FDIC-FRB-OCC Banker Teleconference on Regulatory Capital Reporting Changes: Revised Call Report Schedule RC-R

February 25, 2015

Coordinator: Welcome and thank you for standing by. At this time all participants are on a listen-only mode until the Q&A session. At that time you may press Star 1 on your touch-tone phone if you would like to ask a question.

Today's conference is being recorded. If you have any objections you may disconnect at this time.

I would now like to turn the call over to Mr. Daniel Bean. You may begin.

Daniel Bean: Thank you. Good afternoon everyone. Welcome to today's teleconference entitled Call Report Regulatory Capital Reporting Changes.

There will be a discussion by our presenters followed by a question and answer period at the end.

The operator will come back on at that time and provide instructions for anyone in the queue to ask your questions.

If you would to submit a question by email during the presentation, please send your questions to rac@fdic.gov. That's R-A-C@fdic.gov.

I would like now to turn this call over to Bob Storch, Chief Accountant of the Federal Deposit Insurance Corporation's Division of Risk Management Supervision.

Bob Storch: Thank you Dan and good afternoon to everyone who has joined us for this banker teleconference on the Call Report regulatory capital reporting changes.

We appreciate your time this afternoon and we hope you find the program beneficial.

Presenting with me this afternoon is David Riley, a policy analyst here at the FDIC. We also have staff members from the Federal Reserve and the Office of the Comptroller of the Currency to help with the presentation and the question and answer session after the part of the presentation for which you have slides.

The presentation materials were posted on the FFIEC's Web site yesterday afternoon. The link to that Web site was included in the FFIEC's Financial Institution Letter announcing this teleconference that was issued this past Friday. I hope you've been able to locate that link and have the teleconference materials available.

The purpose for this afternoon's teleconference is to help you understand, and answer your questions about, the revisions to Call Report Schedule RC-R, the regulatory capital schedule. Revised Schedule RC-R will become applicable to all institutions in the Call Report for the first quarter of 2015.

As Dan Bean mentioned, after we go through the presentation itself we'll have a question and answer session so you can phone in your questions or, if you prefer, you can submit questions by email to rac@fdic.gov.

In addition, we are planning to prepare a transcript of this teleconference. The transcript should become available and be posted on the FFIEC's Web site before the end of March.

If there are parts of the teleconference you'd like to revisit, or if you have colleagues who were not able to participate and would like to review the transcript, we hope you'll find that helpful when it becomes available toward the latter part of March.

As we begin the teleconference, on Slide 2 we have provided links to the Schedule RC-R reporting forms and instructions for March 2015.

David Riley will be talking about Part I, the regulatory capital components and ratios portion of Schedule RC-R.

The links to Part I on Slide 2 are to the December Call Report materials. David will explain what the transition will be for Part I.

The Part II materials that I will be going over during this presentation are the drafts of the Schedule RC-R reporting forms and instructions that are also available on the FFIEC's Web site.

In the slides themselves we've included copies of relevant portions of the revised Schedule RC-R reporting forms, which may make it somewhat easier for you to follow along with the parts of Schedule RC-R that we'll be discussing rather than having to flip separately to the report forms themselves. We hope you'll find that beneficial.

At this point, I would be pleased to turn over the presentation to David Riley of the FDIC. David?

David Riley: Yes, thank you Bob, and good afternoon everyone. I'm starting on Slide 3 and I'm going to talk about Schedule RC-R, Part I. Schedule RC-R, Part I, covers the definition of regulatory capital for each tier of regulatory capital, what counts in each tier, and what's deducted for each tier.

Schedule RC-R, Part I, also covers the capital ratios and the capital conservation buffer.

So now I'll move to Slide 4. This slide tries to explain why Schedule RC-R, Part I, is currently referred to as Part I.B.

The new capital rules have been implemented in a two-stage process. Basically, the first stage applied to what the rules refer to as advanced approaches banks. Advanced approaches banks began reporting under the new definition of capital using the new form for Schedule RC-R, Part I.B beginning this past year in 2014. All other banks reported on Schedule RC-R, Part I.A, during 2014.

For advanced approaches banks, the form for Part I has heretofore been labeled Part I.B. It's been included in the Call Report forms for 2014 that are posted on the FFIEC's Web site.

What will happen beginning for the March 2015 Call Report is that Part I.B will simply become Part I.

At the same time, the part that was referred to previously as Part I.A will go away. All institutions will be using the new Schedule RC-R, Part I, beginning in March 2015.

The links that are part of this presentation will take you to Part I.B. However, by the time the March 2015 Call Report is due it will be labeled Schedule RC-R, Part I.

At the bottom of Slide 4 you see the new capital rule and where to find it in the Code of Federal Regulations. For the FDIC, for example, it's in 12 CFR Part 324. And you can see where it is also found in the Federal Reserve Board regulations and the OCC regulations.

Going on to Slide 5, please: Slide 5 tries to explain what has changed compared to the existing Schedule RC-R, Part I.

Well, really the entire format has changed to conform with the new capital rule. The new capital rule itself has certain major changes. It includes a major new component of regulatory capital: common equity tier 1 capital.

It also provides for an opt-out election for community banks, so that if they choose to opt out they will retain their existing AOCI treatment.

The revised capital rule also contains new deductions and adjustments, and it contains a capital conservation buffer and certain transition provisions.

There are certain parts of the rule that only pertain to advanced approaches institutions.

Wherever you see advanced approaches institutions on the slides, what that refers to is the largest banks in the country and their subsidiaries. They are basically institutions that are over $250 billion in assets or have foreign exposure over $10 billion.

So probably for 95 percent or more of you, you don’t have to pay too much attention to the advanced approaches items in Schedule RC-R.

Now turn to Slide 6. Slide 6 just tries to convey the layout of the new Schedule RC-R, Part I. Now we will go through the calculation of common equity tier one capital, then additional tier one capital, and finally tier 2 capital. If you’ve already seen some presentations on the new capital rule, basically common equity tier one capital plus additional tier one capital -- those two together -- equal tier one capital.

And then there is also tier two capital, which is similar to tier two capital under the previously existing rules.

Schedule RC-R, Part I, also covers total assets for the leverage ratio. It will have the risk-based capital ratios, the leverage capital ratio, and the capital conservation buffer. I’ll talk about all of these, but now turn to Slide 7 please.

Slide 7 addresses the components of common equity tier one capital. Generally speaking, common equity tier one capital is the foundation of regulatory capital and will comprise the majority of regulatory capital.

Common equity tier one capital includes common stock and surplus, as well as retained earnings. Accumulated other comprehensive income or AOCI comes into common equity tier one, but if the bank chooses to opt out, its

AOCI will effectively be reversed out of regulatory capital similar to the previously existing rules.

The next component is common equity tier one minority interest. Most community banks do not have a minority interest.

But for those who do, or for anyone interested in that subject, common equity tier one minority interest under the new rule is minority interest that arises from a subsidiary that is a depository institution, and that otherwise qualifies for inclusion in common equity tier 1 capital.

