totals reported in Schedule HC-R, Part II, column A in column B). These instructions should provide sufficient guidance for most holding companies for risk-weighting their balance sheet assets and credit equivalent amounts. However, these instructions do not address every type of exposure. Holding companies should review the Federal Reserve’s regulatory capital rules for the complete description of the applicable capital requirements.

### **Exposure Amount Subject to Risk Weighting**

In general, holding companies 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,<sup>1</sup> the holding company’s carrying value of the exposure.
- (2) For a security<sup>2</sup> classified as AFS or HTM where the holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a), the carrying value for the exposure (including net accrued but uncollected interest and fees)<sup>3</sup> less any net unrealized gains on the exposure plus any unrealized loss on the exposure included in AOCI.
- (3) For AFS preferred stock classified as an equity security under GAAP where the holding company has made the AOCI opt-out election in Schedule HC-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 holding company’s regulatory capital components.
- (4) For the off-balance sheet component of an exposure,<sup>4</sup> the notional amount of the off-balance sheet component multiplied by the appropriate CCF in §.33 of the regulatory capital rules.

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<sup>1</sup> Not including: (1) an available-for-sale (AFS) or held-to-maturity (HTM) security where the holding company has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule HC-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 holding company 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.

<sup>2</sup> Not including: (1) a securitization exposure, (2) an equity exposure, or (3) preferred stock classified as an equity security under generally accepted accounting principles (GAAP).

<sup>3</sup> Where the holding company has made the AOCI opt-out election, accrued but uncollected interest and fees reported in Schedule HC, item 11, “Other assets,” associated with AFS or HTM debt securities that are not securitization exposures should be reported in Schedule HC-R, Part II, item 8, “All other assets.”

<sup>4</sup> Not including: (1) an OTC derivative contract, (2) a repo-style transaction or an eligible margin loan for which the holding company 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,

(5) For an exposure that is an OTC derivative contract, the exposure amount determined under §.34 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 of the regulatory capital rules.

(7) For an exposure that is an eligible margin loan or repo-style transaction (including a cleared transaction) for which the holding company 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.

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 holding company determined in accordance with GAAP.

### **Amounts to Report in Column B**

The amount to report in column B will vary depending upon the nature of the particular item.

For items 1 through 8 and 11 of Schedule HC-R, Part II, column B should include the amount of the reporting holding company'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 (subject to the transition provisions of the regulatory capital rules, as applicable) such as goodwill; intangibles; gain on sale of securitization exposures; threshold deductions above the 10 percent individual or 15 percent combined limits for (1) deferred tax assets (DTAs) arising from temporary differences that could not be realized through net operating loss carrybacks, (2) mortgage servicing assets (MSAs), net of associated deferred tax liabilities (DTLs), and (3) significant investments in the capital of unconsolidated financial institutions in the form of common stock; and any other assets that must be deducted in accordance with the requirements of the Federal Reserve. 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, 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 HC-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 HC-R, Part II, the sum of columns B through R must equal the balance sheet asset amount reported in column A.*

For items 9(a) through 9(d) of Schedule HC-R, Part II, the amount a reporting holding company should report in column B will depend upon the risk weighting approach it uses to risk weight its securitization exposures and whether the holding company's has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a). For each of items 9(a) through 9(d), the same mathematical relationship described above will hold true, such that the sum of columns B through R must equal the balance sheet asset amount reported in column A.

- If the holding company uses the 1,250 percent risk weight approach to risk weight an on-balance sheet securitization exposure, the holding company will report in column B the difference between the carrying value of the exposure and the exposure amount that is to be risk weighted. For example if a holding company has a securitization exposure that is an AFS debt security with a \$105 carrying value (i.e., fair value) including a \$5 unrealized gain (in other words, a \$100 amortized cost), the holding company would report the following:
  - If the bank has not made (or cannot make) the AOCI opt-out election, the holding company would report zero in item 9(b), column B. The holding company would report the \$105 exposure amount to be risk weighted in item 9(b), column Q – 1250% risk weight.
  - If the holding company has made the AOCI opt-out election, the holding company would report any unrealized gain as a positive number in item 9(b), column B, and any unrealized loss as a negative number in item 9(b), column B. Therefore, in this example, the holding company would report \$5 in item 9(b), column B. Because the holding company reverses out the unrealized gain for regulatory capital purposes because it has made the AOCI opt-out election, it does not have to risk weight the gain. (Note: The holding company also would report the \$100 exposure amount to be risk weighted in item 9(b), column Q – 1250% risk weight.
- If the holding company uses the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach to risk weight an on-balance sheet securitization exposure, the holding company will report in column B the same amount that it reported in column A.

For item 10 of Schedule RC-R, Part II, the amount a reporting bank should report in column B also will depend upon the risk weighting approach it uses to risk weight its securitization exposures. If a bank uses the 1,250 percent risk weight approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B any difference between the notional amount of the off-balance sheet securitization exposure that is reported in column A and its exposure amount. If the bank uses the SSFA or the Gross-Up Approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B the same amount that it reported in column A. An example is presented in the instructions for Schedule RC-R, Part II, item 10. For item 10 of Schedule RC-R, Part II, the sum of columns B through Q must equal the amount of the off-balance sheet securitization exposures reported in column A.

For items 12 through 21 of Schedule HC-R, Part II, column B should include the credit equivalent amounts of the reporting holding company's derivative contracts and off-balance sheet items that are covered by the regulatory capital rules. For the off-balance sheet items in items 12 through 19, the credit equivalent amount to be reported in column B is calculated by multiplying the face, notional, or other amount reported in column A by the appropriate CCF. The credit equivalent amounts in column B are to be allocated to the appropriate risk-weight categories in columns C through J (or to the securitization exposure collateral category in column R, if applicable). For items 12 through 21 of Schedule HC-R, Part II, the sum of columns C through J (plus column R, if applicable) must equal the credit equivalent amount reported in column B.

## **Treatment of Collateral and Guarantees**

### a. Collateralized Transactions

The rules for recognition of collateral are in §.37 and pertinent definitions in §.2 of the regulatory capital rules. The regulatory capital rules define qualifying financial collateral as cash on deposit, gold bullion, investment grade long- and short-term debt exposures (that are not resecuritization exposures), publicly traded equity securities and convertible bonds, and money market fund or other mutual fund shares with prices that are publicly quoted on a daily basis.

Holding companies may apply one of two approaches, as outlined in §.37, to recognize the risk-mitigating effects of qualifying financial collateral:

- (1) Simple Approach: can be used for any type of exposure. Under this approach, holding companies may apply a risk weight to the portion of an exposure that is secured by the fair value of the financial collateral based on the risk weight assigned to the collateral under §.32. However, under this approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent, unless one of the following exceptions applies:
  - *Zero percent risk weight* - may be assigned to: an exposure to an OTC derivative contract that is marked-to-market on a daily basis and subject to a daily margin requirement, to the extent that the contract is collateralized to cash on deposit; to the portion of an exposure collateralized by cash on deposit; to the portion of an exposure collateralized by an exposure to a sovereign that qualifies for the zero percent risk weight under §.32 and the holding company has discounted the fair value of the collateral by 20 percent.
  - *10 percent risk weight*: may be assigned to an exposure to an OTC derivative contract that is marked-to-market on a daily basis and subject to a daily margin requirement, to the extent that the contract is collateralized by an exposure to a sovereign that qualified for a zero percent risk weight under §.32.
- (2) Collateral Haircut Approach: can be used only for repo-style transactions, eligible margin loans, collateralized derivative transactions, and single-product netting sets of such transactions. Under this approach, holding companies would apply either standard supervisory haircuts or own internal estimates for haircuts to the value of the collateral. See §.37(c) of the regulatory capital rules for a description of the calculation of the exposure amount, standard supervisory market price volatility haircuts, and requirements for using own internal estimates for haircuts.

Holding companies may use any approach described in §.37 that is valid for a particular type of exposure or transaction; however, they must use the same approach for similar transactions or exposures.

If an exposure is partially secured, that is, the market value (or in cases of using the Collateral Haircut Approach, the adjusted market value) of the financial collateral is less than the face amount of an asset or off-balance sheet exposure, only the portion that is covered by the market value of the collateral is to be reported in the risk-weight category item appropriate to the type of collateral. The uncovered portion of the exposure continues to be assigned to the initial risk-weight category item appropriate to the exposure. The face amount of an exposure secured by multiple types of qualifying collateral is to be reported in the risk-weight category items appropriate to the collateral types, apportioned according to the market value of the types of collateral.

*Exposures collateralized by deposits at the reporting institution*

The portion of any exposure collateralized by deposits at the reporting institution would be eligible for a zero percent risk weight. The remaining portion of the exposure that is not collateralized by deposits should be risk-weighted according to the regulatory capital rules.

**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 holding company 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. Holding companies must use different methodologies to determine risk weighted assets for their equity exposures:

- The Simple Risk Weight Approach (SRWA), 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 holding company 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 holding company 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.

#### *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 holding company 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 amount<sup>5</sup> 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 CCFs: 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 (SWRA): 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, holding companies 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, 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 (PSE), 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, and
  - Non-significant equity exposures, to the extent that the aggregated carrying value of the exposures does not exceed 10 percent of total capital. To utilize this risk

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<sup>5</sup> 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.



weight, the holding company 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*: significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital. This risk weight takes effect in 2018. Before 2018, report such significant investments in the 100 percent risk weight category.
  - *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, holding companies 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 holding company multiplied by the holding company'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, holding companies 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 holding company transfers mortgage loans with credit-enhancing representations and warranties in a transaction that qualifies for sale accounting under GAAP, the holding company 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 purposes of risk weighting. However, those CERWs that do not qualify as securitization exposures receive a 100 percent CCF as indicated in §.33 of the regulatory capital rules. For example, if the holding company has agreed

to repurchase the loans that it has sold, it will generally need to risk weight those loans in Schedule HC-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 holding company 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 HC-R, Part II, item 17 until the warranty expires.

If the holding company 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 holding company will need to report and risk weight these warranties in Schedule HC-R, Part II, item 10, as off-balance sheet securitization exposures.

Example: A holding company 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 HC-R, Part II, item 10, the holding company 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 holding company does not use the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach for purposes of risk weighting its securitization exposures). The holding company will not need to report any amount in column T or U of Schedule HC-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 holding company uses either the SSFA or Gross-Up Approach to risk weight the \$2 exposure, the holding company should report \$100 in both column A and column B. In columns T or U, it would report the risk-weighted asset amount calculated by using either 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.<sup>6</sup> The OECD does not

<sup>6</sup> See <http://www.oecd.org/trade/xcred/crc.htm>.

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.

Risk weights for reported balance sheet (items 1 through 8) and off-balance sheet and other (items 12 through 22) exposures are to be assigned based upon the tables below:

- Exposures to foreign central governments (including foreign central banks):

		Risk Weight (%)
Home Country CRC	0-1	0
	2	20
	3	50
	4-6	100
	7	150
OECD Member with No CRC		0
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- Exposures to foreign banks:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- General obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- Revenue obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	50
	2-3	100
	4-7	150
OECD Member with No CRC		50
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

***All risk-weight categories pertaining to exposures to central foreign governments:***

- All exposures to foreign central governments may be assigned a lower risk weight if the following conditions are met: (1) the exposures are denominated in the particular foreign country's local currency; (2) the holding company has at least equivalent liabilities in that currency; and (3) the risk weight is not lower than the risk weight that particular foreign country allows under its jurisdiction to assign to the same exposures to that country.

**Summary of Risk Weights for Exposures to Government and Public Sector Entities**

The following are some of the most common exposures to government and public sector entities and the risk weights that apply to them:

*Column C – 0% column:*

- All exposures (defined broadly to include securities, loans, and leases) that are direct exposures to, or the portion of exposures that are directly and unconditionally guaranteed by, the U.S. Government or U.S. Government agencies. This includes the portions of deposits insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).
- Exposures that are collateralized by cash on deposit in the reporting holding company.
- Exposures that are collateralized by securities issued or guaranteed by the U.S. Government, or other sovereign governments that qualify for the zero percent risk weight. Collateral value must be adjusted under §.37 of the regulatory capital rules.
- Exposures to, and the portions of exposures guaranteed by, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, or an MDB (as specifically defined in §.2 of the regulatory capital rules).

*Column G – 20% column:*

- The portion of exposures that are conditionally guaranteed by the U.S. Government or U.S. Government agencies. This includes exposures, or the portions of exposures, conditionally guaranteed by the FDIC or the NCUA.
- The portion of exposures that are collateralized by cash on deposit in the holding company or by securities issued or guaranteed by the U.S. Government or U.S. Government agencies that are not included in zero percent column.
- General obligation exposures to states, municipalities, and other political subdivisions of the United States.
- Exposures to U.S. government sponsored entities (GSEs) other than equity exposures or preferred stock, and risk sharing securities.

*Column H – 50% column:*

- Revenue obligation exposures to states, municipalities, and other political subdivisions of the United States.

*Column I – 100% column:*

- Preferred stock of U.S. GSEs.

## **Risk Weighted Assets for Securitization Exposures**

Under the regulatory capital rules, three separate approaches are available for setting the regulatory capital requirements for securitization exposures, as defined in §.2 of the regulatory capital rules. Securitization exposures include asset-backed and mortgage-backed securities, other positions in securitization transactions, re-securitizations, and structured finance programs<sup>7</sup> (except credit-enhancing interest-only (CEIO) strips). In general, under each of the three approaches, the risk-based capital requirement for a position in a securitization or structured finance program (hereafter referred to collectively as a securitization) is computed by multiplying the calculated amount of the position by the appropriate risk weight. The three approaches to determining the proper risk weight for a securitization exposure are the SSFA, the Gross-Up Approach, or the 1,250 Percent Risk Weight Approach.

If a securitization exposure is not an after-tax gain-on-sale resulting from a securitization that requires deduction, or the portion of a CEIO strip that does not constitute an after-tax gain-on-sale,<sup>8</sup> a holding company may assign a risk weight to the securitization exposure using the SSFA if certain requirements are met. If a holding company is not subject to Subpart F (the market risk capital rule) of the regulatory capital rules, it may instead choose to assign a risk weight to the securitization exposure using the Gross-Up Approach if certain requirements are met. However, the holding company must apply either the SSFA or the Gross-Up Approach consistently across all of its securitization exposures. However, if the holding company cannot, or chooses not to, apply the SSFA or the Gross-Up Approach to an individual securitization exposure, the holding company must assign a 1,250 percent risk weight to that exposure.

Both traditional and synthetic securitizations must meet certain operational requirements before applying either the SSFA or the Gross-Up Approach. Furthermore, holding companies must complete certain due diligence requirements and satisfactorily demonstrate a comprehensive understanding of the features of the securitization exposure that would materially affect the performance of the exposure. If these due diligence requirements are not met, the holding company must assign the securitization exposure a risk weight of 1,250 percent. The holding company's analysis must be commensurate with the complexity of the securitization exposure and the materiality of the exposure in relation to its capital. Holding companies should refer to §.41 of the regulatory capital rules to review the details of these operational and due diligence requirements.

For example, a holding company not subject to the market risk capital rule has 12 securitization exposures. The operational and due diligence requirements have been met for 10 of the exposures, to which the holding company applies the Gross-Up Approach. The holding

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<sup>7</sup> Structured finance programs include, but are not limited to, collateralized debt obligations.

<sup>8</sup> Consistent with the regulatory capital rules, a holding company must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from a securitization and must apply a 1,250 percent risk weight to the portion of a CEIO strip that does not constitute an after-tax gain-on-sale.

company then assigns a 1,250 percent risk weight to the other two exposures. Alternatively, the holding company could assign a 1,250 percent risk weight to all 12 securitization exposures.

