

ADDENDUM TO SUPPORTING STATEMENT
Consolidated Reports of Condition and Income (Call Report)
OMB Control No. 3064-0052

Advanced Capital Adequacy Framework Regulatory Reporting Requirements - FFIEC 101
OMB Control No. 3064-0159

Background

Pursuant to the Office of Management and Budget's Paperwork Reduction Act emergency processing procedures (5 CFR § 1320.13), the Federal Deposit Insurance Corporation (FDIC), in coordination with the Board of Governors of the Federal Reserve System (Board), and the Office of the Comptroller of the Currency (OCC), (collectively, the "agencies"), each of which is submitting a separate request for emergency PRA clearance, hereby requests immediate approval of revisions to two currently-approved information collections: Consolidated Reports of Condition and Income (Call Report)(OMB Control No. 3064-0052); and Advanced Capital adequacy Framework Regulatory Reporting Requirements - FFIEC 101 (Control No. 3064-0159).

In connection with this request, the agencies are providing a summary of three interim final rules issued in response to disruptions related to COVID-19 and one reporting change related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹

Summary of Actions and Related Revisions

Eligible Retained Income - Interim Final Rule

Summary

Under the capital rule, a banking organization must maintain a minimum amount of regulatory capital. In addition, a banking organization must maintain a buffer of regulatory capital above its minimum capital requirements to avoid restrictions on capital distributions. The agencies intend for the buffer requirements to limit the ability of banking organizations to distribute capital in the form of dividends and discretionary bonus payments and therefore strengthen the ability of banking organizations to continue lending and conducting other financial intermediation activities during stress periods. The agencies are concerned, however, that the existing calculation method could lead to sudden and severe distribution limits if such banking organizations were to experience even a modest reduction in their capital ratios.

Therefore, the agencies adopted an interim final rule² on March 20, 2020, that revises the definition of eligible retained income. By modifying the definition of eligible retained income and thereby allowing banking organizations to more freely use their capital buffers, this interim final rule should help to promote lending activity and other financial intermediation activities by banking organizations and avoid compounding disruptions due to COVID-19.

¹ Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, 134 Stat. 281 (March. 27, 2020).

² 85 FR 15909

Reporting Revisions

The interim final rule on Eligible Retained Income revises the calculation on the Call Report, Schedule RC-R, Part I, Item 53, “Eligible retained income”.

Previously, an institution’s eligible retained income was net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income. Under the interim final rule, an institution would now report the amount of eligible retained income as the greater of (1) an institution’s net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income, and (2) the average of an institution’s net income over the four preceding calendar quarters.

For Schedule RC-R, Part I, item 53, four preceding calendar quarters refers to the current calendar quarter and three preceding calendar quarters. The average of an institution’s net income over the four preceding calendar quarters refers to average of three-month net income for the current calendar quarter and three-month net income for the three preceding calendar quarters as illustrated in the example below.

Money Market Mutual Fund Liquidity Facility (MMLF) – Interim Final Rule

Summary

To enhance the liquidity and functioning of money markets, the Federal Reserve Bank of Boston launched the Money Market Mutual Fund Liquidity Facility, or MMLF, on March 18, 2020. On March 23, 2020, the agencies published an interim final rule³, which permits banking organizations to exclude from regulatory capital requirements exposures related to the MMLF.

The interim final rule modifies the agencies’ capital rule to allow banking organizations to neutralize the effects of purchasing assets through the MMLF on their risk-based and leverage capital ratios. This treatment extends to the community bank leverage ratio. Specifically, a banking organization may exclude from its total leverage exposure, average total consolidated assets, standardized total risk-weighted assets, and advanced approaches total risk-weighted assets, as applicable, any exposure acquired pursuant to a non-recourse loan from the MMLF. The interim final rule only applies to activities with the MMLF. The facility is scheduled to terminate on September 30, 2020, unless the facility is extended by the Federal Reserve Board.

Reporting Revisions

Starting with the March 31, 2020 reporting period, banking organizations would include the amount of assets purchased from the MMLF in Schedule RC-B and Schedule RC-R, as appropriate.

For regulatory capital reporting, assets purchased from the MMLF should be reported in either Schedule RC-R, Part II, item 2.a., “Held-to-maturity securities,” or Schedule RC-R, Part II, item 2.b., “Available-for-sale debt securities and equity securities with readily determinable fair values not held for trading ,” as appropriate, in both Column A (Totals) and Column C (0% risk-weight category) . The average of such assets purchased would be reported in Schedule RC-R,

³ 85 FR 16232

part I, item 29, “LESS: Other deductions from (additions to) assets for leverage ratio purposes,” and thus excluded from Schedule RC-R, item 30, “Total assets for the leverage ratio.”

Advanced approaches banking organizations should not include assets purchased from the MMLF in “total risk-weight assets (RWAs)” reported in the FFIEC 101, Schedule A, item 60 or Schedule, RC-R, Part I, item 48.b. For banking organizations subject to the supplementary leverage ratio requirement, assets purchased from the MMLF would receive similar treatment as under the “leverage ratio” and should be reported in the FFIEC 101, Schedule A, SLR Table 2, item 2.2.b, “Deductions of qualifying central bank deposits from total on-balance sheet exposures for custodial banking organizations,.” even if a banking organization is not a custodial banking organization. Banking organizations would report their adjusted “Total leverage exposure” and “Supplementary leverage ratio” in Schedule RC-R, Part I, item 55.a and 55.b.