If you have minority interest and the subsidiary is not a depository institution, the minority interest may count for additional tier one capital, but not for common equity tier one. And the inclusion of minority interest is also limited mathematically.

The sum of these components is referred to in the Call Report simply as "common equity tier one capital before deductions and adjustments."

Now I'll move on to Slide 8 where you can see this in a little more detail looking at an excerpt from Schedule RC-R, Part I.

Item 1 is for common stock and surplus. The amounts reported on this schedule basically will come from Schedule RC. So it will be similar to before. You'll refer to Schedule RC to make these first few entries

Retained earnings is the next entry. And then the third one is accumulated other comprehensive income or AOCI. Now, a couple important points.

One is that right under the AOCI Item 3, there's the item for the opt-out election. We describe this as a one-time permanent election for your bank.

If you choose to opt out, you will choose opt-out by writing "1" for yes in Item 3.a. That means you retain the existing AOCI treatment you have today and that you've had for some time.

So choose "1" to opt out, or chose "zero" not to opt out. If you do not opt out, be aware that in your case the amount of AOCI reported in Item 3 also has a transition provision that applies to it.

You'll have to look at the specific instructions for Item 3 for the transition provisions.   That is something to look at if you're thinking of not opting out. I think many community banks will opt out. If you do opt out, there's no transition provision to Item 3.

Now the next item is the common equity tier 1 minority interest I referred to before. Most of you will not have that.

And then Item 5 is common equity tier one before adjustments and deductions. Now I'll go into the deductions and adjustments that start on Slide 9.

Slide 9 show that there are a series of deductions and adjustments. The first one is goodwill and intangible assets.

Those are going to be covered in a couple items in Schedule RC-R, Part I. We will look at the report form excerpt in a minute. There is also a deduction for deferred tax assets that arise from net operating loss and tax credit carryforwards.

There are a couple things to remember here about deferred tax assets. The previous treatment of deferred tax assets goes away as the new rule starts to take effect this year in 2015. You'll have to begin to treat deferred tax assets under the new rules.

The new rules require the bank to identify what types of deferred tax assets it has.

In this case, you report in Item 8 those deferred tax assets that arise from net operating loss and tax credit carryforwards.

These will be fully deducted for regulatory capital right from the beginning.

There is a transition provision that applies to this deduction. But the transition provision basically explains how part of the deduction will be taken from additional tier one capital during the first few years of the new capital rule, while the remaining part of the deduction is taken from common equity tier one capital.

If you look at the instructions for Item 8, you'll see a transition table that shows what percentage of these deferred tax assets to take from additional tier one capital and what percentage to take from common equity tier one capital.

The percentage you take as a deduction from common equity tier one capital, that amount of the deduction will go here in Item 8.

Next there is a series of AOCI adjustments we'll look at more closely in a minute. Basically, five adjustments are made for opt-out banks to give them the same treatment of AOCI they have previously had for regulatory capital purposes.

For banks that do not opt out, there is still one AOCI adjustment to be made for certain cash flow hedges.

The next item is a deduction for non-significant investments in the common stock of unconsolidated financial institutions.

I'll talk more about that in a minute, but I'll tell you a couple things now. What non-significant means is that you own 10 percent or less of the common shares in another financial institution in which you have invested.

So non-significant simply refers to how much of the other institution's common shares your bank owns. That's what non-significant means for this purpose.

It's also important to point out that there's a definition of financial institution in Section 2 of the capital rule. So if you're an FDIC-supervised institution, for example, that would be 12 CFR Section 324.2.

There's a definition there of financial institution. You'll see that it's a very broad definition of what the term financial institution includes.

However, it does not include government-sponsored entities such as Federal Home Loan Banks, Fannie Mae, and Freddie Mac. It does not include the Federal Reserve either, so you don't have to consider these entities to be financial institutions for the purpose of this deduction.

There's also a series of miscellaneous deductions that will apply so I'll talk more about those in a minute.

And, again, there are transition provisions that apply to several of these deductions. These can be found in Section 300 of the capital rule. This will be Section 324.300 for FDIC-supervised institutions and section 300 of the rules of the other federal regulators as well.

There are also tables that show the transition provisions within the Call Report instructions for Schedule RC-R. For each of these deduction items, if you think you have a deduction or adjustment you'll definitely want to look at the transition provisions because they will show you that in many cases only part of that deduction needs to be made in 2015.

You will have to take a greater amount of the deduction the following year in 2016, and then the deductions fully phase in over a few year period.

Let me turn now to Slide 10 please. This slide goes through the first part of deductions and adjustments once we've already calculated the common equity tier one before deductions and adjustments. Now we'll start going through the deductions and adjustments.

Item 6 is a deduction for goodwill. You'll see that many of these deductions and adjustments are net of deferred tax liabilities. Generally speaking, you'll be able to net deferred tax liabilities.

There is a section of the capital rules -- it's Section 22(e) -- that discusses in more detail the limitations about netting of deferred tax liabilities. But you'll see that many of these deductions are net of deferred tax liabilities.

Goodwill does not have a transition provision by the way so it's fully deducted for common equity tier one capital from the beginning.

And then comes Item 7 for other intangible assets. These do have a transition period. This item is for intangible assets other than goodwill and mortgage servicing assets and it also is net of deferred tax liabilities.

The next item is what I talked about before, deferred tax assets that arise from net operating loss and tax credit carryforwards.

The portion that needs to be deducted from common equity tier one will be reported in Item 7 as a deduction during the transition. And then after the transition period, in other words a few years from now, the amount of these deferred tax assets will be fully deducted on Item 8.

As I mentioned before, the remainder of these deferred tax assets that arise from net operating loss and tax credit carryforwards is currently deducted from additional tier one capital on a subsequent line item.

Then looking at Item 9, this item is for the AOCI adjustments. Items 9.a through 9.e apply to banks that decide to opt out of the rule's AOCI treatment.

So if you decide to opt out, that is, if you've chosen "1" for opt-out in Item 3.a, you will report here in Items 9.a throug9.e. Items 9.a through 9.e will give you the reversals of AOCI needed to retain the treatment you have today.

I will point out that there are a few more items for reporting AOCI reversals than we previously had in Schedule RC-R.

But even though the AOCI components may be broken out a little bit differently and in more detail than in the past, the intention is to give you the same treatment that you have today.

Item 9.a is for net unrealized gains and losses on available-for-sale securities similar to what we have today.

Item 9.b is for the net unrealized losses on available-for-sale preferred stock classified as an equity security and available-for-sale equity exposures.

You can look at the definition of equity exposures in the new rule.

I’ve been asked to point out that for mutual funds, you usually carry those as available-for-sale securities. So even if a mutual fund invests in strictly debt, it’s actually an equity investment that you make in the mutual fund. You buy a piece of the mutual fund and effectively you have an equity investment there.