#### a. Exposure Amount Calculation

The exposure amount of an on-balance sheet securitization exposure that is not an available-for-sale or held-to-maturity security where the holding company has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule HC-R, Part I, item 3(a), a repo-style transaction, an eligible margin loan, an over-the-counter (OTC) derivative contract, or a cleared transaction is equal to the carrying value of the exposure.

The exposure amount of an off-balance sheet securitization exposure that is not a repo-style transaction, an eligible margin loan, a cleared transaction (other than a credit derivative), an OTC derivative contract (other than a credit derivative), or an exposure to an asset-backed commercial paper (ABCP) program is the notional amount of the exposure.

For an off-balance sheet securitization exposure to an asset-backed commercial paper (ABCP) program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the holding company could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets). An exposure amount of an eligible ABCP liquidity facility for which the SSFA does not apply is calculated by multiplying the notional amount of the exposure by a CCF of 50 percent. An exposure amount of an eligible ABCP liquidity facility for which the SSFA does apply is calculated by multiplying the notional amount of the exposure by a CCF of 100 percent.

The exposure amount of a securitization exposure that is a repo-style transaction, eligible margin loan, or derivative contract (other than a credit derivative) is the exposure amount of the transaction as calculated using the instructions for calculating the exposure amount of OTC derivatives or collateralized transactions outlined in §.34 or §.37, respectively, of the regulatory capital rules.

If a holding company has multiple securitization exposures that provide duplicative coverage to the underlying exposures of a securitization, the holding company is not required to hold duplicative risk-based capital against the overlapping position. Instead, the holding company may apply to the overlapping position the applicable risk-based capital treatment that results in the highest risk-based capital requirement.

If a holding company provides support to a securitization in excess of the holding company's contractual obligation to provide credit support to the securitization (implicit support) it must include in risk-weighted assets all of the underlying exposures associated with the securitization as if the exposures had not been securitized and must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from the securitization.

#### b. Simplified Supervisory Formula Approach (SSFA)

To use the SSFA to determine the risk weight for a securitization exposure, a holding company must have data that enables it to accurately assign the parameters. The data used to assign the parameters must be the most currently available data and no more than 91 calendar days old. A holding company that does not have the appropriate data to assign the parameters must assign a

risk weight of 1,250 percent to the exposure. See the operational requirements outlined in §.43 of the regulatory capital rules for further instructions.

To calculate the risk weight for a securitization exposure using the SSFA, a holding company must have accurate information on the following five inputs to the SSFA calculation:

- Parameter  $K_G$  is the weighted-average (with unpaid principal used as the weight for each exposure) total capital requirement of the underlying exposures calculated.  $K_G$  is expressed as a decimal value between zero and 1 (that is, an average risk weight of 100 percent represents a value of  $K_G$  equal to .08).
- 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 deferments 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.
- 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 holding company 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 holding company'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 holding company must complete the following equations using the previously described parameters:

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$

$$a = -\frac{1}{p \cdot K_A}$$

$$u = D - K_A$$

$$l = \max(A - K_A, 0)$$

$$e = 2.71828, \text{ the base of the natural logarithms}$$

Second, using the variables calculated in first step, find the value of  $K_{SSFA}$  using the formula below:

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

Third, the risk weight of any particular securitization exposure (expressed as a percent) will be equal to:

$$K_{SSFA} \times 1,250$$

To determine the risk-based capital requirement under the SSFA, multiply the exposure amount by the higher of either (1) the calculated risk weight or (2) a 20 percent risk weight.

For purposes of reporting in Schedule HC-R, Part II, items 9 and 10, a holding company would report in Column T the risk-weighted asset amount calculated under the SSFA for its securitization exposures.

### c. Gross-Up Approach

A holding company 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 holding company must calculate the following four inputs:

- (1) Pro rata share, which is the par value of the holding company'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 holding company's securitization resides.
- (3) Exposure amount of the holding company's securitization exposure.
- (4) Risk weight, which is the weighted-average risk weight of underlying exposures in the securitization pool.

The holding company would calculate the credit equivalent amount which is equal to the sum of the exposure amount of the holding company's securitization exposure (3) and the pro rata share (1) multiplied by the enhanced amount (2).

A holding company 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.

To determine the risk-based capital requirement under the gross-up approach, multiply the higher of the two risk weights by the credit equivalent amount. These steps are outlined in the worksheet below:



***Gross-Up Approach Worksheet to Calculate the Capital Charge for a Securitization Exposure that is Not a Senior Exposure<sup>9</sup>***

- (a) Currently outstanding par value of the holding company's non-senior securitization exposure divided by the currently outstanding par value of the entire tranche (e.g., 60%<sup>10</sup>) \_\_\_\_\_
- (b) Currently outstanding par value of the more senior positions in the securitization that are supported by the tranche in which the holding company owns a non-senior securitization exposure \_\_\_\_\_
- (c) Pro rata share of the more senior positions currently outstanding in the securitization that are supported by the holding company's non-senior securitization exposure: enter (b) multiplied by (a) \_\_\_\_\_
- (d) Face amount<sup>11</sup> of the holding company's non-senior securitization exposure \_\_\_\_\_
- (e) Enter the sum of (c) and (d) \_\_\_\_\_
- (f) Enter the weighted average risk weight applicable to the assets underlying the securitization \_\_\_\_\_
- (g) Risk-weighted asset amount of the holding company's non-senior securitization exposure: enter the higher of
- (d) multiplied by 20%, or
  - (e) multiplied by (f)
- \_\_\_\_\_
- (h) Capital charge for the risk-weighted asset amount of the holding company's non-senior securitization exposure: enter (g) multiplied by 8% \_\_\_\_\_

For purposes of reporting its non-senior securitization exposures in Schedule HC-R, Part II, items 9 and 10, a holding company would report in Column U the risk-weighted asset amount calculated in line (g) on the Gross-Up Approach worksheet. For a senior securitization exposure, a holding company would report in column U the face amount of its exposure<sup>12</sup> multiplied by the weighted-average risk weight of the securitization's underlying exposures, subject to a 20 percent risk-weight floor.

***Reporting in Schedule HC-R, Part II, When Using the Gross-Up Approach:***

<sup>9</sup> A senior securitization exposure means a securitization exposure that has a first priority claim on the cash flows from the underlying exposures, without considering amounts due under interest rate or currency contracts, fees or other similar payments due. Time tranching (that is, maturity differences) also is not considered when determining whether a securitization exposure is a senior securitization exposure.

<sup>10</sup> For example, if the currently outstanding par value of the entire tranche is \$100 and the currently outstanding par value of the holding company's subordinated security is \$60, then the holding company would enter 60% in (a).

<sup>11</sup> For risk-based capital purposes, if the holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a), the "face amount" of an available-for-sale security and a held-to-maturity security is its amortized cost; the "face amount" of a trading security is its fair value. If the holding company has not made or cannot make the AOCI opt-out election, the "face amount" of an HTM security is its amortized cost; the "face amount" of an AFS security or a trading security is its fair value.

<sup>12</sup> See footnote 11.

If the holding company’s non-senior security is a held-to-maturity securitization exposure, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule HC, item 2(a), “Held-to-maturity securities,” and on the regulatory capital schedule in columns A and B of Schedule HC-R, Part II, item 9(a), “On-balance sheet securitization exposures – Held-to-maturity securities.” The risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule HC-R, Part II, item 9(a).

If the holding company’s non-senior security is an available-for-sale securitization exposure, the fair value of this security is included on the Report of Condition balance sheet in Schedule HC, item 2(b), “Available-for-sale securities,” and on the regulatory capital schedule in column A of Schedule HC-R, Part II, item 9(b), “On-balance sheet securitization exposures – Available-for-sale securities.” For further information on the reporting of AFS securitization exposures in column B refer to the instructions for Schedule HC-R, Part II, item 9(b) because the amount reported in column B depends on whether the holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a). For non-senior AFS securitization exposures, the risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule HC-R, Part II, item 9(b).

If the holding company’s subordinated security is a trading securitization exposure, the fair value of this security is included on the Report of Condition balance sheet in Schedule HC, item 5, “Trading assets,” and on the regulatory capital schedule in column A of Schedule HC-R, Part II, item 9(c), “On-balance sheet securitization exposures - Trading assets that receive standardized charges.” A trading security is risk-weighted using its fair value if the holding company is not subject to the market risk capital rule. The risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule HC-R, Part II, item 9(c).

#### d. 1,250 Percent Risk Weight Approach

If the holding company cannot, or chooses not to apply the SSFA or the Gross-Up Approach to the securitization exposure, the holding company must assign a 1,250 percent risk weight to the exposure.

#### *Securitization exposure reporting in HC-R, Part II*

Securitization exposure reporting depends on the methodology the holding company will use to risk weight the exposure.

For example, if a holding company plans to apply the 1,250 percent risk weight to its exposures, the amount reported in column Q should match the amount reported in column A (less any adjustments, such as that for an allocated transfer risk reserve (ATRR)). For any securitization exposure risk-weighted using the 1,250 percent risk weight, the sum of columns B and Q should equal column A.

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q)	(Column T)	(Column U)
			Exposure Amount	Total Risk-Weighted Asset Amount by Calculation Methodology	
			1250%	SSFA	Gross-Up
9. On-balance sheet securitization exposures					
	BHCK	BHCK	BHCK	BHCK	BHCK

a. Held-to-maturity securities	\$100	\$0	\$100	\$0	\$0	9.a.
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If a holding company – regardless if it makes the AOCI opt-out election - is applying the SSFA or Gross-Up Approach, the reporting is significantly different due to the fact that the holding company reports the risk weighted assets amount in columns T or U.

In the case where a holding company has a securitization exposure with a balance sheet value of \$100, it would report \$100 in both columns A and B. If the holding company applies the SSFA and calculates a risk-weighted asset exposure of \$20 for that securitization, the holding company would report \$20 in column T. Since it is using the SSFA for all its securitization exposures, the holding company must report \$0 in column U.

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q)	(Column T)	(Column U)	9.a.
			Exposure Amount	Total Risk-Weighted Asset Amount by Calculation Methodology		
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
	BHCK	BHCK	BHCK	BHCK	BHCK	
a. Held-to-maturity securities	\$100	\$100	\$0	\$20	\$0	9.a.

A holding company, at its discretion, could also use both the 1,250 percent risk weight for some securitization exposures and either the SSFA or Gross-Up Approach for other securitization exposures. For example, Holding Company Z has three securitization exposures, each valued at \$100 on the balance sheet. Holding Company Z chooses to apply the 1,250 percent risk weight to one exposure and use the Gross-Up Approach to calculate risk-weighted assets for the other two exposures. Assume that the risk-weighted asset amount under the Gross-Up Approach is \$20 for each exposure.

The holding company would report the following:

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q)	(Column T)	(Column U)	9.a.
			Exposure Amount	Total Risk-Weighted Asset Amount by Calculation Methodology		
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
	BHCK	BHCK	BHCK	BHCK	BHCK	
a. Held-to-maturity securities	\$300	\$200	\$100	\$0	\$40	9.a.

The \$200 reported under column B reflects the balance sheet amounts of the two securitizations risk-weighted using the Gross-Up Approach. This ensures that the sum of columns B and Q continue to equal the amount reported in column A. The \$40 under column U reflects the risk-weighted asset amount of the sum of the two securitization exposures that were risk-weighted using the Gross-Up Approach. This \$40 is added to total risk-weighted assets in item 28 of Schedule HC-R, Part II.

### Holding Companies That Are Subject to the Market Risk Capital Rule

The regulatory capital rules require all holding companies with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a holding company is subject to the market risk capital rule if its consolidated trading activity, defined as the sum of trading assets and liabilities as reported in its FR Y9-C for the previous quarter, equals: (1) 10 percent or more of the holding company's total assets as reported in its FR Y-9C for the previous quarter, or (2) \$1 billion or more. However, the Federal Reserve may exempt or include the holding company if necessary or appropriate for safe and sound banking practices.

A holding company that is subject to the market risk capital rule must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions.

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule HC-D, that is held for any of the following reasons:

- (1) For the purpose of short-term resale;
- (2) With the intent of benefiting from actual or expected short-term price movements;
- (3) To lock in arbitrage profits; or
- (4) To hedge another covered position.

Covered positions include all positions in a holding company's trading account and foreign exchange and commodity positions, whether or not in the trading account. Covered positions generally should not be risk-weighted as part of the holding company's gross credit risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives as well as cleared transactions and unsettled transactions continue to have a counterparty credit risk capital charge. Those positions are included in both gross risk-weighted assets for credit risk and the holding company's covered positions for market risk.

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the holding company 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 holding company's hedging strategy (required by the market risk capital rule);
- (3) Any position that, in form or substance, acts as a liquidity facility that provides support to 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.

A holding company subject to the market risk capital rule must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital and Tier 2 capital, net of all deductions) to the sum of risk-weighted assets and market risk-weighted assets. Holding companies should refer to the regulatory capital rules for specific instructions on the calculation of the measure for market risk.

### **Balance Sheet Asset Categories**

Treatment of Embedded Derivatives – If a holding company has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended), then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the holding company’s assets on Schedule HC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule HC-R, Part II (items 1 to 11). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral. All derivative exposures should be risk-weighted in the derivative items of Schedule HC-R, Part II, as appropriate (items 20 or 21).

Treatment of FDIC Loss-Sharing Agreements – Loss-sharing agreements entered into by the FDIC with acquirers of assets from failed institutions are considered conditional guarantees for risk-based capital purposes due to contractual conditions that acquirers must meet. The guaranteed portion of assets subject to a loss-sharing agreement may be assigned a 20 percent risk weight. Because the structural arrangements for these agreements vary depending on the specific terms of each agreement, holding companies should consult with their Federal Reserve Bank to determine the appropriate risk-based capital treatment for specific loss-sharing agreements.

Allocated Transfer Risk Reserve (ATRR) – If the reporting holding company is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, the ATRR should be reported in Schedule HC-R, Part II, item 30. The ATRR is not eligible for inclusion in either tier 1 or tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule HC, item 4(c), "Allowance for loan and lease losses," and separately disclosed in Schedule HI-B, part II, Memorandum item 1. However, if the holding company must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule HC. In this situation, the ATRR should be reported as a negative number (i.e., with a minus (-) sign) in column B, "Adjustments to totals reported in Column A," of the corresponding asset category in Schedule HC-R, Part II, items 1 through 4 and 7 through 9. The amount to be risk-weighted for this asset in columns C through Q, as appropriate, would be its net carrying value plus the ATRR. For example, a holding company has a held-to-maturity security issued by a foreign commercial company against which it has established an ATRR of \$20. The security, net of the ATRR, is included in Schedule HC, item 2(a), "Held-to-maturity securities," at \$80. The security should be included

in Schedule HC-R, Part II, item 2(a), column A, at \$80. The holding company should include \$-20 in Schedule HC-R, Part II, item 2(a), column B, and \$100 in item 2(a), column I.

**Item Instructions for Part II****Balance Sheet Asset Categories****Item No. Caption and Instructions**

- 1**      **Cash and balances due from depository institutions.** Report in column A the amount of cash and balances due from depository institutions reported in Schedule HC, sum of items 1(a) and 1(b), excluding those balances due from depository institutions that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The amount of those balances due from depository institutions reported in Schedule HC, items 1(a) and 1(b) that qualify as securitization exposures must be reported in Schedule HC-R, Part II, item 9(d), column A.

