

September 2020 COVID-19 Related Supplemental Instructions (FFIEC 101)

The Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board (Board), and the Office of the Comptroller of the Currency (collectively, the agencies) have issued and received emergency approvals from the U.S. Office of Management and Budget for certain revisions to the Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101) that became effective as of the March 31, 2020, and the June 30, 2020, report dates. These revisions resulted from several interim final rules (IFRs) issued by one or all of the agencies in response to the impact on the financial markets and the strains on the U.S. economy as a result of Coronavirus Disease 2019 (COVID-19). During the third quarter, the agencies finalized several of the IFRs with no changes or only limited changes.

The revisions impacting the FFIEC 101 include updates to the calculation of certain amounts reported on Schedule A, Advanced Approaches Regulatory Capital, including the Supplementary Leverage Ratio (SLR) Tables.

The agencies have requested public comment on these reporting changes through the standard Paperwork Reduction Act process.¹

These September 2020 COVID-19 Related Supplemental Instructions combine; update, as appropriate; and replace the “2Q2020 COVID-19 Related Supplemental Instructions (FFIEC 101)” and the “First Quarter 2020 Capital-Related Revisions: Interim Final Rules Supplemental Instructions (FFIEC 101),” which were previously posted on the FFIEC 101 webpage. The FFIEC 101 instruction book will be updated to incorporate relevant information from these September 2020 COVID-19 Related Supplemental Instructions after the agencies have completed the standard Paperwork Reduction Act process for the FFIEC 101 revisions.

For further information on the recent rulemakings² affecting the FFIEC 101, see the following *Federal Register* notices:

- [Regulatory Capital Rule: MMLF](#);
- [Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances](#);
- [Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances \(Correcting Amendment to IFR\)](#);
- [Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances \(Final Rule\)](#);
- [Regulatory Capital Rule: Paycheck Protection Program Liquidity Facility and Paycheck Protection Program Loans](#);
- [Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio for Holding Companies](#)
- [Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio for Depository Institutions](#)

¹ See [FIL-73-2020](#) dated July 30, 2020, and [85 FR 44361](#) (July 22, 2020).

² The banking agencies issued a [press release](#) on August 26, 2020, announcing the finalization of multiple interim final rules including Revised Transition of the Current Expected Credit Losses Methodology for Allowances. The banking agencies issued a [press release](#) on September 29, 2020, announcing the finalization of the interim final rules for the MMLF and the PPPLF and PPP Loans.

Table of Contents

<u>Topic</u>	<u>Pages</u>
I. Interim Final Rule for the Money Market Liquidity Facility (MMLF).....	3
II. 5-Year 2020 CECL Transition Provision	3
III. Interim Final Rule for Paycheck Protection Program Liquidity Facility (PPPLF) and Paycheck Protection Program (PPP) Loans	4
IV. Interim Final Rules for Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio.....	5

I. Interim Final Rule for the Money Market Liquidity Facility (MMLF)

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 banking agencies adopted a [final rule](#) confirming the revisions made in the interim final rule without any changes in September 2020.

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 currently scheduled to terminate on December 31, 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.

Starting with the March 31, 2020, report date, advanced approaches banking organizations should **not** include assets purchased from the MMLF in "Total risk-weighted assets (RWAs)" reported in the FFIEC 101, Schedule A, item 60. 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 Tables. Specifically, the outstanding balance of these assets would continue to be reported in SLR Table 1, item 1.1, "Total consolidated assets as reported in published financial statements," and Table 2, item 2.1, "The balance sheet carrying value of all on-balance sheet assets." The average amount of these assets calculated as of each day of the reporting quarter also would be reported in SLR Table 1, item 1.7.c, "Adjustments for deductions of qualifying central bank deposits for custodial banking organizations," and 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.

II. 5-Year 2020 CECL Transition Provision

These instructions are based on the CECL [interim final rule](#) issued by the banking agencies on March 27, 2020, the [correcting amendment](#) to the IFR issued on May 19, 2020, and the [final rule](#) that finalized the interim final rule and implemented limited revisions to the original eligibility and calculation methodology. The instructions are intended to address application of the regulatory transition in the final rule for eligible institutions filing the FFIEC 101.