What this means is that if you have an unrealized loss you will need to report an adjustment in Item 9.b for mutual funds available-for-sale regardless of whether they hold debt or equity instruments within the fund.

And then going on to Item 9.c: Item 9.c is for accumulated net gains and losses on cash flow hedges and Item 9.d is for AOCI attributed to defined-benefit postretirement plans. Of course, the instructions present this in more detail.

And then Item 9.e is for net unrealized gains and losses on held-to-maturity securities included in AOCI if you have that particular AOCI item.

If you've chosen to opt out you report in Items 9.a through 9.e. If you choose not to opt out, you're going to report only in Item 9.f.

Now let's move to Slide 11. Item 9.f is the one single AOCI-related adjustment that will apply to banks that choose to not opt out. Such banks may in fact have a single AOCI adjustment that applies to cash flow hedges.

Item 9.f will probably not apply to most banks, as most banks will likely opt out based on the information we're hearing.

Now let's go to Item 10: Item 10 is for some other miscellaneous deductions. Item 10.a is a subtraction of net unrealized gains (in parentheses, losses) related to changes in the fair value of liabilities reported on the balance sheet at fair value that is due to changes in own credit risk. So this is a continuation of an adjustment that's made today.

If you have changes in the fair value of liabilities due to changes in own credit risk, you'll need to report the adjustment in Item 10.a.

And then Item 10.b includes several miscellaneous deductions.   These include deductions for equity investments in financial subsidiaries, investments in own shares to the extent not included as part of treasury stock, and deductions for gains on sales of securitization exposures.

This generally refers to banks that actually securitize -- pool together and securitize assets under the definition of securitization exposure that's in the new rule.

A securitization exposure under the capital rule is not every kind of securitization that you may think of. It's a securitization exposure as defined under the new capital rule.

Then going on to Item 11, that's for non-significant investments. As I mentioned before, a non-significant investment is a case where your bank owns 10 percent or less of the common shares of another financial institution.

If you have a non-significant investment, that means you own 10 percent or less of the common shares of the unconsolidated financial institution. In that case, all investments in the capital instruments of that other unconsolidated financial institution are considered to be non-significant investments for this purpose.

If you have non-significant investments, you will need to add up all your non-significant investments. You'll then compare that total amount to what's referred to in the rule as the 10 percent threshold for non-significant investments.

If the total amount you have is over that threshold, you will have to deduct the amount that's over the threshold. The deduction will be pro rata from each tier of capital depending on the tier of capital of the instrument as it was issued by the financial institution that issued it.

The instructions have more detail on this calculation as do the agencies' community bank guides. If you have this deduction, it is also subject to a transition period.

And then Item 12: Item 12 is a subtotal of everything reported above. Item 12 is important because it affects certain other thresholds that are still to come.

Beginning now on Slide 12,there are three items that are subject to what the new capital rule refers to as the 10 percent and 15 percent of common equity tier one deduction thresholds.

These thresholds pertain to three items: mortgage servicing assets, deferred tax assets that arise from temporary differences that cannot be realized through carryback, and significant investments in the common shares of unconsolidated financial institutions.

Each of these three items is subject first to a 10 percent threshold. They cannot be more than 10 percent of common equity tier one capital, in other words they cannot be more than 10 percent of Item 12 individually.

If you have an amount that's over this threshold, you'll have to make a deduction as appropriate in the next three lines in Schedule RC-R, Part I. The deduction will be whatever amount is over that 10 percent threshold. It's a simple deduction.

The next item you'll see is a 15 percent aggregate deduction threshold. This applies to the aggregate of all three items together.

This is a more complicated deduction that is not a back of the envelope calculation. Rather, I'd recommend you simply follow the examples that are laid out in detail in the Call Report instructions. You'll see how to do that 15 percent aggregate deduction if you have it.

The next item is deductions due to insufficient amounts of additional tier one or tier two to capital to cover deductions. I'll talk a little bit more about that in a minute.

At that point we will have calculated common equity tier one capital after all deductions and adjustments. But let's look at it on Schedule RC-R, which is shown on Slide 13.

Slide 13 shows that on Items 13, 14, and 15, you report each of these 10 percent deductions if you should have them. I mean this is bearing in mind that most community banks especially do not have significant amounts of the items subject to these thresholds.

Many or most of you will probably report zeros in these Schedule RC-R line items. But if you have amounts of these exposures over the thresholds, you will have to deduct them. Then Item 16 is for the 15 percent deduction threshold.

Item 17 is for deductions applied to common equity tier one due to insufficient amounts of tier one or tier two capital.

What this applies to is that if you have to make a deduction for capital instruments that would otherwise be from additional tier one or tier two capital and you don't have enough additional tier one capital to take the deduction from, then you will have to make the remainder of the deduction from common equity tier one in Item 17.

Similarly, if you have deferred tax assets due to net operating loss and tax credit carryforwards, you'll see that during the transition period, part of that deduction will be taken from additional tier one capital.

But if your bank doesn't have additional tier one capital, you'll make the remainder of the deduction in this Item 17.

At that point then you have Item 18, which sums up all the deductions and adjustments, and then Item 19 brings you to common equity tier one capital.

At that point you've made your calculation of your most important tier of capital.

I'll go on then to Slide 14, which covers additional tier one capital. Additional tier one capital under the new rules is basically composed of noncumulative perpetual preferred shares.

If you have issued noncumulative perpetual preferred shares, this is where these instruments would be included in capital. If you don't have these instruments, then you will simply have zeros in some of these line items.

Item 21 is for non-qualifying capital instruments subject to phase out from tier one. The thing to be aware of here is that the new capital rule contains a set of criteria for each tier of capital for instruments to be eligible to go in that particular tier.

Ordinary noncumulative perpetual preferred shares are likely to meet all of the requirements for additional tier one capital, so there won't be anything subject to phase out.

If, however, your bank has issued preferred shares that have unique features or terms, it will be important for you to review the criteria for tier one capital instruments in the new capital rule. If your preferred shares do not meet the criteria, they will be subject to phase-out from additional tier one capital. They'll phase out over a several year period and the phase-out would be reported in this particular line item.

The next item is tier one minority interest not included in common equity tier one capital. This can be a minority interest arising from any type of subsidiary, not just a bank as was the case for common equity tier one minority interest.

However, the inclusion of minority interest is limited mathematically. If you're over the mathematical limit, the remainder will phase out. Also, the capital instruments representing the minority interest have to meet the same set of tier one criteria as additional tier one instruments of the bank.

The next item, Item 24, is additional tier one capital deductions, for example, investments in another financial institution's TruPS would typically go into this line.

And that brings you then to additional tier one capital, which is the sum of these several line items as you can see now on Slide 15.

Slide 15 shows the composition of additional tier one capital. And you get to Item 26 at the bottom, which is tier 1 capital. Tier 1 capital is the sum of common equity tier one capital plus additional one capital.

And at this point I'll move to Slide 16.