- *In column C–0% risk weight, include:*
  - The amount of currency and coin reported in Schedule HC, item 1(a);
  - Any balances due from Federal Reserve Banks reported in Schedule HC, item 1(b); and
  - The insured portions of deposits in FDIC-insured depository institutions and NCUA-insured credit unions reported in Schedule HC, items 1(a) and 1(b).
- *In column G–20% risk weight, include:*
  - Any balances due from depository institutions and credit unions that are organized under the laws of the United States or a U.S. state reported in Schedule HC, items 1(a) and 1(b), in excess of any applicable FDIC or NCUA deposit insurance limits for deposit exposures or where the depository institutions are not insured by either the FDIC or the NCUA;
  - Any balances due from Federal Home Loan Banks reported in Schedule HC, items 1(a) and 1(b); and
  - The amount of cash items in the process of collection reported in Schedule HC, item 1(a).
- *In column I–100% risk weight, include all other amounts that are not reported in columns C through Q.*
- Cash and balances due from depository institutions that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
  - The amounts reported in Schedule HC, items 1(a) and 1(b), composed of balances due from foreign banks;
  - Any balances due from foreign central banks.

If the reporting holding company is the correspondent holding company in a pass-through reserve balance relationship, report in column C the amount of its own

reserves as well as those reserve balances actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions.

- 1 If the reporting holding company is the respondent holding company in a pass-through reserve balance relationship, report in column C the amount of the holding company's reserve balances due from its correspondent holding company or bank that its correspondent has actually passed through to a Federal Reserve Bank on the reporting holding company's behalf, i.e., for purposes of this item, treat these balances as balances due from a Federal Reserve Bank. This treatment differs from that required in Schedule HC-A, item 2, "Balances due from depository institutions in the U.S.," which treats pass-through reserve balances held by a bank's correspondent as balances due from a depository institution as opposed to balances due from the Federal Reserve.

If the reporting holding company is a participant in an excess balance account at a Federal Reserve Bank, report in column C the holding company's balance in this account.

If the reporting holding company accounts for any holdings of certificates of deposit (CDs) like available-for-sale debt securities that do not qualify as securitization exposures, report in column A the fair value of such CDs. If the holding company has made the Accumulated Other Comprehensive Income opt out election in Schedule HC-R, Part I, item 3(a), include in column B the difference between the fair value and amortized cost of these CDs. When fair value exceeds amortized cost, report the difference as a positive number in column B. When amortized cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in column B. Risk weight the amortized cost of these CDs in columns C through J, as appropriate.

- 2 **Securities (excluding securitization exposures).** Do not include securities that qualify as securitization exposures in items 2(a) and 2(b) below; instead, report these securities in Schedule HC-R, Part II, items 9(a) and 9(b). In general, under the regulatory capital rules, securitizations are exposures that are "tranche" for credit risk. Refer to the definitions of *securitization*, *traditional securitization*, *synthetic securitization* and *tranche* in §.2 of the regulatory capital rules.

- 2(a) **Held-to-maturity securities.** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule HC, item 2(a), excluding those HTM securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The amount of those HTM securities reported in Schedule HC, item 2(a), that qualify as securitization exposures are to be reported in Schedule HC-R, Part II, item 9(a), column A. The sum of Schedule HC-R, Part II, items 2(a) and 9(a), column A, must equal Schedule HC, item 2(a).

Exposure amount to be used for purposes of risk weighting – holding company cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule HC-R, Part I, item 3(a):

For a security classified as held-to-maturity where the holding company 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 holding company is the carrying value of the security, which is the value of the asset reported (a) on the balance sheet of the holding company determined in accordance with GAAP and (b) in Schedule HC-R, Part II, item 2(a), column A.

Exposure amount to be used for purposes of risk weighting – holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a):

For a security classified as held-to-maturity where the holding company 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 holding company is the carrying value of the security reported (a) on the balance sheet of the holding company and (b) in Schedule HC-R, Part II, item 2(a), column A, less any net unrealized gain on the exposure plus any net unrealized loss on the exposure included in AOCI. For purposes of determining the exposure amount of an HTM security, an unrealized gain (loss), if any, on such a security that is included in AOCI is (i) the unamortized balance of the unrealized gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available for sale category, or (ii) the unaccreted portion of other-than-temporary impairment losses on an HTM debt security that was not recognized in earnings in accordance with ASC Topic 320, Investments-Debt and Equity 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 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 HC-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:
  - Item 1, "U.S. Treasury securities,"
  - Item 2(a), Securities "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 MBS “Issued or guaranteed by FNMA, FHLMC, or GNMA” that represent GNMA securities, and
  - Item 4(c)(2)(a), those commercial mortgage-backed securities (MBS) “Issued or guaranteed by U.S. Government agencies or sponsored agencies” that represent GNMA securities.
  - The portion of any exposure reported in Schedule HC, 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 HC-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(b), Securities "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 mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies", and
  - Any securities categorized as "structured financial products" on Schedule HC-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 HC-R, Part II, item 9(a) for purposes of calculating risk weighted assets.
  - The portion of any exposure reported in Schedule HC, 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 HC-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 50 percent risk weight should be assigned to the 100 percent risk weight category.)
  - Item 4(b)(2), Other residential mortgage-backed securities "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 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 HC-R, Part II, item 9(a). Exclude interest-only securities.
- The portion of any exposure reported in Schedule HC, 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 HC-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 mortgage-backed securities "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 HC-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 HC-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 HC-R, Part II, item 9(a), for purposes of calculating risk weighted assets.
  - Also include all other HTM securities that do not qualify as securitization exposures reported in Schedule HC, item 2(a), that are not included in columns C through through J.
  - The portion of any exposure reported in Schedule HC, item 2(a), 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 exposure amounts of securities reported in Schedule HC-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.

- Held-to-maturity 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 reported in Schedule HC-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 HC-B, item 5(b), that are not securitization exposures. Note: Many of the structured financial products would be considered securitization exposures and reported in Schedule HC-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 securities.** Report in column A the fair value of available-for-sale (AFS) securities reported in Schedule HC, 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 HC, item 2(b), that qualify as securitization exposures must be reported in Schedule HC-R, Part II, item 9(b), column A. The sum of Schedule HC-R, Part II, items 2(b) and 9(b), column A, must equal Schedule HC, item 2(b).

Exposure amounts to be used for purposes of risk weighting by a holding company that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule HC-R, Part I, item 3(a):

For a security classified as available-for-sale where the holding company 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 holding company is:

- **For debt securities:** the carrying value, which is the value of the asset reported on the balance sheet of the holding company determined in accordance with GAAP (i.e., the fair value of the available-for-sale debt security) and in column A.
- **For equity securities and preferred stock classified as an equity under GAAP:** the adjusted carrying value.<sup>13</sup>

<sup>13</sup> 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 holding companies that cannot or have not made the AOCI opt-out election, the on-balance sheet component is equal to the carrying value. For holding companies that have made the AOCI opt-out election, the on-balance sheet component is the carrying value less any net unrealized gains that are reflected in the carrying value but excluded from regulatory capital. Refer to §.51 for the precise definition.

Exposure amounts to be used for purposes of risk weighting by a holding company that has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a):

For a security classified as available-for-sale where the holding company 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 holding company is:

- **For debt securities:** the carrying value, less any net unrealized gains on the exposure plus any net realized 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 holding company's regulatory capital components.
- *In column B*, a holding company 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 HC-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 HC-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 HC-R, Part II, item 2(b), column B.
  - If AFS equity securities with readily determinable fair values have a net unrealized gain (i.e., Schedule HC-B, item 7, column D, exceeds item 7, column C), the portion of the net unrealized gain (55 percent or more) not included in Tier 2 capital should be included in Schedule HC-R, Part II, item 2(b), column B. The portion that is not included in Tier 2 capital equals Schedule HC-B, item 7, column D minus column C, minus Schedule HC-R, Part I, item 31.

Example: A holding company reports an AFS debt security that is not a securitization exposure on its balance sheet in Schedule HC, item 2(b), at a carrying value (i.e., fair value) of \$105. The amortized cost of the debt security is \$100. The holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a). The AFS debt security has a \$5 unrealized gain that is included in AOCI. In Schedule HC-R, Part II, item 2(b), the holding company would report:

- \$105 in column A. This is the carrying value of the AFS debt security on the bank's balance sheet.
- \$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 holding companies 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 holding company has not made or cannot make the AOCI opt-out election, there will not be an adjustment to be reported in column B.)
- \$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 holding companies that have make the AOCI 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 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 securities reported in Schedule HC-B, column C, 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:
  - Item 1, "U.S. Treasury securities,"
  - Item 2(a), Securities "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 "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 HC, 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 securities reported in Schedule HC-B, Column C, 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(b), Securities "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 mortgage-backed securities "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),
  - Item 4(b)(2), Other residential mortgage-backed securities "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 HC-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 HC-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 HC, 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 securities reported in Schedule HC-B, column C, 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 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 mortgage-backed securities "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 HC-R, Part II, item 9(b). Do not include interest-only securities.
  - The portion of any exposure reported in Schedule HC, 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 securities reported in Schedule HC-B, column C, 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 mortgage-backed securities "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 HC-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,"
    - Any securities reported as "structured financial products" in Schedule HC-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 HC-R, Part II, item 9(b) for purposes of calculating risk weighted assets.
    - The portion of any exposure reported in Schedule HC, item 2(b), that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
    - Publicly traded AFS equity exposures and AFS equity exposures to investment funds (including mutual funds), to the extent that the aggregate carrying value of the holding company's equity exposures does not exceed 10 percent of total capital. If the holding company's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the holding company must report the exposure amount of its AFS equity exposures to investments funds (including mutual funds) in column R (and the risk-weighted asset amount of such AFS equity exposures in column S) and the exposure amount of its other AFS equity exposures in either columns L or N, as appropriate.



- Also include all other AFS securities that do not qualify as securitization exposures reported in Schedule HC, item 2(b), that are not included in columns C through H, J through N, or R.
- *In column J—150% risk weight*, include the exposure amounts of securities reported in Schedule HC-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.
- *In column K—250% risk weight*, include the portion that does not qualify as a securitization exposure of Schedule HC, item 2(b), 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 regulatory capital rules. This risk weight takes effect in 2018, and therefore this item is blocked from being completed until that time. Before 2018, report such significant investments in the 100 percent risk weight category.
- *In column L—300% risk weight*, for publicly traded AFS equity securities with readily determinable fair values reported in Schedule HC-B, item 7, include the fair value of these equity securities (as reported in Schedule HC-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 HC-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 HC-R, Part I, item 31).
- *In column N—600% risk weight*, for AFS equity securities to investment firms with readily determinable fair values reported in Schedule HC-B, item 7, include the fair value of these equity securities (as reported in Schedule HC-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 HC-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 HC-R, Part I, item 31).
- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the holding company’s AFS equity exposures to investment funds (including mutual funds) if the aggregate carrying value of the holding company’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 as 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 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 reported in Schedule HC-B, Column C, that are directly and unconditionally guaranteed by foreign central governments or are exposures on 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 HC-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 HC-R, Part II, item 9(b) for purposes of calculating risk weighted assets,
    - Item 6(b), "Other foreign debt securities," and
    - Item 7, "Investments in mutual funds and other equity securities with readily determinable fair values."

### **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 HC, 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 HC, item 3(a), that qualify as securitization exposures are to be reported in Schedule HC-R, Part II, item 9(d), column A.

- *In column C – 0% risk weight, include the portion of Schedule HC, item 3(a), that is directly and unconditionally guaranteed by U.S. Government agencies. Also include the portion of any exposure reported in Schedule HC, 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 HC, 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 exposures reported in Schedule HC, item 3(a), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.*

- *In column I – 100% risk weight*, include exposures to non-depository institution counterparties that lack qualifying collateral (refer to the regulatory capital rules for specific criteria). Also include the amount of federal funds sold reported in Schedule HC, item 3(a), that are not included in columns C through J. Also include the portion of any exposure reported in Schedule HC, 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 HC, 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 HC, 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 HC, item 3(b), that qualify as securitization exposures are to be reported in Schedule HC-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 HC, item 3(b), within the risk weight categories in Schedule HC-R, Part II, item 16, “Repo-style transactions.” Holding companies 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 HC, 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 HC, item 4(a), that qualify as securitization exposures must be reported in Schedule HC-R, Part II, item 9(d), column A.

The sum of Schedule HC-R, Part II, items 4(a) through 4(d), column A, plus the carrying value of HFS loans and leases that qualify as securitization exposures and are reported in Schedule HC-R, Part II, item 9(d), column A, must equal Schedule HC, item 4(a).

**4(a) Residential mortgage exposures.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule HC, item 4(a), that meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage* in

§.2 of the regulatory capital rule. Include in this item the carrying value of HFS loans secured by multifamily residential properties with an original and outstanding amount of \$1 million or less that are reported in Schedule HC-C, Part I, item 1(d), as they would meet the regulatory capital rules' definition of residential mortgage exposure. Exclude HFS loans secured by multifamily residential properties included in Schedule HC-C, item 1(d), that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*. Also exclude HFS 1-4 family residential construction loans reported in Schedule HC-C, Part I, item 1.a.(1). Such loans should be reported in Schedule HC-R, Part II, item 4(c) or 4(d), as appropriate.

- *In column C–0% risk weight*, include the portion of any exposure that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule HC, item 4(a), that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include loans collateralized by deposits at the reporting institution.
- *In column G–20% risk weight*, include the carrying value of the guaranteed portion of HFS Federal Housing Administration (FHA) and Veterans Administration (VA) mortgage loans included in Schedule HC-C, item 1(c)(2)(a). Also include the portion of any exposure that meets the definition of residential mortgage exposure or statutory multifamily mortgage reported in Schedule HC, item 4(a), that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of such an exposure covered by an FDIC loss-sharing agreement.
- *In column H–50% risk weight*, include the carrying value of HFS loans secured by (a) 1-4 family residential properties and by (b) multifamily residential properties with an original and outstanding amount of \$1 million or less included in Schedule HC-C, item 1(c)(1) (only include qualifying first mortgage loans), qualifying loans from items 1(c)(2)(a) and 1(d), or those that meet the definition of a *residential mortgage exposure* and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules. For 1-4 family residential mortgages, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family or multifamily residential properties, not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury's Home Affordable Mortgage Program (HAMP)). Also include loans that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Also include the portion of any exposure that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RH, item 4(a), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

**Notes:**

- Refer to the definition of *residential mortgage exposure* in §.2 of the regulatory capital rules, and refer to the requirements for risk weighting residential mortgage loans in §.32 of the regulatory capital rules.
- A residential mortgage loan may receive a 50 percent risk weight if it meets the qualifying criteria in §.32(g) of the regulatory capital rules:
  - A property is owner-occupied or rented;

- The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral;
- The loan is not 90 days or more past due or on nonaccrual;
- The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury’s HAMP).
- If the holding company holds the first-lien and junior –lien(s) on a residential mortgage exposure, and no other party holds an intervening lien, the holding company must combine the exposures and treat them as a single first-lien residential mortgage exposure.
- A first lien home equity line (HELOC) may qualify for 50 percent risk weight if it meets the qualifying criteria.
- 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 column I–100% risk weight*, include the carrying value of HFS loans that are *residential mortgage exposures* reported in Schedule HC, item 4(a), that are not included in columns C, G, H or R. Also include the portion of any exposure that meets the definition of *residential mortgage exposure* reported in Schedule HC, item 4(a), 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 exposure reported in Schedule HC, 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 holding company 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 holding company 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 HC-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 HC-R, Part II.

**4(b) High volatility commercial real estate exposures.** Report in column A the carrying value of loans held for sale (HFS) reported in Schedule HC, item 4(a), that are high volatility commercial real estate (HVCRE) exposures,<sup>14</sup> including HVCRE exposures that are 90 days or more past due or in nonaccrual status:

- *In column C—0% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of HVCRE exposures collateralized by deposits at the reporting institution.
- *In column G—20% risk weight*, include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of any HVCRE exposure covered by an FDIC loss-sharing agreement.
- *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 portion of the carrying value of high volatility commercial real estate exposures, as defined in §.2 of the regulatory capital rules, included in Schedule HC, 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.

