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Supplemental Instructions: Interim Final Rules and Notice Issued March 2020

In March 2020, in response to the impact on the financial markets by Coronavirus Disease 2019 (also referred to as COVID-19), the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency (collectively, the agencies), issued three interim final rules (IFR) and a notice that impact the reporting of regulatory capital in the Call Report. These revisions impact the amounts reported on Schedule RC-R, Regulatory Capital, and apply to the three versions of the Call Report (FFIEC 031, FFIEC 041, and FFIEC 051). The IFRs have been, or soon will be, published in the *Federal Register*.

The agencies have requested [and have received] emergency clearance from the Office of Management and Budget to permit these revisions for the March 31, 2020, Call Report. The agencies will request public comment on these changes in reporting through the standard Paperwork Reduction Act process on a later date.

The revisions include the following:

- 1) Revising the definition of eligible retained income in the capital rule;
- 2) Permitting banking organizations to neutralize the effects of purchasing assets through the Money Market Mutual Fund Liquidity Facility (MMLF) on their risk-based and leverage capital ratios;
- 3) Providing banking organizations that implement Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments (CECL) before the end of 2020 the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on capital, followed by a three-year transition period; and
- 4) Allowing banking organizations to implement the final rule titled *Standardized Approach for Calculating the Exposure Amount of Derivative Contracts* (SA-CCR rule) for the first quarter of 2020, on a best efforts basis.

For further information on these revisions, see the following *Federal Register* notices: [Federal Register Notice – Eligible Retained Income](#), [Federal Register Notice - MMLF, Regulatory Capital Rule: Revised Transition of the Current Expected Credit losses Methodology for Allowances](#), and [Standardized Approach for Calculating the Exposure Amount of Derivative Contracts](#).

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Change in the Definition of Eligible Retained Income

The instructions for Schedule RC-R, Part I, item 53, have been revised to incorporate revisions reflected in the interim final rule published in the [Federal Register](#) on March 20, 2020. Beginning with the March 31, 2020, report date, institutions that are required to report amounts in item 53 should use the following instructions.

Item No. Caption and Instructions

- 53** **Eligible retained income.** 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. (See the instructions for Schedule RC-R, Part I, item 54, for the definition of "distributions" from section 2 of the regulatory capital rules.)

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

Example and a worksheet calculation:*Assumptions:*

- Eligible retained income is calculated for Call Report date of March 31, 2020.
- The institution reported the following on its Call Reports in Schedule RI, *Income Statement*, item 14, "Net income (loss) attributable to bank (item 12 minus item 13)":

Call Report Date	Amount Reported in Item 14	Three Month Net Income
March 31, 2019	\$400 (A)	\$400
June 30, 2019	\$900 (B)	\$500 (B-A)
September 30, 2019	\$1,500 (C)	\$600 (C-B)
December 31, 2019	\$1,900 (D)	\$400 (D-C)
March 31, 2020	\$200 (E)	\$200 (E)

- The distributions and associated tax effects not already reflected in net income (e.g., dividends declared on the institution's common stock between April 1, 2019, and March 31, 2020) in this example are \$400 per each of the four preceding calendar quarters.

	<u>Q2 2019</u>	<u>Q3 2019</u>	<u>Q4 2019</u>	<u>Q1 2020</u>
Net Income	\$500	\$600	\$400	\$200
Adjustments for distributions and associated tax effects not already reflected in net income	(\$400)	(\$400)	(\$400)	(\$400)
Adjusted Net Income (Net Income – Adjustments)	\$100	\$200	\$0	(\$200)

Schedule RC-R, Part I

Item No. **Caption and Instructions**53
(cont.)

(1)	Calculate 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	$\$100 + \$200 + \$0 + (\$200) = \$100$
(2)	Calculate the average of an institution's three-month net income over the four preceding calendar quarters	$(\$500 + \$600 + \$400 + \$200) / 4 = \$425^*$
(3)	Take the greater of step (1) and step (2) and report in Schedule RC-R, Part I, item 53.	\$425

*From a practical perspective, an institution can use the year-to-date net income reflected in Schedule RI, item 14, for December 31, 2019, subtract from it the net income reflected in Schedule RI, item 14, for March 31, 2019, and then add the net income in Schedule RI, item 14, for March 31, 2020 to calculate the numerator in the step 2, above. For the example above, the average of an institution's three-month net income over the four preceding calendar quarters: (\$1,900 (D) less \$400 (A) plus \$200 (E)) divided by 4 = \$425.