Slide 16 is about tier two capital. Tier two capital is similar to the current capital rule. Basically, it is composed of subordinated debt and cumulative perpetual preferred shares.

There's also a set of eligibility criteria for tier 2 capital instruments. If your bank's tier 2 capital instruments do not meet standard terms, it is possible they may not meet the criteria. If so, the instrument will phase out of capital. Item 28 is for non-qualifying capital instruments subject to phase-out from tier 2 capital.

Item 29 is for total capital minority interest. Total capital minority interest is also limited mathematically. The instrument that gives rise to the total capital minority interest must meet the criteria for tier 2 capital.

The Call Report instructions for Schedule RC-R, Part I, will show you the mathematical limitations for minority interest. Actually, for each tier of capital there is a worksheet in the instructions and some examples that will show you how the mathematical limitations on minority interest work.

The next item is Item 30.a, which is for a limited amount of allowance for loan and lease losses includable in tier 2 capital. This is actually very similar to the previous capital rules so the limit is up to 1.25 percent of the risk-weighted assets that you will be able to count your allowance for loan and lease losses in your tier 2 capital.

And then Item 31 is for a limited amount of unrealized gains on available-for-sale equity securities. This line item will pertain for institutions that opt out of the AOCI inclusion - in other words for those banks that have chosen to report "1" in Item 3.a.

If you opt out you will still be able to include a portion of unrealized gains on available-for-sale equity securities. If you don't opt out, this item will phase out.

The next item is tier two capital deductions. That would typically be for your bank's investment in another financial institution's tier two capital instrument if your bank is above the threshold for non-significant investments, or if the investments are significant.

And together that brings you to tier two capital. Let's look at Slide 17 now. Slide 17 is an excerpt from the reporting template for Schedule RC-R, Part I.

You'll see the items I just discussed. You can see tier two capital and then you see total capital at the bottom. Total capital is the sum of tier one capital plus tier two capital.

Moving on to Slide 18: Slide 18 discusses the leverage ratios. You have a calculation of total assets for the leverage ratio.

There is line that applies for advanced approaches banks, which again are the largest banks in the country and their subsidiaries. They are also subject to an additional ratio called the supplementary leverage ratio. So there is a line for them to report that particular ratio.

And now moving to Slide 19: Here you will see total assets for the leverage ratio. You will start with average total consolidated assets from Schedule RC-K.

You will make certain deductions. Actually the line indicates *less* these deductions. Several items that are deducted for tier 1 capital are also deducted from assets for the leverage ratio.

You will then arrive at total assets for the leverage ratio. And then you'll show your tier one leverage ratio in Item 44. The advanced approach institutions will also show their supplementary leverage ratio in Item 45, but that will not apply to the great majority of banks.

Then moving on to Slide 20: Slide 20 discusses the risk-based capital ratios: the common equity tier one ratio, the tier one ratio, and the total capital ratio.

You will also see a Column A and a Column B. We can turn now to Slide 21 and you can see this.

You can see Column A and Column B for Items 41, 42, and 43. The vast majority of banks will only report in Column A. Column B will only be used by the advanced approaches institutions. They will use Column A and B. And what that means for them is that they calculate their capital ratios using the capital rule that applies to every bank in Column A, and also using the advanced approaches in Column B. The capital ratio that binds them is the more binding of the two.

In other words their binding capital requirement is the one that produces the highest requirement between their two methods, which is the one the produces the lowest ratio. Only the advanced approaches institutions will have to report that way. Everybody else will simply report in Column A.

The next slide then is Slide 22. Slide 22 covers the capital conservation buffer. It is important to note that the capital conservation buffer does not begin phasing in until 2016, so you don’t need to worry about it this year. But it is important to look ahead to see how your institution will look for the capital conservation buffer for next year.

When the buffer is fully phased in, it will be 2-1/2 percent above each of the risk-based capital requirements. If your bank has 2-1/2 percent or more above the minimum requirements, there will be no restrictions on things like dividends or distributions or executive bonus payments.

If you have less than the buffer, there will be some restrictions that will kick in according to a schedule in the new capital rule. Be aware that the capital conservation buffer is also subject to a phase-in. It will be over a few year period that the buffer will phase in up to the 2-1/2 percent amount.

Then there is also an item for the eligible retained income to which the buffer applies, as well as distributions and discretionary bonus payments made during the quarter.

You see these on Slide 23. These are the items that will pertain to the capital conservation buffer. Item 46.b is only for advanced approaches banks. Most banks only have to complete Item 46.a and then Items 47 and 48.

That covers Schedule RC-R, Part I, so I'll turn this back to Bob Storch now to cover Schedule RC-R, Part II.

Bob Storch: Thank you very much David for reviewing the reporting requirements for Schedule RC-R, Part I, that will take effect in March for all institutions.

And as a reminder, we'll have a Q&A session after the presentation where you can raise your questions by phone. If you prefer to send them by email, that email address again is rac@fdic.gov.

When we get to Slide 24, that's where we're transitioning to Part II, the risk-weighted assets portion of Schedule RC-R. If we go then to Slide 25, it provides the background about where we are in the process of revising the risk-weighted assets part of Schedule RC-R. A proposed set of revisions to Part II was published for public comment back in June and the intent of the revisions was to incorporate the standardized approach for calculating risk-weighted assets from the new rule into Schedule RC-R.

The intention of course is for the risk weighting that you report in Part II starting in March -- subject to approval of the revised Part II by the Office of Management and Budget -- will be consistent with the capital rules that David gave you the citations for earlier in the presentation.

There is also a related reporting change affecting Schedule RC-L for securities borrowed. That's not something that we customarily see at many community institutions. But if that's something you have, securities borrowed right now have been reported in Item 9 of Schedule RC-L only if they exceed a reporting threshold of 10 percent of total bank equity capital and then they are disclosed if the amount of the securities borrowed exceeds 25 percent of total bank equity capital.

The change would be to make the reporting of securities borrowed required regardless of the dollar amount so that would take effect in Schedule RC-L in March.

We did get a number of comments and there were technical questions that arose during the comment period for the proposal for revised Part II of Schedule RC-R.

The final version of revised Part II has been modified to address the various comments and questions that arose from the comment process.

If you went back and compared the original proposal from last June to the version for which we provided you the link -- and which is reflected on some of the following slides -- there are some differences between the two to try to simplify the process of reporting risk weightings, particularly for items that have rather unusual treatments for capital purposes.

Many of those treatments are rather specialized and may not apply to community institutions, but the report form needs to cover the full range of institutions.

We can start by going to Slide 26. If you have been dealing with Schedule RC-R and the risk-weighted assets reporting for a number of years, the current format has actually been in place since March of 2001.

The general approach and structure that is used for reporting risk-weighted assets hasn’t changed, at least conceptually, in the new version.

There’s a section dealing with assets, a section dealing with derivatives and off-balance-sheet items, and then some totaling of different amounts to get to your total risk-weighted assets. Finally, for banks that have derivative contracts, there are memoranda data items that are reported as well.