Eligibility

An institution is eligible to use the 5-year 2020 CECL Transition Provision if it adopts CECL under U.S. GAAP 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 (as defined in section 301 of the regulatory capital rules) in any quarter ending in 2020 after adopting CECL.

An institution must make its election in calendar year 2020 on the first FFIEC 101 filed after the institution adopts CECL or the same FFIEC 101 in which an institution first reports a positive Modified CECL Transitional Amount for any calendar quarter ending in 2020.

Even if an institution makes an election to use the 5-year 2020 CECL Transition Provision, the institution may only reflect the regulatory capital adjustments in the quarter or quarters in which the institution

implements CECL for regulatory reporting purposes. An institution that has elected the 5-year 2020 CECL Transition Provision, but would not report a positive Modified CECL Transitional Amount in a particular quarter, is not required to make the adjustments on its FFIEC 101 in that quarter.

Revisions to FFIEC 101 Instructions

Schedule A

Item 2 – Retained Earnings

An institution that has elected to apply the 5-year 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 that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.

An institution that has elected to apply the 5-year 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 5-year 2020 CECL transition would subtract the *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 5-year 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.

III. Interim Final Rule for Paycheck Protection Program Liquidity Facility (PPPLF) and Paycheck Protection Program (PPP) Loans

To enhance the liquidity of small business lenders and improve the functioning of the broader credit markets, the PPPLF was authorized by the Board of Governors of the Federal Reserve System on April 8, 2020, under section 13(3) of the Federal Reserve Act (12 U.S.C. 343(3)). Under the PPPLF, the Federal Reserve Banks will extend nonrecourse loans to eligible lenders, with the extensions of credit secured by SBA-guaranteed PPP³ loans that the lenders have originated or purchased. On April 13, 2020, the agencies published an [interim final rule](#), which permits banking organizations to exclude from regulatory capital requirements PPP covered loans pledged under the PPPLF.⁴ The interim final rule also clarifies that PPP covered loans as defined in section 7(a)(36) of the Small Business Act (15 U.S.C. 636(a)(36)) receive a zero percent risk weight. The agencies adopted a [final rule](#) confirming the revisions made in the interim final rule without any changes in September 2020.

The interim final rule modifies the agencies' capital rule and allows PPPLF-eligible banking organizations to neutralize the regulatory effects of PPP covered loans on their risk-based capital ratios, as well as PPP covered loans pledged under the PPPLF on their leverage capital ratios. When calculating leverage capital ratios, a banking organization may exclude from average total consolidated assets and, as

³ The Paycheck Protection Program was established by Section 1102 of the 2020 CARES Act.

⁴ See 85 FR 20387 (April 13, 2020).

applicable, total leverage exposure a PPP covered loan as of the date that it has been pledged under the PPPLF. Accordingly, a PPP covered loan that has not been pledged as collateral in connection with an extension of credit under the PPPLF would be included in the calculation of the banking organization's average total consolidated assets and, as applicable, total leverage exposure. This treatment extends to the community bank leverage ratio. No new extensions of credit will be made under the PPPLF after December 31, 2020, unless the Federal Reserve Board and U.S. Department of Treasury jointly determine to extend the Facility.

Consistent with U.S. generally accepted accounting principles (U.S. GAAP), the agencies would expect banking organizations to report PPP covered loans on their balance sheets. Starting with the June 30, 2020, report date, advanced approaches banking organizations would not include PPP covered loans in "Total risk-weighted assets" reported in the FFIEC 101, Schedule A, item 60. For banking organizations subject to the supplementary leverage ratio requirement that file the FFIEC 101, PPP covered loans pledged to the PPPLF would be deducted as part of the calculation of total leverage exposure for the supplementary leverage ratio. Specifically, the outstanding balance of PPP loans would continue to be reported in SLR Table 1, item 1.1, "Total consolidated assets as reported in published financial statements," and Table 2, item 2.1, "The balance sheet carrying value of all on-balance sheet assets." A banking organization calculating its supplementary leverage ratio also would report PPP covered loans pledged to the PPPLF in SLR Table 1, item 1.7.c, "Adjustments for deductions of qualifying central bank deposits for custodial banking organizations," and in 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.⁵