Interim Final Rule for Money Market Liquidity Facility

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 rule](#), 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.

Consistent with generally accepted accounting principles (GAAP), the agencies would expect banking organizations to report assets purchased through the MMLF on their balance sheets. These assets would be reflected at the time of purchase at amortized cost or fair value. The non-recourse nature of the transaction would impact the valuation of the liability to the Federal Reserve. After reflecting any appropriate discounts on the assets and associated liabilities, organizations are not expected to report any material net gains or losses (if any) at the time of purchase. Any discounts generally would be accreted over time into income and expense.

Starting with the March 31, 2020 reporting date, 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)¹. The average of such assets purchased would be reported in Schedule RC-R, 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.

¹Reporting in Schedule RC-R, Part II, only applies to non CBLR banking institutions.

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Early Adoption of the *Standardized Approach for Calculating the Exposure Amount of Derivative Contracts* (SA-CCR rule)

On March 23, 2020, the federal banking agencies published an IFR in the *Federal Register* that allows banking organizations to implement the final rule titled *Standardized Approach for Calculating the Exposure Amount of Derivative Contracts* (SA-CCR rule) for the first quarter of 2020, on a best efforts basis. The instructions that were approved for the second quarter Call Report can be used by institutions who choose to adopt the SA-CCR rule for the March 31, 2020, report date. For further information on these revisions, institutions can review the final 30-day Paper Reduction Act [*Federal Register*](#) notice published on January 27, 2020.

Revisions to Call Report Instructions

[Note – We would include the text below in the Supplemental Instructions starting in Q1 2020, and eventually add it to the General Instructions for Schedule RC-R. We would not overwrite the existing Call Report instructions for the 2019 CECL transition framework.]

2020 CECL Transition Provision

Note: The reporting instructions are based on the 2020 transition provision in section 301 of the agencies' regulatory capital rules and should be read in connection with those rules.

Eligibility

An institution is eligible to use the 2020 CECL Transition Provision if it is required to adopt CECL under U.S. GAAP (as in effect on January 1, 2020) as of the first day of a fiscal year that begins during the 2020 calendar year and:

- (1) reports a decrease in retained earnings immediately upon adoption of CECL; or
- (2) would report a positive Modified CECL Transitional Amount in any quarter ending in of 2020 after adopting CECL.

An institution must make its election in calendar year 2020 on the first Call Report filed after the institution adopts CECL or the same Call Report that an institution reports a positive Modified CECL Transitional Amount for any quarter ending in 2020.

Even if an institution makes an election to use the 2020 CECL Transition Provision, the institution may only reflect the adjustment in the quarter or quarters in which the institution implements CECL for regulatory reporting purposes.

Transition Period under the 2020 CECL Transition

Beginning with the earlier of 1) the first quarter of the fiscal year that an institution was required to adopt CECL under U.S. GAAP (as in effect on January 1, 2020), or 2) the first quarter in which the institution files regulatory reports reflecting CECL, and for the subsequent 19 quarters (for a total of 20 quarters or the five year transition period), an institution is permitted to make the adjustments described below to amounts used in calculating regulatory capital. If an institution temporarily ceases using CECL during this period, the institution may not reflect a regulatory capital adjustment for any quarter (during the first 8 quarters) in which it did not implement CECL but would be allowed to apply the transition in subsequent quarters when the banking organization uses CECL. However, an institution that has elected the transition, but does not apply it in any quarter, does not receive any extension of the transition period.

As an example, assume an institution is required under U.S. GAAP to adopt the provisions of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments (ASU 2016-13) on January 1, 2020. This institution delays adoption of CECL for Call Report purposes under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)¹ until July 1, 2020, and elects to use the 2020 CECL Transition Provision at this time. This institution's transition period

¹ Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, § 4014, 134 Stat. 281 (March. 27, 2020).

begins on January 1, 2020, despite not adopting ASU 2016-13 until July 1, 2020, for Call Report purposes. As such, this institution would have 18 quarters², including the quarter of adoption, remaining in its transition period.