Briefly, in the asset categories some of the things you’re familiar with haven’t changed. Column A does tie back to the balance sheet, especially the total for total assets in Column A of Item 11, which must equal the balance sheet total assets reported in Schedule RC, Item 12.

But when we get to talking about what has changed, securitization exposures, which I’ll explain when we get to that topic, are going to be reported somewhat separately from the other assets to which they would otherwise apply, but they will still be based on the balance sheet amounts.

We continue to have a Column B for reporting various adjustments and deductions and exclusions that apply to the balance sheet amounts in order to get to the amounts that need to be risk-weighted.

Then from there are a series of columns for the various risk weight categories that you would allocate the amounts of these assets to.

For each of the rows or the lines of Schedule RC-R for the assets, the Column A balance sheet number has to equal the sum of the columns to the right of it covering Columns B through R.

On Slide 27, the next section of Part II covers derivatives and off-balance sheet items. Here again, as at present, the face amount, notional amount, or other reported amount is reported in Column A.

Credit conversion factors are applied to the Column A amounts to get to the credit equivalent amounts. Those are the amounts that get allocated by risk weight category in Schedule RC-R, again as is done today.

The credit equivalent amount in Column B then has to equal the sum of what's reported in the risk weight categories of Columns C through R.

Once we've done all the risk weighting. then we total the various assets, derivatives, and off-balance sheet items by risk-weight category.

There is a calculation of risk-weighted assets by category, deductions for the excess allowance for loan or lease losses, which David talked a little bit about, which is the allowance amount that does not qualify for tier 2 capital. This is the amount in excess of the tier 2 limit.

Then we arrive at the end of the day with total risk weighted assets, which feeds into the risk-based capital calculations that are in Part I of Schedule RC-R that David mentioned.

Then the memoranda data for derivative contracts continues to be reported in Schedule RC-R, Part II.

If we go now to Slide 28, then we'll begin to highlight what some of the key differences are from what you have today in Schedule RC-R.

If you're interested in a summary description of where the risk weights have changed or have remained the same -- and many of them have in fact remained the same -- there's an Interagency Community Bank Guide to the new capital rule on each of the agencies' Web sites. You have a link on Slide 28 to the version of the guide that's on the FDIC's Web site.

Table 4 in the guide is a good resource for you as you try to understand how the new rules apply to your institution.

If you actually look at the forms, and I think the first slide that has an example of the forms is not until Slide 33, there are a number of additional risk-weight categories that are included in the new capital rule.

In many cases the these additional risk-weight categories have really limited applicability. When we get to looking at the forms, you'll see many of the risk-weight categories that are new are shaded out or not applicable for a lot of different balance sheet and off-balance sheet categories.

If your bank has a traditional non-complex type of balance sheet and limited off-balance-sheet exposures, much of what you do today for risk weighting you'll really continue to do the same thing going forward, probably using most extensively the zero percent, 20 percent, 50 percent, and 100 percent risk-weight category.

The newest category that will end up being used more frequently than the others is the 150 percent risk-weight category, which applies to many past due and nonaccrual assets and to a certain extent to certain foreign exposures.

However, foreign exposures may be something that community banks would tend not to have.

Securitization exposures I referred to earlier. Securitization exposures are defined in Section 2 of the final rule.

Securitization exposures are not all securitizations. They are really limited to both on- and off-balance sheet exposures coming from mortgage-backed, asset-backed. and structured securities. The key that makes these securitization exposures is the tranching of credit risk.

So, for example, mortgage-backed pass-through securities that don't have tranching are not securitization exposures under the new capital rule.

Also, mortgage-backed securities guaranteed by Ginnie Mae, Fannie Mae, and Freddie Mac would not be securitization exposures.

So, if the extent of securitization investments you have in your portfolio are ones that are guaranteed by government-sponsored entities, for example, the securitization exposure rules would not apply to those investments.

When we get to filling out Schedule RC-R, Part II, a securitization exposure that's in a particular asset category, for example, available-for-sale securities, the securitization exposure would not be reported with all the other available-for-sale securities in Item 2.b of Part II. It would be reported instead in Item 9.b of Part II.

That's something that applies regardless of what asset or off-balance sheet category a securitization exposure would be found in. These exposures are reported separately only in Items 9 and 10. We'll see that in the illustration on the slide of that part of Part II a little later.

On Slide 29, another change is the treatment of sovereign exposures and exposures to foreign banks and foreign public sector entities, which are state and local governments below the central government level.

Places like Canada and Mexico have provinces and states. If you have securities issued by those entities or claims on those entities, those would be from public sector entities.

There's a new country risk classification methodology and there are examples of how this methodology works starting on Page 8 of the draft instructions to Schedule RC-R, Part II, that are available on the FFIEC's Web site.

Another change is that for both loans and leases held for sale and loans and leases held for investment in Part II there will be a four-way breakdown of those types of balance sheet assets. You see the four separate categories listed on this slide and we'll go into a little more detail on those in a few moments.

Today all loans and leases held for sale are reported on a single line in Schedule RC-R and the same is true for loans and leases held for investment.

Each of the four categories of loans and leases is mutually exclusive. You won't be reporting, for example, a residential mortgage exposure that's past due in two categories.

You only report those as residential mortgage exposures. You would not also report those as exposures past due 90 days or more or on nonaccrual.

We're not intending for you to risk weight an asset twice because we have a four-way breakdown of loans.

Moving to Slide 30, there are new Columns R and S, which are there for some rather selected types of exposures -- for certain assets and off balance sheet items that are not securitization exposures -- where the risk-weighting approaches for these exposures don't really lend themselves to simply allocating an asset or offbalance sheet credit equivalent amount to a particular risk-weight category.

These two columns would cover such things as investments in mutual funds and investment funds, exposures collateralized by securitization exposures or mutual funds, and separate account bank owned life insurance, if those are something your institution has.

They would not apply to general account bank owned life insurance.

The new columns also are for something that perhaps community institutions would not likely have: default fund contributions to central counterparties, which are clearing houses facilitating trades between counterparties in different financial products.

On Slide 31, on the off-balance sheet side of revised Schedule RC-R, Part II, we've got a new category of instruments called repo-style transactions.

This new category combines four different types of transactions involving securities, both securities lent and borrowed that are reported as off-balance sheet exposures in Schedule RC-L and then two balance sheet items: securities purchased under agreements to resell, also known as reverse repos, which are reported as an asset on the balance sheet in Schedule RC, Item 3.b, and a liability item, securities sold under agreements to repurchase, which are reported on the balance sheet in Item 14.b.

I would expect that for most community banks it is the securities sold under agreements to repurchase, or regular repos, that are likely to be the most common or perhaps the only type of repo-style transaction your bank will encounter.

With respect to unused commitments, because of changes in the capital rules we'll now be reporting data on and risk weighting the credit equivalent amounts of unused commitments with an original maturity of one year or less unless they're unconditionally cancelable. There is separate reporting beginning in March of unconditionally cancelable commitments in Item 19.