Borrowings from the Federal Reserve Bank of Boston would be included in Schedule RC, item 16, “Other borrowed money,” and included in Schedule RC-M, item 5.b.(1)(a), “Other borrowed money with a remaining maturity of one year or less.”

Furthermore, banking organizations are encouraged to separately disclose in a “Narrative Statement Concerning the Amounts Reported in the Reports of Condition and Income,” the amount of assets purchased from the MMLF included in Schedule RC-R, Part II, item 2.a. or 2.b. In addition, banking organizations are encouraged to separately disclose in a similar narrative, the average amount of assets purchased from the MMLF that were excluded from Schedule RC-R, item 30.

FFIEC 101 Revisions

Advanced approaches banking organizations should not include assets purchased from the MMLF in “total risk-weight assets (RWAs)” reported in the FFIEC 101, Schedule A, item 60. A banking organization, even if it is not a custodial banking organization, should include assets purchased from the MMLF in the FFIEC 101, Schedule A, SLR Table 1, item 1.7.c, “Adjustments for deductions of qualifying central bank deposits for custodial banking organizations”. For banking organizations subject to the supplementary leverage ratio requirement, assets purchased from the MMLF would receive similar treatment as under the “leverage ratio” and should be reported in the FFIEC 101, Schedule A, SLR Table 2, item 2.2.b, “Deductions of qualifying central bank deposits from total on-balance sheet exposures for custodial banking organizations,” even if a banking organization is not a custodial banking organization.

Current Expected Credit Losses Revised Transition – Interim Final Rule

Summary

The interim final rule,⁴ published on March 31, 2020, delays the estimated impact on regulatory capital stemming from the implementation of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments (CECL). The interim final rule provides banking organizations that implement CECL before the end of 2020 the option to delay for two years an estimate of

⁴ 85 FR 17723

CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period. The agencies are providing this relief to allow such banking organizations to better focus on supporting lending to creditworthy households and businesses in light of market disruptions as a result of COVID-19, while also maintaining the quality of regulatory capital.

Reporting Revisions

The interim final rule on Current Expected Credit Losses Regulatory Capital Transition would revise the calculation on the Call Report, Schedule RC-R, Part I, Items 2 ("Retained earnings"); 27 ("Average total consolidated assets"); 42 (FFIEC 041 and FFIEC 051) or 42.a. (FFIEC 031) ("Allowance for Loan and Lease Losses includable in Tier 2 capital"); 42.b. (Eligible credit reserves includable in tier 2 capital) (FFIEC 031 only); and 55.a ("Total leverage exposure") (FFIEC 031 and 041 only); and Schedule RC-R, Part II, Item 8 ("All other assets"). The rule would also revise the following items on the FFIEC 101, Schedule A: Item 2 ("Retained earnings"); Item 21 (Temporary difference DTAs); Item 50 (Eligible credit reserves in Tier 2 capital); and Supplementary Leverage Ratio Table 1, Item 1.8 (Total Leverage Exposure).

Institutions that elect the 2020 CECL transition approach would calculate the following amounts, as applicable. AACL refers to the Adjusted Allowances for Credit Losses, as defined in 12 CFR 3.2 (OCC); 12 CFR 217.2 (Board); or 12 CFR 324.2 (FDIC):

CECL Transitional Amount means the decrease in the amount of an institution's retained earnings as of the beginning of the fiscal year in which the institution adopts CECL from the amount of the institution's retained earnings as of the closing of the fiscal year-end immediately prior to the institution's adoption of CECL.

DTA Transitional Amount means the increase in the amount of an institution's DTAs arising from temporary differences as of the beginning of the fiscal year in which the institution adopts CECL from the amount of the institution's DTAs arising from temporary differences as of the closing of the fiscal year-end immediately prior to the institution's adoption of CECL.

AACL Transitional Amount means the difference in the amount of an institution's AACL as of the beginning of the fiscal year in which the institution adopts CECL and the amount of the institution's ALLL as of the closing of the fiscal year-end immediately prior to the institution's adoption of CECL.

Eligible Credit Reserves Transitional Amount (for advanced approaches institutions filing FFIEC 101 only) means the increase in the amount of an institution's eligible credit reserves as of the beginning of the fiscal year in which the institution adopts CECL from the amount of the institution's eligible credit reserves as of the closing of the fiscal year-end immediately prior to the institution's adoption of CECL.

Modified CECL Transitional Amount means A) during the first two years of the transition period, the difference between AACL as reported in the most recent Call Report (or FR Y-9C), and the AACL as of the beginning of the fiscal year in which the institution adopts CECL, multiplied by 0.25, plus the CECL transitional amount, and B) during the last three years of the

transition period, the difference between AACL as reported in the Call Report at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the institution adopts CECL, multiplied by 0.25, plus the CECL transitional amount.