Further, assume an institution is required under U.S. GAAP to adopt the provisions of ASU 2016-13 on October 1, 2020, and elects to use the 2020 CECL Transition Provision. This institution also does not delay adoption of CECL for Call Report purposes under the provisions of the CARES Act. This institution's transition period would begin on October 1, 2020. As such, this institution would have 20 quarters, including the quarter of adoption, remaining in its transition period.

For the first 8 quarters after the start of its transition period, an institution is permitted to make an adjustment of 100% of the transitional items calculated below, for each quarter in which the institution applies CECL for regulatory reporting purposes. At the end of this period, the institution phases out the cumulative adjustment at the end of the eighth quarter (i.e., first 2 years of the 2020 CECL Transition Provision), over the following 12 quarters as follows: 75% adjustment in quarters 9-12 (i.e., Year 3); 50% in quarters 13-16 (i.e., Year 4); and 25% in quarters 17-20 (i.e., Year 5).

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 net of any DTAs 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 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

² 6 quarters of the initial transition followed by 12 quarters of the phase-out of the transition.

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.

Example of Application for Q1 2020:

As an example, assume an institution is required under U.S. GAAP to adopt the provisions of ASU 2016-13 on January 1, 2020. This institution chooses not to delay adoption of CECL for Call Report purposes under the provisions of the CARES Act, and elects to use the 2020 CECL Transition Provision in the March 31, 2020, Call Report. This institution’s 2020 CECL transition period begins on January 1, 2020.

The institution’s December 31, 2019, Call Report reflected the following amounts:

ALLL: \$120

Temporary Difference DTAs: \$20

Retained earnings: \$200

Eligible credit reserves (advanced approaches only): \$110

On January 1, 2020, the institution adopted CECL and reflected the following amounts:

AACL: \$150

$$\text{AACL Transitional Amount} = \$150 - \$120 = \$30$$

(AACL on 1/1/20 – ALLL on 12/31/19)

Temporary Difference DTAs: \$30

$$\text{DTA Transitional Amount} = \$30 - \$20 = \$10$$

(DTAs on 1/1/20 – DTAs on 12/31/19)

Retained earnings: \$180

$$\text{CECL Transitional Amount} = \$200 - \$180 = \$20$$

(Retained earnings on 12/31/19 – retained earnings on 1/1/20)

Eligible credit reserves (advanced approaches only): \$140

$$\text{Eligible Credit Reserves Transitional Amount} = \$140 - \$110 = \$30$$

(Eligible credit reserves on 1/1/20 – eligible credit reserves on 12/31/19)

On March 31, 2020, the institution reflected the following amounts:

AACL: \$170

$$\text{Modified AACL Transitional Amount} = (\$170 - \$150) * 0.25 + \$30 = \$35$$

(AACL on 3/31/20 – AACL on 1/1/20) * 0.25 + AACL Transitional Amount

$$\text{Modified CECL Transitional Amount} = (\$170 - \$150) * .25 + \$20 = \$25$$

(AACL on 3/31/20 – AACL on 1/1/20) * 0.25 + CECL Transitional Amount

The institution would adjust the following items in its March 31, 2020, Call Report, Schedule RC-R:

- Part I, Item 2 (Retained earnings): Add \$25 (Modified CECL Transitional Amount)
- Part I, Item 15 (or 15.a/15.b) (Temporary difference DTAs): Subtract \$10 (DTA Transitional Amount) when calculating DTAs subject to deduction
- Part I, Item 27 (Average total consolidated assets): Add \$25 (Modified CECL Transitional Amount)

An institution that is not electing the CBLR framework would make these additional adjustments:

- Part I, Item 42 (Allowances in Tier 2 Capital): Subtract \$35 (Modified AACL Transitional Amount)
- Part II, Item 8 (All other assets): Subtract \$10 (DTA Transitional Amount)

An institution subject to the supplementary leverage ratio (advanced approaches & Category III institutions) would make this additional adjustment:

- Part I, Item 55.a (Total leverage exposure for SLR): Add \$25 (Modified CECL Transitional Amount)

An institution subject to the advanced approaches would make this additional adjustment:

- Part I, Item 42.b (Eligible credit reserves): Deduct \$30 (Eligible Credit Reserves Transitional Amount)