Finally, on Slide 32, the last noteworthy change from existing Part II is that the derivatives reporting -- if that's something that you have at your institution -- is now separated into over-the-counter derivatives and centrally cleared derivatives, both for the risk-weight category allocations and reporting data on remaining maturities.

Let's start first with the securities reporting in Schedule RC-R, Part II. You can see a reproduction of what the securities lines would be in Part II on Slide 33.

As I mentioned before, there are many more risk weight categories but by and large for securities they are not applicable.

Where they are applicable is shown toward the bottom of the Slide 33. For available-for-sale securities, the 300 percent and 600 percent risk weight categories apply to certain equity securities. Those are new along with Columns R and S that I referred to before.

Just briefly, there's a line item for cash and balances due from depository institutions. What's new for that asset category is the 150 percent risk weight due primarily to the country risk classifications for certain balances due from foreign banks or foreign central banks. This is where the 150 percent risk weight could come into play.

If we look at some of the aspects of reporting held-to-maturity securities in Item 2.a, a reminder that any securitization exposures that are held as held-to-maturity securities would not be reported in Column A of Item 2.a. They would instead be reported in Item 9.a as securitization exposures.

And then, as is the case today in Schedule RC-R, there's a Column B for adjustments to the balance sheet amount of held-to-maturity securities other than securitization exposures.

This relates to the AOCI opt-out election. If that's the election you've made and you have held-to-maturity securities that have unrealized gains and losses included in AOCI, those gains and losses have been neutralized or adjusted from a capital standpoint. We have to make a comparable adjustment in Column B to your balance sheet amount.

The two scenarios where you might have unrealized gains and losses would be if you have had transfers of available-for-sale securities to the held-to-maturity account.

There is an adjustment that gets reflected in AOCI at the time of the transfer that over time reduces to zero. Whatever that number is, there’s an adjustment in Column B for that. In addition, if you had unrealized losses due other-than-temporary impairments on held-to-maturity securities that were for reasons other than credit losses. they would also be included in AOCI and there would be an adjustment in Column B for that.

Since held-to-maturity securities include only debt securities and no equity securities, the risk weightings themselves are pretty much unchanged in terms of the risk-weight category allocations compared to what you do in Schedule RC-R today.

Available-for-sale securities are reported in Item 2.b and again securitization exposures are excluded. The Column B adjustments pertain to unrealized gains and losses on available-for-sale debt and equity securities to the extent that they are being adjusted for capital purposes if you’ve made the AOCI opt-out election.

On the available-for-sale debt securities, this would be all the unrealized gains and losses from fair value changes. It would also include any other-than-temporary impairment losses included AOCI.

Then, if there are unrealized gains on equity securities, those would be adjusted as well because they are included in tier two capital up to a certain limit.

In the available-for-sale account, if you have investments in mutual funds and other types of investment funds, there are now three possible methods for risk weighting these types of exposures. And that's what you would use Columns R and S for.

The exposure amount would be reported in Column R. Then you would choose one of three methods, two of which are carryovers from the existing rules. The first is the simple modified look-through approach where you simply risk weight your exposure to the mutual fund based on the highest risk weight that can be assigned to any exposure the fund is permitted to hold. The second is an alternative modified look-through approach where the risk weighting is based on a pro rata allocation based on the limits for fund's permissible investments.

These methods are described in the general instructions for Part II under a section for equity exposures.

What's new is a full look-through approach where you would actually risk weight your bank's proportionate share of the actual exposures that the fund has as of the report date as if they were held directly by the bank. That would be a more complicated process than the other two methods, but it is available to be used.

Then for risk weighting certain available-for-sale equity securities other than mutual funds, that's where the 100 percent, 300 percent, and 600 percent risk weights would come into play.

There is also an ability to risk weight what are called qualifying non-significant equity exposures at 100 percent if the aggregate carrying value of these non-significant equity exposures is less than 10 percent of the bank's total capital. This is described in the Schedule RC-R instructions as well.

Otherwise, if you have publicly traded equity exposures they generally would receive the 300 percent risk weight. However, if these publicly traded equity exposures were to certain investment firms, they would receive the 600 percent risk weight.

Now if we go to Slide 35 and the reporting of federal funds sold and reverse repos, there isn't really a significant change to the fed funds sold in Item 3.a.

There is the new 150 percent risk weight, which could apply if the transactions involved foreign banks.

But for Item 3.b for securities purchased under agreements to resell, you may recall that when we talked about the repo-style transactions, we said these reverse repos are now a component of repo-style transactions. Their risk weighting would be done together with the other three components of repo-style transactions in Item 16 on the off-balance sheet portion of Schedule RC-R, Part II.

However, we do report the balance sheet amount of reverse repos in Item 3.b. Then the same amount would be reported in Column B as an adjustment so that we avoid risk weighting these reverse repos twice. You see all the columns that are to the right of Column B are shaded out so that we will only risk weight these reverse repos through the Item 16 process.

But we need to report the reverse repos in Column A so that when we add up Column A all the way down to the bottom of Item 9 and get total assets, the amount will tie back to the total assets reported on your Call Report balance sheet.

On Slide 36 we present the reporting of loans with the four-way breakout. As I mentioned before Item 4 covers loans and leases held for sale. Item 5 is for loans and leases held for investment although the Call Report calls these loans and leases, net of unearned income.

The columns and risk-weight categories are the same for Item 4 for loans held for sale and Item 5 for loans held for investment, so we have just presented Item 5 on Slide 36 since that’s the asset category that virtually all banks would have, whereas not all banks will have loans and leases held for sale.

But the comments I’ll be making with respect to the next few slides carry over both for loans and leases held for sale and those held for investment, so you may want to keep Slide 36 handy as we go through the next few slides. On Slide 37 are some general comments about all loans and leases whether they’re held for sale or held for investment. Again, those loans and leases that are securitization exposures would not be reported in Column A of the items for loans and leases, they would instead be reported as securitization exposures in Item 9.d of Part II.

Then, if you have any loans and leases collateralized by securitization exposures or collateralized by mutual funds, and if your bank chooses to recognize the risk-mitigating benefits of this collateral, you would be using Columns R and S to report the exposure amount and then the risk-weighted asset amount for that particular exposure.

Using this type of risk-weighting approach is going to give you a risk-weighted asset benefit if the risk weight applicable to the collateral is less than the risk weight that would be applicable to the borrower. That's something that the bank could choose to take into consideration for these types of collateral.

So let's look first at the residential mortgage exposures in Items 4.a and 5.a.

Again, on Slide 36, we just show Item 5.a but it's the same for Item 4.a as well.

Residential mortgage exposures are defined in Section 2 of the regulatory capital rules and they include loans secured by both first and junior liens on one-to-four family residential properties. Residential mortgage exposures also include loans secured by multifamily residential properties provided that the original and outstanding amount of the loan is $1 million or less.