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<sup>14</sup> High volatility commercial real estate (HVCRE) exposure means a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction (ADC) of real property, unless the facility finances:

(1) One- to four-family residential properties;

(2) Real property that:

(i.) would qualify as an investment in community development under 12 U.S.C. 338a or 12 U.S.C. 24 (Eleventh), as applicable, or as a “qualified investment” under [12 CFR part 228], and

(ii.) is not an ADC loan to any entity described in [12 CFR 208.22(a)(3) or 228.12(g)(3)], unless it is otherwise described in paragraph (1), (2)(i), (3) or (4) of this definition;

(3) The purchase or development of agricultural land, which includes all land known to be used or usable for agricultural purposes (such as crop and livestock production), provided that the valuation of the agricultural land is based on its value for agricultural purposes and the valuation does not take into consideration any potential use of the land for non-agricultural commercial development or residential development; or

(4) Commercial real estate projects in which:

(i.) the loan-to-value ratio is less than or equal to the applicable maximum supervisory loan-to-value ratio in the real estate lending standards at [12 CFR part 208, appendix C];

(ii.) The borrower has contributed capital to the project in the form of cash or unencumbered readily marketable asset (or has paid development expenses out-of-pocket) of at least 15 percent of the real estate’s appraised “as completed” value; and

(iii.) The borrower contributed the amount of capital required by paragraph (4)(ii) of this definition before the holding company advances funds under the credit facility, and the capital contributed by the borrower, or internally generated by the project, is contractually required to remain in the project throughout the life of the project. The life of a project concludes only when the credit facility is converted to permanent financing or is sold or paid in full. Permanent financing may be provided by the holding company that provided the ADC facility as long as the permanent financing is subject to the holding company’s underwriting criteria for long-term mortgage loans.

- *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 HC, 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 holding company 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 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 holding company 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 HC-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 HC-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 HC, item 4(a), that are 90 days or more past due or in nonaccrual status according to the requirements set forth in §.32(k) of the regulatory capital rules. Do not include HFS sovereign exposures or HFS residential mortgage exposures, as described in §.32(a) and §.32(g), respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule HC-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 HC-R, Part II, item 4(b)).
- *In column C—0% risk weight*, include the portion of loans and leases HFS included in Schedule HC, 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 HC, 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 HC, 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 HC, 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 HC, 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 HC, 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 holding company 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 holding company 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 HC-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 HC-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 HC, item 4(a), that are not reported in Schedule HC-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 HC-C. Also include the portion of any loans and leases HFS that are not reported in Schedule HC-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 HC-C, Part I, item 2, plus the carrying value of the guaranteed portion of HFS SBA loans originated and held by the reporting holding company included in Schedule HC-C, and the carrying value of the portion of HFS student loans reinsured by the U.S. Department of Education included in Schedule HC-C, item 6(d), “Other consumer loans.” Also include the portion of any loans and leases HFS that are not reported in Schedule HC-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 are not reported in Schedule HC-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 HC, item 4(a), that are not included in columns C through J and R. This item would include 1-4 family construction loans reported in Schedule HC-C, item 1(a)(1) and loans secured by multifamily residential properties reported in Schedule RC-C, 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 are not reported in Schedule HC-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 HC, 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 holding company chooses to recognize the risk-mitigating effects of the securitization exposure or mutual

fund collateral under the Simple Approach, or the collateral margin approach for eligible margin loans, outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.

- Include in column R the carrying value of the portion of such an HFS loan or lease that is secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively, however, the holding company must apply the same approach to all eligible margin loans. In addition, if the holding company 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 HC-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 HC-R, Part II.

- All other HFS loans and leases held for sale 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 HC, item 4(a), that are not reported in Schedule HC-R, Part II, items 4(a) through 4(c) above.

**5 Loans and leases, net of unearned income.** Report in column A of the appropriate subitem the carrying value of loans and leases, net of unearned income, reported in Schedule HC, item 4(b), excluding those loans and leases, net of unearned income, that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The carrying value of those loans and leases, net of unearned income, that qualify as securitization exposures must be reported in Schedule HC-R, Part II, item 9(d), column A.

The sum of Schedule HC-R, Part II, items 5(a) through 5(d), column A, plus the carrying value of loans and leases, net of unearned income, that qualify as securitization exposures and are reported in Schedule HC-R, Part II, item 9(d), column A, must equal Schedule HC, item 4(b).

**5(a) Residential mortgage exposures.** Report in column A the carrying value of loans, net of unearned income, reported in Schedule HC, item 4(b), that are meeting the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Include in this item the carrying value of loans, net of unearned income, secured by multifamily residential properties with an original and outstanding amount of \$1 million or less that are reported in Schedule HC-C, item 1(d), as they would meet the regulatory capital rules' definition of *residential mortgage exposure*. Exclude loans, net of unearned income, secured by multifamily residential properties included in Schedule HC-C, item 1(d), that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*. Also exclude 1-4 family residential construction loans, net of unearned income, reported in Schedule HC-C, item 1.a.(1), which should be reported in Schedule HC-R, Part II, items 5(c) or 5(d), as appropriate.

- *In column C–0% risk weight*, include the portion of any exposure, net of unearned income, that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule HC, item 4(b), that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include loans and leases, net of unearned income, collateralized by deposits at the reporting institution.
- *In column G–20% risk weight*, include the carrying value of the guaranteed portion of FHA and VA mortgage loans, net of unearned income, included in Schedule HC-C, item 1(c)(2)(a). Also include the portion of any loan, net of unearned income, which meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule HC, item 4(b), that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans, net of unearned income, covered by an FDIC loss-sharing agreement.
- *In column H–50% risk weight*, include the carrying value of loans, net of unearned income, secured by 1-4 family residential properties and by multifamily residential properties included in Schedule HC-C, item 1(c)(1) (only include qualifying first mortgage loans), qualifying loans from items 1(c)(2)(a) and 1(d), or those that meet the definition of a residential mortgage exposure and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules. For 1-4 family residential mortgages, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family or multifamily residential properties, not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury's Home Affordable Mortgage Program (HAMP)). Also include loans, net of unearned income, that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Also include the portion of any loan, net of unearned income, which meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule HC, item 4(b), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

**Notes:**

- Refer to the definition of *residential mortgage exposure* in §.2 of the regulatory capital rules and refer to the requirements for risk weighting residential mortgage loans in §.32 of the regulatory capital rules.
- A residential mortgage loan may receive a 50 percent risk weight if it meets the qualifying criteria in §.32(g) of the regulatory capital rules:
  - A property is owner-occupied or rented;
  - The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral;
  - The loan is not 90 days or more past due or on nonaccrual;
  - The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury’s HAMP).
  - If the holding company holds the first-lien and junior –lien(s) on a residential mortgage exposure, and no other party holds an intervening lien, the holding company must combine the exposures and treat them as a single first-lien residential mortgage exposure.
- A first lien home equity line (HELOC) may qualify for 50 percent risk weight if it meets the qualifying criteria.
- 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 column I–100% risk weight*, include the carrying value of loans, net of unearned income, related to residential mortgage exposures reported in Schedule HC, item 4(b), that are not included in columns C, G, H, or R. Also include the portion of any loan, net of unearned income, which meets the definition of *residential mortgage exposure* reported in Schedule HC, item 4(b), 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 loan, net of unearned income, reported in Schedule HC, item 4(b), that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.b, 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 holding company 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 a loan exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the simple approach in §.37. In addition, the holding company 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 HC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan exposure that is secured by such collateral. Any remaining portion of the loan

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 HC-R, Part II.

**5(b) High volatility commercial real estate exposures.** Report in Column A the portion of the carrying value of loans, net of unearned income, reported in Schedule HC, item 4(b), that are high volatility commercial real estate exposures (HVCRE),<sup>15</sup> including HVCRE exposures that are 90 days or more past due or in nonaccrual status:

- *In column C—0% risk weight*, include the portion of any HVCRE exposure included in loans and leases, net of unearned income, 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, net of unearned income, 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, net of unearned income, 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, net of unearned income, 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, net of unearned income, 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 high volatility commercial real estate exposures, as defined in §.2 of the regulatory capital rules, included in Schedule HC, item 4(b), excluding those portions of the carrying value that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of any HVCRE exposure included in loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that is secured by qualifying financial collateral that meets the definition of a securitization exposure in §.2 of the regulatory capital rules or is a mutual fund only if the holding company 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 HVCRE exposure that is secured by the fair value of securitization exposure or mutual fund

<sup>15</sup> See instructions for Schedule HC-R, Part II, item 4(b), above for the definition of HVCRE exposure.

collateral that meets the general requirements of the simple approach in §.37. In addition, the holding company 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 HC-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 HVCRE exposure that is secured by such collateral. Any remaining portion of the HVCRE 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 HC-R, Part II.

**5(c) Exposures past due 90 days or more or on nonaccrual.** Report in column A the carrying value of loans and leases, net of unearned income, reported in Schedule HC, item 4(b), that are 90 days or more past due or in nonaccrual status according to the requirements set forth in in §.32(k) of the regulatory capital rules. Do not include sovereign exposures or residential mortgage exposures, as described in §.32(a) and §.32(g) respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule HC-R, Part II, items 5(d) and 5(a), respectively ). Also do not include high volatility commercial real estate exposures that are 90 days or more past due or in nonaccrual status (report such exposures in Schedule HC-R, Part II, item 5(b)).

- *In column C–0% risk weight*, include the portion of loans and leases, net of unearned income, included in Schedule HC, item 4(b), that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases, net of unearned income, collateralized by deposits at the reporting institution.
- *In column G–20% risk weight*, include the portion of loans and leases, net of unearned income, included in Schedule HC, item 4(b), that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases, net of unearned income, covered by an FDIC loss-sharing agreement.
- *In column H–50% risk weight*, include the portion of loans and leases, net of unearned income, included in Schedule HC, item 4(b), that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the portion of loans and leases, net of unearned income, included in Schedule HC, item 4(b), that are 90 days or more

past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight*, include the carrying value of loans and leases, net of unearned income, included in Schedule HC, item 4(b), that are 90 days or more past due or in nonaccrual status (except as noted above), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases, net of unearned income, included in Schedule HC, 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 holding company 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 a loan or lease, net of unearned income, 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 holding company 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 HC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan or lease exposure that is secured by such collateral. Any remaining portion of the loan and lease, net of unearned income, 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 HC-R, Part II.

**5(d) All other exposures.** Report in column A the carrying value of loans and leases, net of unearned income, reported in Schedule HC, item 4(b), that are not reported in items 5(a) through 5(c) above:

- *In column C–0% risk weight*, include the carrying value of the unconditionally guaranteed portion of SBA “Guaranteed Interest Certificates” purchased in the secondary market that are included in Schedule HC-C, net of unearned income. Also include the portion of any loans and leases, net of unearned income, not reported in Schedule HC-R, Part II, items 5(a) through 5(c) above, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

This would include the portion of loans and leases, net of unearned income, collateralized by deposits at the reporting institution.

- *In column G–20% risk weight*, include the carrying value of loans to and acceptances of other U.S. depository institutions, net of unearned income, that are reported in Schedule HC-C, item 2 (excluding the carrying value of any long-term exposures to non-OECD banks), plus the carrying value, net of unearned income, of the guaranteed portion of SBA loans originated and held by the reporting holding company included in Schedule HC-C, and the carrying value, net of unearned income, of the portion of student loans reinsured by the U.S. Department of Education included in Schedule HC-C, item 6(d), "Other consumer loans." Also include the portion of any loans and leases, net of unearned income, not reported in Schedule HC-R, Part II, items 5(a) through 5(c) above, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases, net of unearned income, covered by FDIC loss-sharing agreements.
- *In column H–50% risk weight*, include the carrying value of loans and leases, net of unearned income, 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, net of unearned income, not reported in Schedule HC-R, Part II, items 5(a) through 5(c) above, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the carrying value of loans and leases, net of unearned income, reported in Schedule HC, item 4(b), that is not included in columns C through H, J or R (excluding loans that are assigned a higher than 100 percent risk weight, such as HVCRE loans and past due loans). This item would include 1-4 family construction loans and leases, net of unearned income, reported in Schedule HC-C, item 1(a)(1) and the portion of loans, net of unearned income, secured by multifamily residential property reported in Schedule HC-C, item 1(d), with an original amount of more than \$1 million. Also include the carrying value of loans and leases, net of unearned income, 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, net of unearned income, not reported in Schedule HC-R, Part II, items 5(a) through 5(c) above, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases, net of unearned income, including eligible margin loans, reported in Schedule HC, item 4(b), that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the holding company chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the simple approach, or the collateral margin approach for eligible margin loans, outlined in §.37 of the regulatory capital rules. Under the simple approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.



- Include in column R the carrying value of the portion of such a loan or lease, net of unearned income, 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 holding company must apply the same approach for all eligible margin loans. In addition, if the holding company 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 HC-R, Part II, items 9 and 10.
- Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan or lease, net of unearned income, that is secured by such collateral. Any remaining portion of the loan or lease exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule HC-R, Part II.

- All other loans and leases, net of unearned income, 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, net of unearned income, reported in Schedule HC, item 4(b), that are not reported in Schedule HC-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 reported in Schedule HC, item 4(c).

**7** **Trading assets.** Report in column A the fair value of trading assets reported in Schedule HC, 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 HC, item 5, that qualify as securitization exposures must be reported in Schedule HC-R, Part II, item 9.c, column A. The sum of Schedule HC-R, Part II, items 7 and 9(c), column A, must equal Schedule HC, item 5.

If the holding company is subject to the market risk capital rules, include in column B the fair value of all trading assets that are covered positions as defined in Schedule HC-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 HC-R, Part II, item 9(c), column A). The

holding company will report its standardized market risk-weighted assets in Schedule HC-R, Part II, item 27.

For holding companies not subject to the market risk capital rule and for those trading assets reported in column A that are held by holding companies subject to the market risk capital rule and do not meet the definition of a covered position:

- *In column B*, if the holding company completes Schedule HC-D, include the fair value of derivative contracts that are reported as assets in Schedule HC-D, item 11 (column A). If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, 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 HC-R, Part II, items 20 and 21, as appropriate. Do not risk weight these derivatives in this item.

Also include in column B the fair value of any unsettled transactions (failed trades) that are reported as trading assets in Schedule HC, item 5. For purposes of risk weighting, unsettled transactions are to be reported in Schedule HC-R, Part II, item 22.

