

## 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, and published in the *Federal Register*, three interim final rules (IFRs) and a notice that impact the reporting of regulatory capital in the Call Report and the FFIEC 101. These revisions impact the instructions for calculation of certain 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) and the FFIEC 101.

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 and the FFIEC 101. The agencies will request public comment on these changes in reporting through the standard Paperwork Reduction Act process on a later date.

The revisions impacting the FFIEC 101 come from two of the IFRs and the notice mentioned above and include the following:

- 1) 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;
- 2) Providing banking organizations that implement the Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments, before the end of 2020 the option to delay for two years an estimate of the current expected credit losses (CECL) methodology’s effect on regulatory capital, relative to the incurred loss methodology’s effect on capital, followed by a three-year transition period; and
- 3) 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 published in March 2020: [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](#).

## Table of Contents

| <u>Revision</u>   | <u>Pages</u> |
|---|--------------|
| 1. Reporting on non-recourse exposures acquired as part of the MMLF | 3-4          |
| 2. 2020 CECL Transition Provision                                   | 5            |
| 3. Early adoption of SA-CCR   | 6            |

## **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)<sup>1</sup>. 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-weighted 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 Tables. Specifically, the assets should 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

---

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

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.

If a consolidated broker-dealer subsidiary of the reporting institution has purchased assets from the MMLF that the institution reports as “Other assets” on its consolidated balance sheet for financial reporting purposes, the institution should also report these assets as “Other assets” on Call Report Schedule RC, Balance Sheet. Further, for risk-based capital purposes, these assets should be reported in Schedule RC-R, Part II, item 8, “Other Assets,” with a zero percent risk weight.

## **2020 CECL Transition Provision**

These instructions are based on the CECL IFR issued by the banking agencies on March 27, 2020. The instructions are intended to address application of the regulatory transition for institutions filing their March 31, 2020, FFIEC 101. The agencies would revise the instructions for June 30, 2020, if there are changes to the final rule in response to comments received and after considering interaction of the IFR with Section 4014 of the CARES Act.

## **Revisions to FFIEC 101 Instructions**

### **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 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 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.

**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 a [notice](#) 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 FFIEC 101 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 and the draft [instructions](#) reflecting these changes on the FFIEC website dated January 27, 2020.