IV. Interim Final Rules for Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio

On April 14, 2020, the Board published an [interim final rule](#) to temporarily exclude U.S. Treasury securities (Treasuries) and deposits in their accounts at Federal Reserve Banks (deposits at Federal Reserve Banks) from total leverage exposure for bank holding companies, savings and loan holding companies, and intermediate holding companies subject to the supplementary leverage ratio through March 31, 2021 (holding company SLR IFR).⁶

On June 1, 2020, the agencies published an [interim final rule](#) to provide depository institutions subject to the supplementary leverage ratio the ability to temporarily exclude Treasuries and deposits at Federal Reserve Banks from total leverage exposure (depository institution SLR IFR).⁷ A depository institution that opts into this treatment (electing depository institution) is required to obtain prior approval of distributions from its primary Federal banking regulator. The prior approval requirement applies to distributions to be paid beginning in the third quarter of 2020. The interim final rule will terminate after March 31, 2021.

Under the holding company SLR IFR, top-tier advanced approaches and Category III bank holding companies, savings and loan holding companies, and intermediate holding companies would continue to report on-balance sheet Treasuries and deposits at Federal Reserve Banks in the FFIEC 101, Schedule A, SLR Table 1, item 1.1, "Total consolidated assets as reported in published financial statements," and Table 2, item 2.1, "The balance sheet carrying value of all on-balance sheet assets." To adjust their total leverage exposure in SLR Tables 1 and Table 2, these banking organizations would report on-balance sheet Treasuries and deposits at Federal Reserve Banks in SLR Table 1, item 1.7.c, "Adjustments for deductions of qualifying central bank deposits for custodial banking organizations," and in 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 holding company is not a custodial banking

⁵ A banking organization would report PPP covered loans pledged to the PPPLF in item 1.7.c of SLR Table 1 and item 2.2.b of SLR Table 2 as the average amount of these assets calculated as of each day of the reporting quarter.

⁶ See 85 FR 20578 (April 14, 2020).

⁷ See 85 FR 32980 (June 1, 2020).

organization.^{8,9} Custodial banking organizations would also exclude from total leverage exposure deposits with qualifying foreign central banks. Specifically, those organizations would be able to exclude such deposits from total leverage exposure up to the average amount of funds in deposit accounts at the custodial banking organization that are linked to fiduciary or custodial and safekeeping accounts at the custodial banking organization calculated as of each day of the reporting quarter; see SLR Table 1, item 1.7.c, and SLR Table 2, item 2.2.b.¹⁰

Under the depository institution SLR IFR, an electing depository institution (as defined above) that is a top-tier advanced approaches or Category III banking organization would exclude on-balance sheet Treasuries and deposits at Federal Reserve Banks from total leverage exposure in the same manner as discussed above for top-tier advanced approaches and Category III holding companies.¹¹ Custodial banking organizations would also exclude from total leverage exposure deposits with qualifying foreign central banks in the same manner as discussed above.

The temporary exclusions from total leverage exposure would be available through the March 31, 2021, report date.

⁸ A banking organization may not deduct on-balance Treasuries in SLR Table 2, item 2.12, “Gross assets for repo-style transactions, with no recognition of netting,” if it already reports such on-balance sheet Treasuries in SLR Table 2, item 2.2.b.

⁹ A banking organization would report Treasuries and deposits at Federal Reserve Banks in item 1.7.c of SLR Table 1 and item 2.2.b of SLR Table 2 as the average amount of these assets calculated as of each day of the reporting quarter.

¹⁰ The agencies issued a final rule, effective April 1, 2020, which implements section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act by amending the capital rule to allow a banking organization that qualifies as a custodial banking organization to exclude from total leverage exposure deposits at qualifying central banks, subject to limits (402 rule). 85 FR 4569 (January 27, 2020).

¹¹ Electing depository institutions should also refer to the “September 2020 COVID-19 Related Supplemental Instructions (Call Report)” available on the FFIEC [Reporting Forms](#) webpage.