- *In column C—0% risk weight*, if the holding company completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-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," (column A),
  - The portion of the amount reported in item 2, (column A) that represents the fair value of securities issued by U.S. Government agencies, and
  - The portion of the amounts reported in item 4, (column A) that represents the fair value of mortgage-backed securities guaranteed by GNMA.
  - If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding types of securities. Exclude those trading assets reported in Schedule HC, item 5, that qualify as securitization exposures and report them in Schedule HC-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 holding company completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-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:
  - Item 2, (column A) that represents the fair value of securities issued by U.S. Government-sponsored agencies,

- The portion of the amount reported in item 3, (column A) that represents the fair value of general obligations issued by states and political subdivisions in the U.S.,
  - The portion of the amount reported in item 4, (column A) that represents the fair value of mortgage-backed securities issued by FNMA and FHLMC,
  - The fair value of those asset-backed securities, structured financial products, and other debt securities reported in item 5, "Other debt securities," (column A) that represent exposures to U.S. depository institutions,
  - The portion of the amount reported in item 6(d), "Other loans," (column A) that represents loans to and acceptances of U.S. depository institutions, and
  - The portion of the amount reported in item 9, "Other trading assets," (column A) that represents the fair value of certificates of deposit.
  - If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule HC, item 5, that qualify as securitization exposures and report them in Schedule HC-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 holding company completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-D that do not qualify as securitization exposures reported in HC-D that qualify for the 50 percent risk weight. Such trading assets may include portions of, but may not be limited to:
    - Item 3, (column A) that represents the fair value of revenue obligations issued by states and political subdivisions in the U.S., and
    - The fair value of those mortgage-backed securities reported in item 4, "Mortgage-backed securities," (column A).
    - If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule HC, item 5, that qualify as securitization exposures and report them in Schedule HC-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 holding company completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-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 mortgage-backed securities reported in item 4, "Mortgage-backed securities," (column A), and
    - Item 5, "Other debt securities," (column A) that represent exposures to corporate entities and special purpose vehicles (SPVs).
    - If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets

- reported in Schedule HC, item 5, that qualify as securitization exposures and report them in Schedule HC-R, Part II, item 9(c).
- Also include the fair value of significant investments in the capital of unconsolidated financial institutions in the form of common stock held as trading assets that does not exceed the 10 percent and 15 percent common equity tier 1 capital deduction thresholds and are included in capital, as described in §.22 of the regulatory capital rules.<sup>16</sup> Publicly traded equity exposures and equity exposures to investment funds (including mutual funds) reported in Schedule HC, item 5, to the extent that the aggregate carrying value of the holding company's equity exposures does not exceed 10 percent of total capital. If the holding company's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the holding company must report its trading equity exposures in columns L, M, or N, as appropriate.
  - Also include the fair value of trading assets reported in Schedule HC, item 5, that is not included in columns C through N and R. Exclude those trading assets reported in Schedule HC, item 5, that qualify as securitization exposures and report them in Schedule HC-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.
- *In column J–150% risk weight*, include the exposure amounts of trading assets reported in Schedule HC, item 5, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
  - *In column K–250% risk weight*, if the holding company completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-D, item 9, that do not qualify as securitization exposures that represents 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. This risk weight takes effect in 2018, and therefore this item is blocked from being completed until that time. Before 2018, report such significant investments in the 100 percent risk weight category. If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding types of trading assets.
  - *In column L–300% risk weight*, if the holding company completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-D, item 9, that do not qualify as securitization exposures that represents publicly traded equity securities with readily determinable fair values (NOTE: Certain investments in mutual funds reported in Schedule HC-D, item 9, may be risk-weighted using the simple risk-weight and look-through approaches as described in §.51 to .53 of the regulatory capital rules). If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding types of trading assets.

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<sup>16</sup> Note: This item will become subject to a 250 percent risk weight beginning in 2018.

- *In column M—400% risk weight*, if the bank completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-D, item 9, that do not qualify as securitization exposures that represent equity securities (other than those issued by investment firms) that do not have readily determinable fair values. If the bank does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding type of trading assets.
- *In column N—600% risk weight*, if the holding company completes Schedule HC-D, include the fair value of those trading assets reported in Schedule HC-D, item 9, that do not qualify as securitization exposures that represent equity exposures to investment firms. If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding type of trading assets.
- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the portion of any trading assets reported in Schedule HC, item 5, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the holding company chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the simple approach outlined in §.37 of the regulatory capital rules. Under the simple approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - Include in column R the fair value of the portion of a trading asset that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the simple approach in §.37. In addition the holding company 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 HC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the trading asset secured by such collateral. Any remaining portion of the trading asset that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule HC-R, Part II.

- *In columns R and S—Application of Other Risk-Weighting Approaches*, also include the holding company’s equity exposures to investment funds (including mutual funds) reported as trading assets in Schedule HC, item 5, if the aggregate carrying value of the holding company’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 as 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 HC-R, Part II.

- Trading assets that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include the portions of those exposures reported in Schedule HC-D that are directly and unconditionally guaranteed by foreign central governments or are exposures on foreign banks that do not qualify as securitization exposures. Such exposures may include portions of, but may not be limited to:*
    - The fair value of those mortgage-backed securities reported in Schedule HC-D, item 4, "Mortgage-backed securities," (column A), and
    - Other debt securities reported in Schedule HC-D item 5, "Other debt securities," (column A), issued by foreign banks and foreign sovereign units.
    - If the holding company does not complete Schedule HC-D, include the portion of the amount reported in Schedule HC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule HC, item 5, that qualify as securitization exposures and report them in Schedule HC-R, Part II, item 9(c).

- 8** **All other assets.** Report in column A the sum of the amounts reported in Schedule HC, item 6, "Premises and fixed assets"; item 7, "Other real estate owned"; item 8, "Investments in unconsolidated subsidiaries and associated companies"; item 9, "Direct and indirect investments in real estate ventures"; item 10(a), "Goodwill"; item 10(b), "Other intangible assets;" and item 11, "Other assets," excluding those assets reported in Schedule HC, items 6 through 11, that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those assets reported in Schedule HC, items 6 through 11, that qualify as securitization exposures must be reported in Schedule HC-R, Part II, item 9(d), column A.

The sum of Schedule HC-R, Part II, item 8, columns B through R (including items 8(a) and 8(b), column R), must equal Schedule HC-R, Part II, item 8, column A.

Treatment of Defined Benefit Postretirement Plan Assets - Applicable Only to Holding Companies That Have Made the Accumulated Other Comprehensive Income (AOCI) Opt-Out Election in Schedule HC-R, Part I, item 3(a)

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General (formerly FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”), the institution should adjust the asset amount reported in column A of this item for any amounts included in Schedule HC, item 26(b), “Accumulated other comprehensive income”, affecting assets as a result of the initial and subsequent application of the funded status and

measurement date provisions of ASC Subtopic 715-20. The adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule HC-R, Part I, item 9(d)) is to reverse the effects on AOCI of applying ASC Subtopic 715-20 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Subtopic 715-20 should be reported as an adjustment to assets in column B of this item. For example, the derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying ASC Subtopic 715-20 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 HC, 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*, include the amount of:
  - Any goodwill net of associated deferred tax liabilities (DTLs) reported in Schedule HC-R, Part I, item 6;
  - Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs reported in Schedule HC-R, Part I, item 7;
  - 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 HC-R, Part I, item 8;
  - The fair value of derivative contracts that are reported as assets in Schedule HC, item 11 (holding companies should risk weight the credit equivalent amount of these derivative contracts in Schedule HC-R, Part II, item 20 or 21, as appropriate);
  - 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 HC-R, Part I, items 13 through 16. These excess amounts pertain to three items:
    - Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
    - Mortgage servicing assets; and
    - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances.
  - The holding company's investments in unconsolidated banking and finance subsidiaries that are reported in Schedule HC, item 8, and have been deducted for risk-based capital purposes in Schedule HC-R, Part I, item 33; and
  - Unsettled transactions (failed trades) that are reported as "Other assets" in Schedule HC, item 11. For purposes of risk weighting, unsettled transactions are to be reported in Schedule HC-R, Part II, item 22.

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 HC-F, item 4;

- Accrued interest receivable on assets included in the zero percent risk weight category (column C of Schedule HC-R, Part II, items 1 through 7);
  - The carrying value of gold bullion not held for trading that is held in the holding company's own vault or in another holding company's or 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 HC, 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 HC-F, item 4;
    - Accrued interest receivable on assets included in the 20 percent risk weight category (column G of Schedule HC-R, Part II, items 1 through 7);
    - The portion of customers' acceptance liability reported in Schedule HC, item 11, that has been participated to other depository institutions; and
    - The portion of assets reported in Schedule HC, 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 HC-R, Part II, items 1 through 7). Also include the portion of assets reported in Schedule HC, 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 HC-R, Part II, items 1 through 7);
    - The amount of all other assets reported in column A that is not included in columns B through N or R.
    - The amounts of items that do not exceed the 10 percent and 15 percent 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:<sup>17</sup>
      - Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
      - Mortgage servicing assets; and
      - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances.

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<sup>17</sup> Note: these items will become subject to a 250 percent risk weight beginning in 2018.



- 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 holding company's equity exposures does not exceed 10 percent of total capital. If the holding company's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the holding company must report its equity exposures reported in Schedule HC, items 6 through 11 in either columns L, M, or N, as appropriate; and
- The portion of assets reported in Schedule HC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
- *In column J–150% risk weight*, include accrued interest receivable on assets included in the 150 percent risk weight category (column J of Schedule HC-R, Part II, items 1 through 7). Also include the portion of assets reported in Schedule HC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 150 percent risk weight.
- *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 HC, 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 HC-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 HC-F, item 4.
- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any asset reported in Schedule HC, items 6 through 11, 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 holding company 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 holding company 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 HC-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 HC-R, Part II.

- *In columns R and S—Application of Other Risk-Weighting Approaches*, also include the holding company’s equity exposures to investment funds (including mutual funds) reported in Schedule HC, item 8 or 11, if the aggregate carrying value of the holding company’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 as 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 HC-R, Part II.
- *In columns R and S of item 8.a—Separate Account Bank-Owned Life Insurance*, include the holding company’s investments in separate account life insurance products, including hybrid separate account life insurance products. Exclude from columns R and S any investment in bank-owned life insurance that is solely a general account insurance product (report such general account insurance products in *column I—100 percent risk weight*). Report in column R the carrying value of the holding company’s investments in separate account life insurance products, including hybrid separate account products. Report in column S the risk-weighted asset amount of these insurance products. When a holding company has a separate account policy, the portion of the carrying value that represents general account claims on the insurer, including items such as deferred acquisition costs (DAC) and mortality reserves realizable as of the balance sheet date and any portion of the carrying value attributable to a Stable Value Protection (SVP) contract, these amounts should be risk weighted at the 100 percent risk weight as claims on the insurer or the SVP provider. The remaining portion of the investment in separate account life insurance products is an equity exposure to an investment fund that should be measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach, all three of which require a minimum risk weight of 20 percent. For further information, refer to the discussion of “Treatment of Equity Exposures” in the General Instructions for Schedule HC-R, Part II.
- *In columns R and S of item 8.b—Default Fund Contributions to Central Counterparties*

Note: Item 8(b) only applies to holding companies that are clearing members, and therefore will not be applicable to the vast majority of holding companies. Holding companies must report the aggregate on-balance sheet amount of default fund contributions to central counterparties (CCPs) in column A. Holding

companies must report the aggregate off-balance sheet amount, if any, of default fund contributions to central counterparties as a negative amount in column B of item 8. Holding companies must report the aggregate on- and off-balance sheet amount of such contributions in column R. See §.35(d) of the regulatory capital rules for more details.

Clearing Member holding companies must report in column S the total amount of risk-weighted assets (RWAs) for a clearing member holding company's default fund contributions to central counterparties. This will be the sum of:

- Component A: the sum of risk-weighted assets for a clearing member holding company's default fund contributions to all non-qualifying CCPs; and,
- Component B: the sum of risk-weighted assets for a clearing member holding company's default fund contributions to all qualifying central counterparties (QCCPs).

Report the sum of Components A and B in Schedule HC-R, Part II, item 8(b), column S.

*Component A: risk-weighted asset amount for default fund contributions to non-qualifying CCPs*

As required by §.35(d)(2) of the regulatory capital rules, a clearing member holding company's risk-weighted asset amount for default fund contributions to CCPs that are not QCCPs equals the sum of such default fund contributions multiplied by 1,250 percent, or an amount determined by the holding company's federal supervisor based on factors such as size, structure and membership characteristics of the CCP and riskiness of its transactions, in cases where such default fund contributions may be unlimited. Therefore, unless otherwise advised by its supervisor or through agency-issued guidance, a holding company will sum each of its non-QCCP default fund contributions, and multiply the total by 1,250 percent, and add any additional risk-weighted asset amount determined by the agency, if any. This will be Component A above.

*Component B: risk-weighted asset amount for default fund contributions to QCCPs*

§.35(d)(3) of the regulatory capital rules provides two methods to determine the capital requirement for a clearing member holding company's default fund contributions to a QCCP. A clearing member holding company may use either method. A clearing member holding company's risk-weighted asset amount for default fund contributions to a QCCP equals the sum of its capital requirement,  $K_{CM}$ , for each QCCP as calculated under Method 1 multiplied by 1,250 percent, or under Method 2.

Method 1: The holding company calculates the capital charge for a clearing member in a 3-step process, depending on the funded status of the QCCP. The process is summarized briefly below:

- Step 1: The holding company must calculate the hypothetical capital requirement of all the trades conducted through the QCCP as if the QCCP were a bank. This depends on the type of trade and netting sets with each

counterparty. Alternately, the QCCP may provide this number to the clearing member.

- Step 2: The holding company compares the hypothetical capital requirement (calculated in Step 1) to the funded default fund of the QCCP to include the internally funded resources of the QCCP. This step determines the aggregate capital requirement for all clearing members assuming a default of two average clearing members.
- Step 3: The aggregate capital requirement of all clearing members (assuming the default of two members) is then allocated back to the individual clearing member firm and converted to a risk-weighted asset amount.

Using the 3-step process and formulas provided in the regulatory capital rules, the holding company will determine a dollar capital requirement for its default fund contribution for each QCCP ( $K_{CMi}$ ). The holding company must then multiply each  $K_{CMi}$  by 1,250 percent to calculate the risk-weighted asset amount. The holding company must sum the RWAs calculated for each QCCP default fund contribution to produce a total RWA amount for all QCCP default fund contributions for which the holding company uses this method. For example, the total RWA amount for a holding company with default fund contributions to two QCCPs will be the sum of  $K_{CMi}$  for QCCP A and  $K_{CMi}$  for QCCP B. This sum will be included in Component B above for all QCCPs for which the holding company uses method 1.

Method 2: Under Method 2, the risk weighted assets for a clearing member's default fund contribution is the minimum of:

- 1,250 percent times the holding company's funded contributions to the QCCP default fund, or,
- 18 percent times the total trade exposures of the member to the QCCP.

A holding company will make this calculation for each QCCP for which it uses Method 2. The sum of RWAs for all QCCP contributions for which the holding company uses Method 2 will be included in Component B above.

- The portion of Schedule HC, items 6 through 11, that must be risk-weighted according to the Country Risk Classification (CRC) methodology:
  - *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include the portions of those exposures described above in the instructions for Schedule HC-R, Part II, item 8 that are exposures on sovereigns or foreign banks that do not qualify as securitization exposures.*

9. **On-balance sheet securitization exposures.** When determining the amount of risk-weighted assets for securitization exposures, holding companies that are not subject to the market risk capital rule may elect to use either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, as described above and in §.41 to 45 of the regulatory capital rules. However, such holding companies must use the SSFA or Gross-Up Approach consistently across all securitization exposures (Schedule HC-R, Part II, items 9(a) through 10). Holding companies may risk weight

any individual securitization exposure at 1,250 percent in lieu of applying the SSFA or Gross-Up Approach to that individual exposure.

Holding companies subject to the market risk capital rule must use the SSFA when determining the amount of risk-weighted assets for securitization exposures.

For further information, refer to the discussion of “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule HC-R, Part II.

- 9(a) Held-to-maturity securities.** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule HC, item 2(a), that are securitization exposures. Refer to the instructions for Schedule HC-R, Part II, item 2(a), for a summary of the reporting locations of HTM securitization exposures.

Exposure amount to be used for purposes of risk weighting – holding company cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule HC-R, Part I, item 3(a):

For a security classified as held-to-maturity where the holding company 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 holding company is the carrying value of the security, which is the value of the asset reported on the balance sheet of the holding company determined in accordance with GAAP and in column A.

Exposure amount to be used for purposes of risk weighting – holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a):

For a security classified as held-to-maturity where the holding company 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 holding company is the carrying value of the security reported on the balance sheet of the holding company and in column A, less any net unrealized gains on the exposure, plus any net realized loss on the exposure included in AOCI.

