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.

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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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<u>Change in the Definition of Eligible Retained Income</u>

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 using the following instructions.

<u>Item No.</u> **<u>Caption and Instructions</u>**

53 **<u>Eligible retained income.</u>** Report the amount of eligible retained income <u>as the greater of</u> (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 <u>(2) the average of an institution's net income over the four preceding calendar quarters</u>. (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.

	Q2 2019	Q3 2019	Q4 2019	Q1 2020
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.

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

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.