Once we have identified the loans that are residential mortgage exposures, they would be subject to a risk-weighting process similar to what we have today.

FHA and VA loans have a 20 percent risk-weight, qualifying residential mortgages have a 50 percent risk weight, and then the remainder have a 100 percent risk weight.

You'll see that on Item 5.a the 150 percent risk weight is shaded out so that risk weight is not applied even to the loans that we just described that are 90 days or more past due or on nonaccrual status.

For Schedule RC-R, Part II, purposes residential mortgage exposures also include something called statutory multifamily mortgages.

The multifamily mortgages that are 1 million dollars or less would be within the scope of the residential mortgage exposure definition, but some other potentially larger multifamily mortgages that meet certain criteria would be eligible for inclusion in Items 4.a and 5.a and could qualify for a 50 percent risk weight.

These statutory multifamily mortgages would be the one exception from the past due and nonaccrual reporting treatment for other residential mortgage exposures. If statutory multifamily mortgages are 90 days or more past due or on nonaccrual they then fail to meet the definition of a statutory multifamily mortgage. In that situation, these multifamily mortgages would have to be reported in Item 4.c or Item 5.c depending on whether the loan is held for sale or held for investment.

Turning to Slide 38, high volatility commercial real estate exposures, this asset category involves loans for the acquisition, development, or construction of properties, provided the financing is not for one-to-four family residential properties. These residential construction loans are typically reported in Call Report Schedule RC-C, Part I, Item 1.a.(1).

Also excluded from the definition of high volatility commercial real estate exposures are loans for financing community development projects and loans for purchasing and developing agricultural land. Then some loans for commercial real estate projects that meet qualifying criteria that are spelled out in the new capital rule would not fall within the scope of high volatility commercial real estate exposures.

But for those loans that are high volatility commercial real estate exposures -- HVCRE -- the 150 percent risk weight applies to all of them including those that are past due 90 days or more or on nonaccrual.

If you look at the Part II report form back on Slide 36, you'll see we also have the zero percent, 20 percent, 50 percent, and 100 percent risk weight columns open for HVCRE and then there are also Columns R and S.

Those risk-weight categories will be available for your use with HVCRE exposures if, in addition to the real estate collateral, you have other types of collateral or guarantees that would enable portions of exposures to qualify for a lower than 150 percent risk weight.

Then we move to Items 4.c and 5.c of Part II dealing with loans and leases that are 90 days or more past due or in nonaccrual status. This is on Slide 39.

Based on what we just talked about for Items 4.a and 5.a and Items 4.b and 5.b, we would exclude from Items 4.c and 5.c past due and nonaccrual residential mortgage exposures that are reported in Items 4.a and 5.a with the exception of past due and nonaccrual statutory multifamily mortgages, which don't qualify as meeting the definition of this term so they would be picked up and reported in Items 4.c and 5.c if they're past due 90 days or more or on nonaccrual.

The high volatility commercial real estate exposures, even those that are past due or nonaccrual, are reported as I said in Item 4.b or 5.b.

In addition, sovereign claims, which are subject to the country risk classification process, would be excluded from Items 4.c and 5.c and instead would be reported with all other loans and leases in Items 4.d and 5.d.

The general rule is that an exposure that's 90 days or more past due or in nonaccrual status is assigned a 150 percent risk weight except to the extent, as we talked about on the HVCRE loans, there are portions of the exposure that are covered by qualifying collateral or eligible guarantees.

In those situations you could assign a risk weight that's less than 150 percent to the covered portion of the loans.

Then, finally, we get to Items 4.d and 5.d. All the rest of your loans and leases held for sale or your loans and leases held for investment that don't get reported in the preceding three items would be included in Item 4.d or 5.d.

Let's move away from loans and look at Slide 40. We'll talk just a little about Items 6 and 7. Item 6 covers the allowance for loan and lease losses.

As you know, on the Call Report balance sheet the allowance is a deduction from the loans held for investment. So, to tie back to total assets on the balance sheet we report the allowance in both Columns A and B of Item 6.

Then trading assets are next. Most community institutions don't have trading assets, but to the extent you do, Column A would include the balance sheet amount of trading assets excluding any trading assets that would be securitization exposures that are to be reported in Item 9.c.

From there, Column B of Item 7 would pick up any derivatives that are included in trading assets as an adjustment. If you're a market risk institution, there would also be adjustments in Column B for the covered assets that are included in trading assets.

The risk-weighting process for trading assets is like it is today. Depending on the type of asset counterparty, collateral, and guarantees, you will have varying risk weights all the way up to potentially the 600 percent risk weight for certain equity securities. There is again the application of the risk-weighting approaches for investments in mutual funds and investment funds that could be included in the trading account.

We'll now look at the typical balance sheet categories within "All other assets." Looking at Slide 41, just like Schedule RC-R, Part II, today, this "All other assets" category covers the remaining balance sheet items from Schedule RC, including bank premises, other real estate owned, intangible assets, and other assets.

To the extent that you have securitization exposures included in any of these asset categories -- perhaps other assets would be the most likely place -- they would be excluded from Item 8 and reported in item 9.d.

Column B is for adjustments and, as is the case today, to the extent you have goodwill and other intangible assets that are deductions from capital, they would be reported in Column B in order to be deducted from the amounts to be risk weighted.

If your have other types of adjustments to "All other assets," such as derivatives, they would be reported in Column B as well.

A new category of adjustments is for unsettled transactions. If you have any amounts for unsettled transactions in "All other assets" -- and technically it's also possible that there's unsettled transactions included in trading assets -- they would be reported in Column B. The unsettled transactions will be reported in the last risk weighting line in Part II, Item 22.

When we think about the equity securities and why some of the high risk-weight categories are open on Slide 40 for “All other assets,” certain equity securities like we talked about before get risk weights higher than 100 percent.

The Federal Reserve Bank stock continues to have a zero percent risk weight. Federal Home Loan Bank stock continues to have a 20 percentage risk weight.

The 100 percent risk weight would cover equity securities if you have non-significant investments in equity securities that in the aggregate are less than 10 percent of total capital, to the extent any of them are reported in “All other assets” those amounts would be slotted in the 100 percent column.

If you have equity securities in “All other assets” that are not publicly traded, they would be in the 400 percent risk weight category.

If you had equity exposures to certain investment firms included in “All other assets,” they would be in the 600 percent risk weight category.

Then, finally, I’ll point out the separate Item 8.a on Slide 40 for separate account bank-owned life insurance. We’ve referred to that asset before.

For a bank with separate account bank-owned life insurance, the exposure amount is reported Column R. Then based on the characteristics of all the instruments that are held in the separate account bank-owned life insurance using a look-through approach like the one we described earlier for mutual funds, you would apply that approach and there would be a 20 percent risk-weight floor as well for separate account bank-owned life insurance assets.