- *In column B*
  - If an HTM securitization exposure will be risk-weighted by using the 1,250 percent risk weight approach, report any difference between the carrying value of the HTM securitization exposure reported in column A of this item and the exposure amount of the HTM securitization exposure that is to be risk weighted.
  - If an HTM securitization exposure will be risk-weighted using either the SSFA or the Gross-Up Approach, report the carrying value of the HTM securitization exposure reported in column A of this item.
- *In column Q*, report the exposure amount of those HTM securitization exposures that are assigned a 1,250 percent risk weight (i.e., those HTM securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those HTM securitization exposures for which the risk-weighted asset amount is

calculated using the SSFA, as described above in the General Instructions for Part II and in §.41 to §.45 of the regulatory capital rules.

- *In column U*, report the risk-weighted asset amount (not the exposure amount) of HTM securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

**9(b) Available-for-sale securities.** Report in column A the fair value of those available-for-sale (AFS) securities reported in Schedule HC, item 2(b), that are securitization exposures. Refer to the instructions for Schedule HC-R, Part II, item 2(b), for a summary of the reporting locations of AFS securitization exposures.

Exposure amount to be used for purposes of risk weighting – holding company that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule HC-R, Part I, item 3(a):

For an AFS debt security that is a securitization exposure where the holding company cannot make or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount of the AFS securitization exposure to be risk weighted by the holding company is the carrying value of the debt security, which is the value of the asset reported on the balance sheet of the holding company (Schedule HC, item 2(b)) determined in accordance with GAAP (i.e., the fair value of the available-for-sale debt security) and in column A of this item.

Exposure amount to be used for purposes of risk weighting – holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a):

For an AFS debt security that is a securitization exposure where the holding company has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount of the AFS securitization exposure to be risk weighted by the holding company is the carrying value of the debt security, less any unrealized gain on the exposure plus any unrealized loss on the exposure included in AOCI.

- *In column B*
  - If an AFS securitization exposure will be risk weighted using the 1,250 percent risk weight approach, a holding company that has made the AOCI opt-out election should include the difference between the fair value and amortized cost of those AFS debt securities that qualify as securitization exposures. This difference equals the amounts reported in Schedule HC-B, items 4 and 5, column D, minus items 4 and 5, column C, for those AFS debt securities included in these items that are securitization exposures. When fair value exceeds cost, report the difference as a positive number in Schedule HC-R, Part II, item 9(b), column B. When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule HC-R, Part II, item 9(b), column B.
  - If an AFS securitization exposure will be risk weighted using either the SSFA or the Gross-Up Approach, a holding company should report carrying value of the AFS securitization exposure reported in column A of this item.

- *In column Q*, report the exposure amount of those AFS securitization exposures that are assigned a 1,250 percent risk weight (i.e., those AFS securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Part II and in §.41 to 45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

Example 1: A holding company reports an ADS securitization exposures on its balance sheet in Schedule HC, item 2(b), at a carrying value (i.e., fair value) of \$105. The amortized cost of the AFS securitization exposure is \$100. The AFS securitization exposure has a \$5 unrealized gain that is included in AOCI. The holding company would report has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a). The AFS securitization exposure will be risk weighted using the 1,250 percent risk weight approach. The holding company would report in Schedule HC-R, Part II, item 9(b):

- \$105 in Column A. This is the carrying value of the AFS securitization exposure on the holding company's balance sheet.
- \$5 in Column B. This is the difference between the carrying value (i.e., fair value) of the AFS securitization exposure and its exposure amount that is subject to risk-weighting. For a holding company that has made the AOCI opt-out election, column B will typically represent the amount of unrealized gain or unrealized loss on a securitization exposure. Gains are reported as positive numbers; losses as negative numbers. (Note: if the holding company has not made or cannot make the AOCI opt-out election, there will not be an adjustment to be reported in column B.)
- \$100 is the exposure amount subject to risk-weighting. This amount will be reported in item 9(b), column Q - 1,250 percent risk weight. For a holding company that has made the AOCI opt-out election, the exposure amount typically will be the carrying value (i.e., fair value) of the AFS securitization exposure excluding any unrealized gain or loss.

Example 2: A holding company reports an AFS securitization exposure on its balance sheet in Schedule HC, item 2(b), at a carrying value (i.e., fair value) of \$105. The AFS securitization exposure has a \$5 unrealized gain that is included in AOCI. The holding company has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a). The AFS securitization exposure will be risk weighted using the Gross-Up Approach and it is assigned a 900 percent risk weight using this approach. The holding company would report in Schedule HC-R, Part II, item 9(b):

- \$105 in Column A. This is the carrying value of the AFS securitization exposure on the holding company's balance sheet.

- \$105 in Column B. When the Gross-Up Approach is being used, the carrying amount of the AFS securitization exposure on the holding company's balance sheet is to be reported in column B. Because the holding company has made the AOCI opt-out election, the \$105 carrying amount consists of two components: (i) \$100 is the exposure amount subject to risk-weighting at 900 percent, and (ii) \$5 is difference between the carrying value and the exposure amount that is subject to risk-weighting.
- \$900 reported in Column U. This is the risk-weighted asset amount of the AFS securitization exposure. This amount (\$900) will be reported in item 9(b), column U - Gross-Up. (Note: \$900 is the product of the \$100 exposure amount multiplied by a 900 percent risk weight.)

**9(c) Trading assets.** Report in column A the fair value of those trading assets reported in Schedule HC, item 5, that are securitization exposures. Refer to the instructions for Schedule HC-R, Part II, item 7, for a summary of the reporting locations of trading assets that are securitization exposures.

If the holding company is subject to the market risk capital rule, report in column B the fair value of those securitization exposures reported in column A of this item that are covered positions as defined in Schedule HC-R, Part II, item 27. The holding company will report its standardized market risk-weighted assets in Schedule HC-R, Part II, item 27.

For holding companies not subject to the market risk capital rule and for those trading assets held by holding companies subject to the market risk capital rule that are securitization exposures that do not meet the definition of a covered position:

- *In column B*, report the fair value reported in column A of this item for those trading assets reported in Schedule HC, item 5, that qualify as securitization exposures and will be risk-weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach.
- *In column Q*, report the fair value of those trading assets that are securitization exposures that are assigned a 1,250 percent risk weight (i.e., those trading asset securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the fair value) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the fair value) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.



**9(d) All other on-balance sheet securitization exposures.** Report in column A the amount of all on-balance sheet assets included in Schedule HC that qualify as securitization exposures and are not reported in Schedule HC-R, Part II, items 9(a), 9(b), or 9(c). Refer to the instructions for Schedule HC-R, Part II, items 1, 3, 4, 5, and 8, above for a summary of the reporting locations of other on-balance sheet securitization exposures. For a holding company that has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule HC-R, Part I, item 3(a), include in this item any accrued but uncollected interest and fees associated with held-to-maturity, available-for-sale, and trading securitization exposures reported in Schedule HC, item 11, “Other assets.”

Exposure amount to be used for purposes of risk weighting – holding company that cannot or has not made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a):

For other on-balance sheet securitization exposures where the holding company 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 holding company is the exposure’s carrying value, which is the value of the exposure reported on the balance sheet of the holding company determined in accordance with GAAP and in column A.

Exposure amount to be used for purposes of risk weighting – holding company has made the AOCI opt out election in Schedule HC-R, Part I, item 3(a):

For other on-balance sheet securitization exposures where the holding company 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 holding company is the exposure’s carrying value, less any net unrealized gains on the exposure plus any net realized loss on the exposure included in AOCI. In column B, report any difference between the carrying value and the exposure amount of those other on-balance sheet securitization exposures reported in column A of this item that will be risk weighted by applying the 1,250 percent risk weight.

- *In column B*, all holding companies should include the amount reported in column A of this item for those other on-balance sheet securitization exposures that will be risk-weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach.
- *In column Q*, report the exposure amount of those other on-balance sheet securitization exposures that are assigned a 1,250 percent risk weight (i.e., those other on-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted

asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

- 10** **Off-balance sheet securitization exposures.** Report in column A the notional amount of all derivatives and off-balance sheet items reported in Schedule HC-L or Schedule HC-S that qualify as securitization exposures. Refer to the instructions for Schedule HC-R, Part II, items 12 through 21, for a summary of the reporting locations of off-balance sheet securitization exposures.

Exposure amount to be used for purposes of risk weighting

For an off-balance sheet securitization exposure that is not a repo-style transaction or eligible margin loan for which the holding company calculates an exposure amount under §.37 of the regulatory capital rules, cleared transaction (other than a credit derivative), or over-the-counter (OTC) derivative contract (other than a credit derivative), the exposure amount is the notional amount of the exposure.

For an off-balance sheet securitization exposure to an asset-backed commercial paper (ABCP) program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that holding company could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets).

The exposure amount of an eligible ABCP liquidity facility for which the Simplified Supervisory Formula Approach (SSFA) does not apply is equal to the notional amount of the exposure multiplied by a credit conversion factor (CCF) of 50 percent.

The exposure amount of an eligible ABCP liquidity facility for which the SSFA applies is equal to the notional amount of the exposure multiplied by a CCF of 100 percent.

For an off-balance sheet securitization exposure that is a repo-style transaction or eligible margin loan for which the holding company calculates an exposure amount under §.37 of the regulatory capital rules, a cleared transaction (other than a credit derivative), or derivative contract (other than a credit derivative), the exposure amount is the amount calculated under §.34, §.35, or §.37, as applicable, of the regulatory capital rules.

For a credit-enhancing representation and warranty that is an off-balance sheet securitization exposure, see the discussion of "Treatment of Sales of 1-4 Family Residential First Mortgage Loans with Credit-Enhancing Representations and Warranties," which includes an example, in the General Instructions for Schedule HC-R, Part II.

- *In column B*, report the notional amount of those off-balance sheet securitization exposures reported in column A of this item for which the exposure amount (as described above) will be risk-weighted using either the SSFA or the Gross-Up Approach. Also include in column B the difference between the notional amount reported in column A of this and the exposure amount for those off-balance sheet

items that qualify as securitization exposures and will be risk weighted by applying the 1,250 percent risk weight.

- *In column Q*, report the exposure amount of those off-balance sheet securitization exposures that are assigned a 1,250 percent risk weight (i.e., those off-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).
- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.
- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule HC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

**11** **Total assets.** For columns A through R, report the sum of items 1 through 9. The sum of columns B through R must equal column A. Schedule HC-R, Part II, item 11, column A, must equal Schedule HC, item 12, “Total assets.”

### **Derivatives, Off-Balance Sheet Items, and Other Items Subject to Risk Weighting (Excluding Securitization Exposures)**

Treatment of Derivatives and Off-Balance Sheet Items that are Securitization Exposures - Any derivatives or off-balance sheet items reported in Schedule HC-L or Schedule HC-S that qualify as securitization exposures, including liquidity facilities to asset-back commercial paper programs, are to be reported in Schedule HC-R, Part II, item 10, column A, and excluded from Schedule HC-R, Part II, items 12 through 21 below.

Repo-style transactions – The regulatory capital rules permit some repo-style transactions to be risk weighted on a netting set basis. Where netting is permitted, a holding company will combine both on-balance and off-balance sheet repo-style transactions in order to determine a capital requirement for a netting set to a single counterparty. In such cases, a holding company should combine securities purchased under agreements to resell (i.e., reverse repos) and securities sold under agreements to repurchase (i.e., repos) with off-balance sheet repo-style transactions (i.e., securities borrowing and securities lending transactions) in Schedule HC-R, Part II, item 16, and report the netting set exposure to each counterparty under the appropriate risk weight column.

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

**12** **Financial standby letters of credit.** For financial standby letters of credit reported in Schedule HC-L, item 2, that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, but are credit enhancements for assets, report *in column A*:

- (1) The amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit multiplied by 12.5.
- (2) The full amount of the assets that are credit-enhanced by those letters of credit that are not multiplied by 12.5.

For all other financial standby letters of credit reported in Schedule HC-L, item 2, that do not meet the definition of a securitization exposure, report in column A the amount outstanding and unused of these letters of credit.

- *In column B*, report 100 percent of the amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule HC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G–20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule HC-L, item 2, that has been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule HC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H–50% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule HC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule HC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
- Financial standby letters of credit that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
  - The credit equivalent amount of the portion of financial standby letters of credit reported in Schedule HC-L, item 2, that have been conveyed to foreign banks.

### **13 Performance standby letters of credit and transaction-related contingent items.**

Report in column A transaction-related contingent items, which includes the face amount of performance standby letters of credit reported in Schedule HC-L, item 3, and any other

transaction-related contingent items that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

- *In column B*, report 50 percent of the face amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule HC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G–20% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule HC-L, item 3, that have been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule HC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H–50% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule HC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule HC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
- Performance standby letters of credit and transaction-related contingent items that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
    - The credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule HC-L, item 3, that have been conveyed to foreign banks.

- 14** **Commercial and similar letters of credit with an original maturity of one year or less.** Report in column A the face amount of those commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, reported in Schedule HC-L, item 4, with an original maturity of one year or less that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules. Report those commercial letters of credit with an original maturity exceeding one year that do not meet the definition of a *securitization exposure* in Schedule HC-R, Part II, item 18(c).

- *In column B*, report 20 percent of the face amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule HC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G–20% risk weight*, include the credit equivalent amount of the portion of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less, reported in Schedule HC-L, item 4, that have been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule HC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H–50% risk weight*, include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule HC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule HC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
- Commercial and similar letters of credit that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
  - The credit equivalent amount of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less, reported in Schedule HC-L, item 4, that have been conveyed to foreign banks.

**15** **Retained recourse on small business obligations sold with recourse.** Report in column A the amount of retained recourse on small business obligations reported in Schedule HC-S, Memorandum item 1(b), that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

For retained recourse on small business obligations sold with recourse that qualify as securitization exposures, please see §42(h) of the regulatory capital rule for purposes of risk-weighting and report these exposures in Schedule HC-R, Part II, item 10.

Under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, a "qualifying institution" that transfers small business

loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution establishes a recourse liability account that is sufficient under GAAP. Only loans and leases to businesses that meet the criteria for a small business concern established by the Small Business Administration under Section 3(c) of the Small Business Act (12 U.S.C.631) are eligible for this favorable risk-based capital treatment.

In general, a "qualifying institution" is one that is well capitalized without regard to the Section 208 provisions. If a holding company ceases to be a qualifying institution or exceeds the retained recourse limit set forth in banking agency regulations implementing Section 208, all new transfers of small business obligations with recourse would not be treated as sales. However, the reporting and risk-based capital treatment described above will continue to apply to any transfers of small business obligations with recourse that were consummated during the time the holding company was a "qualifying institution" and did not exceed the limit.

- *In column B*, report 100 percent of the amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule HC-S, Memorandum item 1(b), that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.
- *In column G–20% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule HC-S, Memorandum item 1(b), that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.
- *In column H–50% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule HC-S, Memorandum item 1(b), that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule HC-S, Memorandum item 1(b), that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

**16**     **Repo-style transactions.** Repo-style transactions include:

- Securities lending transactions, including transactions in which the holding company acts as an agent for a customer and indemnifies the customer against loss. Securities lent are reported in Schedule HC L, item 6(a).
- Securities borrowing transactions Securities borrowed are reported in Schedule HC-L, item 6(b).

- Securities purchased under agreements to resell (i.e., reverse repos). Securities purchased under agreements to resell are reported in Schedule HC, item 3(b).
- Securities sold under agreements to repurchase (i.e., repos). Securities sold under agreements to repurchase are reported in Schedule HC, item 14(b).<sup>18</sup>

Report in column A the exposure amount of repo-style transactions that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

For repo-style transactions to which the holding company applies the Simple Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A is the sum of the fair value as of the report date of securities the holding company has lent,<sup>19</sup> the amount of cash or the fair value as of the report date of other collateral the holding company has posted for securities borrowed, the amount of cash provided to the counterparty for securities purchased under agreements to resell (as reported in Schedule RC, item 3.b), and the fair value as of the report date of securities sold under agreements to repurchase.