Modified AACL Transitional Amount means A) during the first two years of the transition period, the difference between AACL as reported in the most recent Call Report (or FR Y-9C), and the AACL as of the beginning of the fiscal year in which the institution adopts CECL, multiplied by 0.25, plus the AACL transitional amount, and B) during the last three years of the transition period, the difference between AACL as reported in the Call Report at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the institution adopts CECL, multiplied by 0.25, plus the AACL transitional amount.

Adjustments to Instructions for Call Report Data Items

RC-R, Part I, Item 2: (Retained Earnings) – An institution electing the 2020 CECL transition would add the Modified CECL Transitional Amount, as defined in section 301 of the agencies' regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

RC-R, Part I, Item 2.a: (CECL Transition) (Starting in June 30, 2020, Call Report) – An institution that has adopted CECL would report whether it is using a CECL transition, as defined in section 301 of the agencies' regulatory capital rules, in the Call Report for the current quarter. The institution can choose from the following entries: 0 = Did not Adopt; 1 = Adopted Without Transition; 2 = 3-year CECL Transition; 3 = 5-year 2020 CECL Transition.

(FFIEC 041 and FFIEC 051) RC-R, Part I, Item 15: (DTAs Arising from Temporary Differences) – An institution electing the 2020 CECL transition would subtract the DTA Transitional Amount, as defined in section 301 of the agencies' regulatory capital rules, from the amount of DTAs from temporary differences used in the calculation of this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

(FFIEC 031) RC-R, Part I, Item 15.a. or 15.b.: (DTAs Arising from Temporary Differences) – An institution electing the 2020 CECL transition would subtract the DTA Transitional Amount, as defined in section 301 of the agencies' regulatory capital rules, from the amount of DTAs from temporary differences used in the calculation of this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

RC-R, Part I, Item 27: (Average Total Consolidated Assets) – An institution electing the 2020 CECL transition would add the Modified CECL Transitional Amount, as defined in section 301 of the agencies' regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

RC-R, Part I, Item 42: (Adjusted Allowances for Credit Losses/ALLL in Tier 2 Capital) – An institution electing the 2020 CECL transition would subtract the Modified AACL Transitional Amount, as defined in section 301 of the agencies’ regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

(FFIEC 031 and FFIEC 041) RC-R, Part I, Item 55.a: (Total Leverage Exposure) – For an institution subject to the supplementary leverage ratio (advanced approaches or Category III institution), the institution electing the 2020 CECL transition would add the Modified CECL Transitional Amount, as defined in section 301 of the agencies’ regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

(FFIEC 031): RC-R, Part I, Item 42.b: (Eligible Credit Reserves) – For an institution subject to the advanced approaches, the institution electing the 2020 CECL transition would deduct Eligible Credit Reserves Transitional Amount, as defined in section 301 of the agencies’ regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

RC-R, Part II, Item 8: (All Other Assets) – An institution electing the 2020 CECL transition would subtract the DTA Transitional Amount, as defined in section 301 of the agencies’ regulatory capital rules, from the amount of temporary difference DTAs associated with the AACL that are risk-weighted in this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

Adjustments to the FFIEC 101 (Advanced Approaches and Category III banks):

Schedule A

Item 2 – Retained Earnings: An institution that has elected to apply the 2020 CECL Transition provision would add the *Modified CECL Transitional Amount*, as defined in section 301 of the regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

Item 21 - DTAs arising from temporary differences: An institution that has elected to apply the 2020 CECL transition would subtract the *DTA Transitional Amount*, as defined in section 301 of the regulatory capital rules, from the amount of DTAs from temporary differences used in the calculation of this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

Item 50 – Eligible credit reserves includable in Tier 2 capital. An institution that has elected to apply the 2020 CECL transition would subtract *Eligible Credit Reserves Transitional Amount*, as defined in section 301 of the regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

Supplementary Leverage Ratio

Table 1

Item 1.8 – Total leverage exposure: An institution that has elected to apply the 2020 CECL Transition would add the *Modified CECL Transitional Amount*, as defined in section 301 of the regulatory capital rules, when calculating this item, adjusted as follows: 100% in Years 1 and 2 of the transition period; 75% in Year 3 of the transition period; 50% in Year 4 of the transition period; and 25% in Year 5 of the transition period.

CARES Act – Section 4013

Summary

Section 4013 of the CARES Act permits banking organizations flexibility in modifying loans related to COVID-19. The statute also permits the agencies to collect information about the volume of loans modified under this section. Since the agencies anticipate a significant amount of activity related to these modifications will occur in the second quarter, the agencies are requesting emergency clearance to add a new reporting item for these loans.

Reporting Revisions

While the agencies are interested in the balance of loans modified in the first quarter, it is not operationally feasible to add a new item, as the first quarter reporting forms have already been published. Therefore, a new data item would be added to the Call Report, Schedule RC-C, starting in the second quarter of 2020. The agencies would tentatively add this as new memorandum item 17. Banks would be required to report the ending balance of any loans modified under this section of the statute.