For repo-style transactions to which the holding company applies the Collateral Haircut Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A for a repo-style transaction or a single-product netting set of such transactions is determined by using the exposure amount equation in §.37(c) of the regulatory capital rules.

A holding company may apply either the Simple Approach or the Collateral Haircut Approach to repo-style transactions; however, the holding company must use the same approach for similar exposures or transactions. For further information, see the discussion of “Treatment of Collateral and Guarantees” in the General Instructions for Schedule HC-R, Part II.

- *In column B*, report 100 percent of the exposure amount reported in column A.
- *In column C—0% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the zero percent risk weight under the regulatory capital rules (refer to §.37 of the regulatory capital rules).

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<sup>18</sup> Although securities purchased under agreements to resell and securities sold under agreements to repurchase are reported on the balance sheet (Schedule HC) as assets and liabilities, respectively, they are included with securities lent and securities borrowed and designated as repo-style transactions that are treated collectively as off-balance sheet items under the regulatory capital rules.

<sup>19</sup> For held-to-maturity securities that have been lent, the amortized cost of these securities is reported in Schedule HC-L, item 6(a), but the fair value of these securities should be reported as the exposure amount in column A of this item.



- *In column D–2% risk weight*, include the credit equivalent amount of centrally cleared repo-style transactions with Qualified Central Counterparties (QCCPs), as defined in §.2 and described in §.35 of the regulatory capital rules.
- *In column E–4% risk weight*, include the credit equivalent amount of centrally cleared repo-style transactions with QCCPs in all other cases that do not meet the criteria of qualification for a 2 percent risk weight, as described in §.35 of the regulatory capital rules.
- *In column G–20% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 20 percent risk weight under the regulatory capital rules. Also include the credit equivalent amount of repo-style transactions that represents exposures to U.S. depository institutions.
- *In column H–50% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 50 percent risk weight under the regulatory capital rules.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Also include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 100 percent risk weight under the regulatory capital rules.
- *In column J–150% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 150 percent risk weight under the regulatory capital rules.
- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of repo-style transactions that is secured by qualifying financial collateral that meets the definition of a securitization exposure in §.2 of the regulatory capital rules or is a mutual fund only if the holding company chooses to recognize the risk-mitigating effects of the securitization exposure collateral under the simple approach or the collateral haircut approach outlined in §.37 of the regulatory capital rules. Under the simple approach, the risk weight assigned to the collateralized portion of the repo-style exposure may not be less than 20 percent.
  - Include in column R the portion of repo-style transactions secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the simple approach or the collateral haircut approach, respectively; however, the holding company must apply the same approach for all repo-style transactions. In addition, if the holding company applies the simple approach, it must apply the same approach – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule HC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of repo-style

transactions secured by such collateral. Any remaining portion of the repo-style exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule HC-R, Part II.

- Repo-style transactions that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C—0% risk weight; column G—20% risk weight; column H—50% risk weight; column I—100% risk weight; column J—150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
    - The credit equivalent amount of repo-style transactions that represents exposures to foreign central banks and foreign banks.

Examples: Reporting Securities Sold Under Agreements to Repurchase (Repos) Under the Simple Approach for Recognizing Effects of Collateral

§.37 of the regulatory capital rules provides for the recognition of the risk-mitigating effects of collateral when risk-weighting assets collateralized by *financial collateral*, as defined in §.2. The following examples illustrate the calculation of risk-weighted assets and the reporting of securities sold under agreements to repurchase (repos) in Schedule HC-R, Part II, item 16, using the Simple Approach.

**Example 1: Security sold under agreement to repurchase fully collateralized by cash.**

A holding company has transferred an available-for-sale (AFS) debt security to a counterparty in a repo transaction that is accounted for as secured borrowing on the bank’s balance sheet. The bank received \$100 in cash from the repo counterparty in this transaction. The amortized cost and the fair value of the AFS debt security are both \$100 as of the report date.<sup>20</sup> The debt security is an exposure to a U.S. government sponsored entity (GSE) that qualifies for a 20 percent risk weight. The repo counterparty is a company that would receive a 100 percent risk weight.

Calculation of risk-weighted assets for the transaction:

1. The holding company continues to report the AFS GSE debt security as an asset on its balance sheet and to risk weight the security as an on-balance sheet asset at 20 percent:<sup>21</sup>
  - a.  $\$100 \times 20\% = \$20$

<sup>20</sup> In both Example 1 and Example 2, because the fair value carrying value of the AFS GSE debt security equals the amortized cost of the debt security, a holding company that has made the AOCI opt-out election in Schedule HC-R, Part I, item 3(a), does not need to adjust the carrying value (i.e., the fair value) of the debt security to determine the exposure amount of the security. Thus, for a holding company that has made the AOCI opt-out election, the carrying value of the AFS debt security equals its exposure amount in Examples 1 and 2.

<sup>21</sup> See footnote 21.

2. The holding company has a \$100 exposure to the repo counterparty (the report date fair value of the security transferred to the counterparty) that is collateralized by the \$100 of cash received from the counterparty. The holding company risk weights its exposure to the repo counterparty at zero percent in recognition of the cash received in the transaction from the counterparty:  $\$100 \times 0\% = \$0$
3. There is no additional exposure to the repo counterparty to risk weight because the exposure to the counterparty is fully collateralized by the cash received.

**Total risk-weighted assets arising from the transactions: \$20**

The holding company would report the transaction as follows:

1. The holding company reports the AFS debt security in Schedule HC-R, Part II, item 2(b):
  - a. The \$100 carrying value (i.e., fair value) of the AFS debt security on the balance sheet will be reported in column A.<sup>22</sup>
  - b. The \$100 credit equivalent amount of the holding company's exposure amount of the AFS debt security will be reported in column G – 20 percent risk weight (which is the applicable risk weight for a U.S. GSE debt security).
2. The holding company reports the repurchase agreement in Schedule HC-R, Part II, item 16:
  - a. The holding company's \$100 exposure to the repo counterparty, which is the fair value of the debt security transferred in the repo transaction, is the exposure amount to be reported in column A.
  - b. The \$100 credit equivalent amount of the holding company's exposure to the repo counterparty will be reported in column B.
  - c. Because the holding company's exposure to the repo counterparty is fully collateralized by the \$100 of cash received from the counterparty, the \$100 credit equivalent amount of the repurchase agreement will be reported in column C – 0 percent risk weight (which is the applicable risk weight for cash collateral).

	(Column A) Totals from Schedule RC	(Column B) Adjustments	(Column C)	(Column G)	(Column I)	
			Allocation by Risk-Weight Category			
			0%	20%	100%	
2(b). AFS Securities	\$100			\$100		2(b).

	(Column A) Face or notional	(Column B) Credit Equiv.	(Column C)	(Column G)	(Column I)	
			Allocation by Risk-Weight Category			
			0%	20%	100%	
16. Repo-style Transactions	\$100	\$100	\$100			16.

**Example 2: Security sold under an agreement to repurchase (repo) *not fully collateralized by cash.***

A holding company has transferred an AFS debt security to a counterparty in a repo transaction that is accounted for as a secured borrowing on the bank's balance sheet. The holding company received \$98 in cash from the repo counterparty in this transaction. The amortized cost and the fair value of the AFS debt security are both \$100 as of the report date.<sup>23</sup> The debt security is an exposure to a U.S. GSE that

<sup>22</sup> See footnote 21.

<sup>23</sup> See footnote 21.

qualifies for a 20 percent risk weight. The repo counterparty is a company that would receive a 100 percent risk weight.

Calculation of risk-weighted assets for the transaction:

1. The bank continues to report the AFS GSE debt security as an asset on its balance sheet and to risk weight the security as an on-balance sheet asset at 20 percent:<sup>24</sup>  
 $\$100 \times 20\% = \$20$
2. The holding company has a \$100 exposure to the repo counterparty (the report date fair value of the security transferred to the counterparty) of which \$98 is collateralized by the cash received from the counterparty. The holding company risk weights the portion of its exposure to the repo counterparty that is collateralized by the cash received from the counterparty at zero percent:  $\$98 \times 0\% = \$0$
3. The holding company risk weights its \$2 uncollateralized exposure to the repo counterparty using the risk weight applicable to the counterparty:  $\$2 \times 100\% = \$2$

**Total risk-weighted assets for the above transactions: \$22**

The holding company would report the transaction in Schedule HC-R, Part II, as follows:

1. The holding reports the AFS debt security in item 2(b):
  - a. The \$100 carrying value (i.e., the fair value) of the AFS debt security on the balance sheet will be reported in column A.<sup>25</sup>
  - b. The \$100 exposure amount of the AFS debt security will be reported in column G–20% risk weight (which is the applicable risk weight for a U.S. GSE debt security).
2. The holding company reports the repurchase agreement in item 16:
  - a. The holding company's \$100 exposure to the repo counterparty, which is the fair value of the debt security transferred in the repo transaction, is the exposure amount to be reported in column A.
  - b. The \$100 credit equivalent amount of the holding company's exposure to the repo counterparty will be reported in column B.
  - c. Because the holding company's exposure to the repo counterparty is collateralized by the \$98 of cash received from the counterparty, \$98 of the \$100 credit equivalent amount of the repurchase agreement will be reported in column C–0% risk weight (which is the applicable risk weight for cash collateral).
  - d. The \$2 uncollateralized exposure to the repo counterparty will be reported in column I–100% risk weight (which is the applicable risk weight for the repo counterparty).

(Column A) Totals from Schedule RC	(Column B) Adjustments	(Column C)	(Column G)	(Column I)
Allocation by Risk-Weight Category				
		0%	20%	100%

<sup>24</sup> See footnote 21.

<sup>25</sup> See footnote 21.

2(b).	AFS Securities	\$100			\$100		2(b).
		(Column A) Face or notional	(Column B) Credit Equiv.	(Column C)	(Column G)	(Column I)	
		Allocation by Risk-Weight Category					
				0%	20%	100%	
16.	Repo-style Transactions	\$100	\$100	\$98		\$2	16.

**17** All other off-balance sheet liabilities. Report in column A:

- The notional amount of all other off-balance sheet liabilities reported in Schedule HC-L, item 9, that are covered by the regulatory capital rules,
- The face amount of risk participations in bankers acceptances that have been acquired by the reporting institution and are outstanding,
- The full amount of loans sold with credit-enhancing representations and warranties that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules,
- The notional amount of written option contracts that act as financial guarantees that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, and
- The notional amount of all forward agreements, which are defined as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.

However, exclude from column A:

- The amount of credit derivatives classified as trading assets that are subject to the market risk capital rule (report in Schedule HC-R, Part II, items 20 and 21, as appropriate), and
- Credit derivatives purchased by the holding company that are recognized as guarantees of an asset or off-balance sheet exposure under the regulatory capital rules, i.e., credit derivatives on which the holding company is the beneficiary (report the guaranteed asset or exposure in Schedule HC-R, Part II, in the appropriate balance sheet or off-balance sheet category – e.g., item 5, “Loans and leases, net of unearned income” – and in the risk weight category applicable to the derivative counterparty – e.g., *column G – 20% risk weight* – rather than the risk weight category applicable to the obligor of the guaranteed asset).
- *In column B*, report 100 percent of the face amount, notional amount, or other amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column G–20% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.

- *In column H–50% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through J. Include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column J–150% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- All other off-balance sheet liabilities that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
  - The credit equivalent amount of those other off-balance sheet liabilities described above in the instructions for Column A of this item that represent exposures to foreign central banks and foreign banks.

**18** **Unused commitments.** Report in items 18(a) and 18(c) the amounts of unused commitments, excluding those that are unconditionally cancelable, which are to be reported in Schedule HC-R, Part II, item 19. Where a holding company provides a commitment structured as a syndication or participation, the holding company is only required to calculate the exposure amount for its pro rata share of the commitment.

Exclude from items 18(a) and 18(c) any unused commitments that qualify as *securitization exposures*, as defined in §.2 of the regulatory capital rules. Unused commitments that are securitization exposures must be reported in Schedule HC-R, Part II, item 10, column A. Also exclude default fund contributions in the form of commitments made by a clearing member to a central counterparty's mutualized loss sharing arrangement. Such default fund contributions must be reported (as a negative number) in Schedule HC-R, Part II, item 8, column B.

**18(a)** **Original maturity of one year or less, excluding asset-backed commercial paper (ABCP) conduits.** Report in column A the unused portion of those unused commitments reported in Schedule HC-L, item 1, with an original maturity of one year or less, excluding unused commitments to asset-backed commercial paper (ABCP) conduits, that are subject to the regulatory capital rules.

Under the regulatory capital rules, the unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the holding company have a zero percent credit conversion factor. The unused portion of such unconditionally cancelable commitments should be excluded from this item and reported in Schedule HC-R, Part II, item 19. For further information, see the instructions for item 19.

"Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the holding company (1) is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment.

- *In column B*, report 20 percent of the amount of unused commitments reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column G–20% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column H–50% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column J–150% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of unused commitments that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory

capital rules or is a mutual fund only if the holding company chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the simple approach outlined in §.37 of the regulatory capital rules. Under the simple approach, the risk weight assigned to the collateralized portion of an unused commitment may not be less than 20 percent.

- Include in column R the portion of unused commitments secured by the fair value of securitization exposure or mutual fund collateral as determined under the simple approach. In addition, the holding company 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 HC-R, Part II, items 9 and 10.
- Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of unused commitments secured by such collateral. Any remaining portion of the unused commitment that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule HC-R, Part II.

- Unused commitments with an original maturity of one year or less, excluding ABCP conduits, that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
  - The credit equivalent amount of those unused commitments described above in the instructions for Column A of this item that represent exposures to foreign banks.

**18(b) Original maturity of one year or less to ABCP conduits.** Do not report amounts in Schedule HC-R, Part II, item 18(b). Eligible asset-backed commercial paper (ABCP) liquidity facilities with an original maturity of one year or less are off-balance sheet securitization exposures and should be reported in Schedule HC-R, Part II, item 10.

**18(c) Original maturity exceeding one year.** Report in column A the unused portion of those commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions reported in Schedule HC-L, item 1, that have an original maturity exceeding one year and are subject to the regulatory capital rules. Also report in column A the face amount of those commercial and similar letters of credit reported in Schedule HC-L, item 4, with an original maturity exceeding one year that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

Under the regulatory capital rules, the unused portion of commitments (facilities) which are unconditionally cancelable (without cause) at any time by the holding



company (to the extent permitted under applicable law) have a zero percent credit conversion factor. The unused portion of such unconditionally cancelable commitments should be excluded from this item and reported in Schedule HC-R, Part II, item 19. For further information, see the instructions for item 19.

Also include in column A the unused portion all revolving underwriting facilities (RUFs) and note issuance facilities (NIFs), regardless of maturity.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a holding company is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and excluded from this item 18(c) if the holding company has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the holding company is obligated to advance at any time during the life of the commitment. This includes seasonal commitments where the dollar amount of the commitment increases during the customer's peak business period. In addition, this risk-based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting holding company must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

- *In column B*, report 50 percent of the amount of unused commitments and the face amount of commercial and similar letters of credit reported in column A. Note that unused commitments that qualify as securitization exposures as defined in §.2 of the regulatory capital rules should be reported as securitization exposures in Schedule HC-R, Part II, item 10.
- *In column C—0% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column G—20% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above. Include the credit equivalent amount of commitments that have been conveyed to U.S. depository institutions. Include the credit equivalent amount of those commercial

and similar letters of credit reported in Schedule HC-L, item 4, with an original maturity exceeding one year that have been conveyed to U.S. depository institutions.

- *In column H–50% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Also include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column J–150% risk weight*, include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of unused commitments that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the holding company chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the simple approach outlined in §.37 of the regulatory capital rules. Under the simple approach, the risk weight assigned to the collateralized portion of an unused commitment may not be less than 20 percent.
  - Include in column R the portion of unused commitments secured by the fair value of securitization exposure or mutual fund collateral as determined under the simple approach. In addition, the holding company 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 HC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of unused commitments secured by such collateral. Any remaining portion of the unused commitment that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule HC-R, Part II.

- Unused commitments and commercial and similar letters of credit with an original maturity exceeding one year that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:*
  - The credit equivalent amount of those unused commitments described above in the instructions for Column A of this item that represent exposures to foreign banks.
  - The credit equivalent amount of those commercial and similar letters of credit reported in Schedule HC-L, item 4, with an original maturity exceeding one year that have been conveyed to foreign banks.

**19** **Unconditionally cancelable commitments.** Report in column A the unused portion of those unconditionally cancelable commitments reported in Schedule HC-L, item 1, that are subject to the regulatory capital rules.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a holding company is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and included in this item if the holding company has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

The unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the holding company (to the extent permitted by applicable law) have a zero percent credit conversion factor. The unused portion of such commitments should be reported in this item in column A.

**20** **Over-the-counter derivatives.** Report in column B the credit equivalent amount of over-the-counter (OTC) derivative contracts covered by the regulatory capital rules. Include OTC credit derivative contracts held for trading purposes and subject to the market risk capital rule. Do not include centrally cleared derivative contracts. 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 HC-R, Part II, item 10.

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 HC-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 §.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 potential future credit exposure of a 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 credit conversion factor from the following chart. The notional principal amounts of the reporting holding company's OTC derivatives that are subject to the risk-based capital requirements are reported by remaining maturity in Schedule HC-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 Federal Reserve's regulatory capital rules and for purposes of Schedule HC-R, Part II, the existence of a legally enforceable bilateral netting agreement between the reporting holding company 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 HC-R, Part II, Memorandum item 1, and §.34 of the regulatory capital rules.

When assigning to OTC derivative exposures to risk weight categories, holding companies 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.

- *In column C—0% risk weight*, include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above. This includes over-the-counter derivative contracts that are marked-to-market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contracts are collateralized by cash on deposit at the reporting institution.
- *In column F—10% risk weight*, include the credit equivalent amount of over-the-counter derivative contracts that are marked-to-market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contracts are collateralized by a sovereign exposure that qualifies for a zero percent risk weight under §.32 of the regulatory capital rules.
- *In column G—20% risk weight*, include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as

described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.

- *In column H–50% risk weight*, include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column I–100% risk weight*, include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R.
- *In column J–150% risk weight*, include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of over-the-counter derivative contracts that is secured by qualifying financial collateral that meets the definition of a securitization exposure in §.2 of the regulatory capital rules or is a mutual fund only if the holding company chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the simple approach or the collateral haircut approach outlined in §.37 of the regulatory capital rules. Under the simple approach, the risk weight assigned to the collateralized portion of the over-the-counter derivative exposure may not be less than 20 percent.
  - Include in column R the portion of over-the-counter derivative contracts secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the simple approach or the collateral haircut approach, respectively; however, the holding company must apply the same approach for all over-the-counter derivative contracts. In addition, if the holding company applies the simple approach, it must apply the same approach – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule HC-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 over-the-counter derivative contracts secured by such collateral. Any remaining portion of the over-the-counter derivative exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule HC-R, Part II.

- 21** **Centrally cleared derivatives.** Report in column B the credit equivalent amount of centrally cleared derivative contracts covered by the regulatory capital rules. Include centrally cleared credit derivative contracts held for trading purposes and subject to the market risk capital rule. Do not include over-the-counter derivative contracts. Do not include centrally cleared derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule HC-R, Part II, item 10.

The credit equivalent amount of a centrally cleared derivative contract is the sum of its current credit exposure (as reported in Schedule HC-R, Memorandum item 1), plus the potential future exposure over the remaining life of the derivative contract, plus the fair value of collateral posted by the clearing member client and held by the central counterparty or a clearing member in a manner that is not bankruptcy remote. The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The potential future credit exposure of a 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 credit conversion factor from the following chart. The notional principal amounts of the reporting holding company's centrally cleared derivatives that are subject to the risk-based capital requirements are reported by remaining maturity in Schedule HC-R, Part II, Memorandum items 3(a) through 3(g).

Remaining Maturity	Interest Rate	Foreign exchange rate and gold	Credit (investment grade reference assets)	Credit (non-investment grade reference assets)	Equity	Precious metals (except gold)	Other
One year or less	0.0%	1.0%	5.0%	10.0%	6.0%	7.0%	10.0%
Greater than one year & less than or equal to five years	0.5%	5.0%	5.0%	10.0%	8.0%	7.0%	12.0%
Greater than five years	1.5%	7.5%	5.0%	10.0%	10.0%	8.0%	15.0%

- *In column C–0% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with central counterparties (CCPs) and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column D–2% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with Qualified Central Counterparties (QCCPs) where the collateral posted by the holding company to the QCCP or clearing member is subject to an arrangement that prevents any losses to the clearing member client due to the joint default or a concurrent insolvency, liquidation, or receivership

proceeding of the clearing member and any other clearing member clients of the clearing member; and the clearing member client holding company has conducted sufficient legal review to conclude with a well-founded basis (and maintains sufficient written documentation of that legal review) that in the event of a legal challenge (including one resulting from default or from liquidation, insolvency, or receivership proceeding) the relevant court and administrative authorities would find the arrangements to be legal, valid, binding and enforceable under the law of the relevant jurisdictions. See the definition of QCCP in §.2 of the regulatory capital rules.

- *In column E–4% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with QCCPs in all other cases that do not meet the qualification criteria for a 2 percent risk weight, as described in §.2 of the regulatory capital rules.
- *In column G–20% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column H–50% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.
- *In column I–100% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.
- *In column J–150% risk weight*, include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule HC-R, Part II, items 1 through 8, above.

**22** **Unsettled transactions (failed trades).** Note: This item includes unsettled transactions in the reporting holding company's trading book and in its banking book. Report as unsettled transactions all on- and off-balance sheet transactions involving securities, foreign exchange instruments, and commodities that have a risk of delayed settlement or delivery, or are already delayed, and against which the reporting holding company must hold risk-based capital as described in §.38 of the regulatory capital rules.

For transactions that are delivery-versus-payment (DvP) transactions<sup>26</sup> and payment-versus-payment (PvP) transactions,<sup>27</sup> report in column A the positive current exposure of those unsettled transactions with a normal settlement period in which the reporting holding company's counterparty has not made delivery or payment within five business days after the settlement date, which are the DvP and PvP transactions subject to risk weighting under §.38 of the regulatory capital rules. Positive current exposure is equal to the difference between the transaction value at the agreed settlement price and the current market price of the transaction, if the difference results in a credit exposure of the holding company to the counterparty.

For delayed non-DvP/non-PvP transactions,<sup>28</sup> also include in column A the current fair value of the deliverables owed to the holding company by the counterparty in those transactions with a normal settlement period in which the reporting holding company has delivered cash, securities, commodities, or currencies to its counterparty, but has not received its corresponding deliverables, which are the non-DvP/non-PvP transactions subject to risk weighting under §.38 of the regulatory capital rules.

Do not include in this item: (1) cleared transactions that are marked-to-market daily and subject to daily receipt and payment of variation margin; (2) repo-style transactions, including unsettled repo-style transactions; (3) one-way cash payments on over-the-counter derivatives; and (4) transactions with a contractual settlement period that is longer than the normal settlement period (generally greater than 5 business days).

- *In column C—0% risk weight*, include the fair value of deliverables owed to the holding company by a counterparty that qualifies for a zero percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column G—20% risk weight*, include the fair value of deliverables owed to the holding company by a counterparty that qualifies for a 20 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column H—50% risk weight*, include the fair value of deliverables owed to the holding company by a counterparty that qualifies for a 50 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column I—100% risk weight*, include:
  - The fair value of deliverables owed to the holding company by a counterparty that qualifies for a 100 percent risk weight under §.32 of the

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<sup>26</sup> Delivery-versus-payment transaction means a securities or commodities transaction in which the buyer is obligated to make payment only if the seller has made delivery of the securities or commodities and the seller is obligated to deliver the securities or commodities only if the buyer has made payment.

<sup>27</sup> Payment-versus-payment transaction means a foreign exchange transaction in which each counterparty is obligated to make a final transfer of one or more currencies only if the other counterparty has made a final transfer of one or more currencies.

<sup>28</sup> Non-DvP/non-PvP transaction means any other delayed or unsettled transaction that does not meet the definition of a delivery-versus-payment or a payment-versus-payment transaction.



regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.

- The positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 5 to 15 business days after the contractual settlement date.
- *In column J–150% risk weight*, include the fair value of deliverables owed to the holding company by a counterparty that qualifies for a 150 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
- *In column O–625% risk weight*, the positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 16 to 30 business days after the contractual settlement date.
- *In column P–937.5% risk weight*, the positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 31 to 45 business days after the contractual settlement date.
- *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 holding company has not received deliverables from the counterparty five or more business days after which the delivery was due.

### **Totals**

- 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 for purposes of calculating the allowance for loan and lease losses 1.25 percent threshold.** Report the sum of:

- Schedule HC-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
- LESS: Schedule HC-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,” and
  - Items 11, 13 through 17, 24, and 33

NOTE: Item 27 is applicable only to holding companies that are subject to the market risk capital rule.

**27** **Standardized market risk-weighted assets.** Report the amount of the holding company’s standardized market risk-weighted assets. This line item is applicable only to those holding companies 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 holding company’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 holding company’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 HC–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 holding company 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 holding company’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; and, if applicable, item 27. (Item 27 is applicable only to holding companies that are subject to the market risk capital rule).
- 29** **LESS: Excess allowance for loan and lease losses.** Report the amount, if any, by which the holding company's allowance for loan and lease losses exceeds 1.25 percent of the holding company's risk-weighted assets base reported in Schedule HC-R, Part II, item 26. The amount to be reported in this item equals Schedule HC, item 4(c), "Allowance for loan and lease losses," less Schedule HI-B, Part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule HI-B, Part II, item 7, above," plus Schedule HC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures," less Schedule HC-R, Part I, item 30(a), "Allowance for loan and lease losses includable in Tier 2 capital."
- 30** **LESS: Allocated transfer risk reserve.** Report the entire amount of any allocated transfer risk reserve (ATRR) the reporting holding company is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K), and in any guidelines, letters, or instructions issued by the agencies. The entire amount of the ATRR equals the ATRR related to loans and leases held for investment (which is reported in Schedule HI-B, Part II, Memorandum item 1) plus the ATRR for assets other than loans and leases held for investment.
- 31** **Total risk-weighted assets.** Report the amount derived by subtracting items 29 and 30 from item 28.

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

**M1** **Current credit exposure across all derivative contracts covered by the regulatory capital rules.** Report the total current credit exposure amount for all interest rate, foreign exchange rate, gold, credit (investment grade reference assets), credit (non-investment grade reference assets), equity, precious metals (except gold), and other derivative contracts covered by the regulatory capital rules after considering applicable legally enforceable bilateral netting agreements. Holding companies that are subject to Subpart F of the regulatory capital rules should exclude all covered positions subject to these guidelines, except for foreign exchange derivatives that are outside of the trading account. Foreign exchange derivatives that are outside of the trading account and all over-the-counter (OTC) derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount for these derivatives should be reported in this item.

Include the current credit exposure arising from credit derivative contracts where the holding company is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and is not recognized as a guarantee for regulatory capital purposes.

Written option contracts except for those that are, in substance, financial guarantees, are not covered by the regulatory capital rules.

Purchased options held by the reporting holding company that are traded on an exchange are covered by the regulatory capital rules unless such options are subject to a daily variation margin. Variation margin is defined as the gain or loss on open positions, calculated by marking to market at the end of each trading day. Such gain or loss is credited or debited by the clearing house to each clearing member's account, and by members to their customers' accounts.

If a written option contract acts as a financial guarantee that does not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, then for risk-based capital purposes the notional amount of the option should be included in Schedule HC-R, Part II, item 17, column A, as part of "All other off-balance sheet liabilities." An example of such a contract occurs when the reporting holding company writes a put option to a second holding company or a bank that has a loan to a third party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second holding company or bank, the reporting holding company would be required by the second holding company or bank to take the loan onto its books.

Do not include derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule HC-R, Part II, item 10.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a derivative contract when that fair value is positive. The current credit

exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a qualifying master netting agreement, as defined in §.2 of the regulatory capital rules, is in place between the reporting holding company and a counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the netting agreement are netted to a single amount.

Next, for all other contracts covered by the regulatory capital rules that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to qualifying master netting agreements and (ii) the total positive fair values of all other contracts covered by the regulatory capital rules for both over-the-counter and centrally cleared contracts. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule HC-R, items 20 or 21, column B, depending on whether the contracts are centrally cleared.

**M2** **Notional principal amounts of over-the-counter derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all over-the-counter derivative contracts, including credit derivatives, that are subject to the regulatory capital rules. Such contracts include swaps, forwards, and purchased options. Do not include over-the-counter 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 HC-R, Part II, item 10. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

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

The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule HC-L, item 12. For a description of "credit derivative contracts," refer to the instructions for Schedule HC-L, item 7.

**M3** **Notional principal amounts of centrally cleared derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all centrally cleared derivative contracts, including credit derivatives, that are subject to the regulatory capital rules. Such contracts include swaps, forwards, and purchased options. Do not include centrally cleared derivative contracts that meet the definition

of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule HC-R, Part II, item 10. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

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

The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule HC-L, item 12. For a description of "credit derivative contracts," refer to the instructions for Schedule HC-L, item 7.

- 2(a) and 3(a)** **Interest rate.** Report the remaining maturities of interest rate contracts that are subject to the regulatory capital rules.
- 2(b) and 3(b)** **Foreign exchange rate and gold.** Report the remaining maturities of foreign exchange contracts and the remaining maturities of gold contracts that are subject to the regulatory capital rules.
- 2(c) and 3(c)** **Credit (investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity meets the definition of investment grade as described in §.2 of the regulatory capital rules.
- 2(d) and 3(d)** **Credit (non-investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity does not meet the definition of investment grade as described in §.2 of the regulatory capital rules.
- 2(e) and 3(e)** **Equity.** Report the remaining maturities of equity derivative contracts that are subject to the regulatory capital rules.
- 2(f) and 3(f)** **Precious metals (except gold).** Report the remaining maturities of other precious metals contracts that are subject to the regulatory capital rules. Report all silver, platinum, and palladium contracts.
- 2(g) and 3(g)** **Other.** Report the remaining maturities of other derivative contracts that are subject to the regulatory capital rules. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.

**M4 Standardized market risk-weighted assets attributable to specific risk (included in Schedule HC-R, item 27).**

NOTE: Memorandum item 4 is applicable only to holding companies that are subject to the market risk capital rule.

Report the amount of the holding company's market risk-weighted assets attributable to specific risk, included in Schedule HC-R, Part II, item 26, "Standardized measurement of market risk-weighted assets (applicable to all holding companies that are covered by the Market Risk Rule)." Specific risk refers to changes in the market value of specific positions due to factors other than broad market movements and includes event and default risk. For further background information, holding companies should refer to the discussion of "Holding companies that are subject to the market risk capital rules" in the Risk-Weighted Assets section of these instructions, the line item instructions for Schedule HC-R, Part II, item 27, and the regulatory capital rules for specific instructions on the calculation of the measure of market risk.