Let’s move to Slide 42. We’ve been talking a lot about securitization exposures. To the extent you have these, securitization exposures have a very different risk-weighting approach than applied previously in Schedule RC-R, Part II.

You can see what the items for securitization exposures, which cover both on- and off-balance sheet exposures, looks like on Slide 42.

Moving to Slide 43, and you may want to keep Slide 42 handy for reference, there are two main approaches that an institution must choose between for determining the risk-weighted asset amount for all of its securitization exposures.

There’s the Simplified Supervisory Formula Approach, which is referred to as the SSFA, and the Gross-Up Approach.

Then there’s also the ability, regardless of which of those two approaches you decide to apply -- and you have to apply the chosen approach consistently to all of your securitization exposures -- for you to choose to apply the 1250 percent risk weight approach on an individual exposure basis. That approach can be applied for all exposures if you want to, but that would probably be rather disadvantageous from a risk-weighted assets standpoint.

The General Instructions for Part II have extensive guidance on securitization exposures and how to report and measure them starting on page 10. The link to the draft instructions is provided on Slide 2.

If we look first at the on-balance sheet securitization exposures, you see that Items 9.a through 9.a cover four asset categories.

For the most part, most institutions that have securitization exposures would be using Items 9.a through 9.c for held-to-maturity securities, available-for-sale securities, and trading assets. But you can have these exposures elsewhere on the balance sheet.

Any off-balance sheet securitization exposures would be captured in Item 10. If you have derivatives that are securitization exposures, they would be included as off-balance sheet securitization exposures even though the fair value of a derivative has to be reported on the balance sheet.

Moving to Slide 44, let's think about how to report on-balance sheet securitization exposures in Columns A and B. Whatever the balance sheet amount is for an exposure gets reported in Column A of Items 9.a through 9.d.

Then for Column B, what you report there -- and this is going to be different than the reporting in Column B for the other asset categories in Items 1 through 8 -- depends on what approach you use to determine how to risk weight your securitization exposures.

For securitization exposures for which the SSFA or Gross-Up Approach is used, you would report the balance sheet amount of the securitization exposure in Column B.

So if all of your securitization exposures are being measured using the SSFA or the Gross-Up Approach, your Column A and Column B amounts will actually be equal.

If you use the 1250 percent risk weight for one or more securitization exposures, you would only use Column B to report a difference between the balance sheet amount of the securitization exposure and the exposure amount, as defined in the capital rule, that would have to be risk weighted.

Where that would come into play primarily would be if you made the AOCI opt-out election. In that case, you would have to adjust for the unrealized gains and losses on the available-for-sale securitization exposures, or if you had a held-to-maturity securitization exposure and you had an adjustment for an other-than-temporary impairment or a previous transfer from available-for-sale to held-to-maturity, similar to what we talked about for Items 2.a.a for these types of securities that are not securitization exposures.

Moving to Slide 45, if you are applying the 1250 percent risk weight to a securitization exposure, then you report in Column Q the exposure amount that you arrived at if you had to make an adjustment in Column B, or if you didn't make an adjustment you report the Column A amount in Column Q. That's basically what you have done when reporting exposure amounts across Columns C through P for the other asset categories. For example, if you made the AOCI opt-out election and the amortized cost of an available-for-sale securitization exposure was $1 million, you would be reporting $1 million in Column Q.

If the SSFA is used, you have to calculate what the risk-weighted asset amount is for that exposure and report the risk-weighted asset amount and not the exposure amount in Column T.

Within the past month, the banking agencies have released an automated tool for calculating the capital requirements under the SSFA. On Slide 45, you have the link to the FDIC's letter that went out to institutions that has this automated tool as an attachment.

Within the spreadsheet for the automated tool, you'll be able to derive what the risk-weighted asset amount would be under the SSFA to report in Column T for these securitization exposures.

If instead you choose to use the Gross-Up Approach, then you'd calculate the risk-weighted asset amount and report that amount and not the exposure amount in Column U. So Columns T and U capture risk-weighted asset amounts and not exposure amounts.

The instructions for securitization exposures in the General Instructions that start on page 10 of the draft instructions for Part II include a Gross-Up Approach worksheet for securitization exposures that are not senior exposures.

If you had some securitization exposures that were not eligible for what used to be the ratings-based approach, you may have used that worksheet under the old capital rule. The worksheet has been updated for the new capital rule.

If you have a senior securitization exposure and apply the Gross-Up Approach, the risk-weighted asset amount to report in Column U would be the face amount of the exposure multiplied by the weighted average risk weight of the securitization's underlying exposures and there would be a 20 percent floor on the risk weight.

All of this is described in the General Instructions for Part II in the section that covers securitization exposures.

To illustrate the treatment of securitization exposures, Slide 46 takes information that is actually in the draft instructions to show you an example, first of what the reporting would be if a bank uses the Simplified Supervisory Formula Approach.

Let's say the held-to-maturity securities have an amortized cost on the balance sheet of $100. That amount gets reported as an adjustment in Column B and the risk-weighted asset amount of $20 in this example, after going through the calculation, is reported in Column T.

The second example gets a little more complicated. The bank has, let's say, three securitization exposures of $100 each and that's what is reported in Column A. $200 of those exposures will have the Gross-Up Approach applied to them and this amount is reported as an adjustment in Column B. $100 will have the 1250 percent risk weight applied to it and there's no adjustment to the $100 in Column B. In this example for the 1250 percent risk weight exposure, the $100 exposure amount is reported in Column Q. Then, after doing the calculations for the Gross-Up amount for the $200 of held-to-maturity securitization exposures, a $40 risk-weighted asset amount is reported in Column U. There is more of an explanation around these two examples in the General Instructions for Part II.

We move then to Slide 47 and the off-balance securitization exposures. This would include any derivatives and off-balance sheet items that qualify as securitization exposures and would be reported in Call Report Schedule RC-L or Schedule RC-S for community institutions. One thing this may include would be credit-enhancing representations and warranties where they are supporting a tranching of credit risk on, say, mortgages that the bank has sold. Those would be reported here in Item 10.

The notional amount would be reported in Column A and then the approach that we just described pertaining to Columns B, Q, T, and U for the on-balance sheet securitization exposures would be applied. It works basically the same way for the off-balance sheet exposures as for the on-balance sheet exposures so I won't repeat that description, but as Slide 47 says, follow the same conceptual approach for risk weighting, picking the same methodology that you apply consistently -- either the SSFA or Gross-Up Approach -- and you have the ability on a selective basis to apply a 1250 percent risk weight to a securitization exposure.

Turning to Slide 48, we now are at the point where we are going to total the balance sheet assets and you'll see the first bullet point on the slide talks about for each of Columns A through R adding up the amounts in Items 1 through 9. We don't include Item 10 because that was for off-balance sheet securitization exposures. Then the amount reported in Item 11, Column A should tie back to your balance sheet amount for total assets from Schedule RC. Presumably, your Call Report software would have an edit to check that this is the case.

Then across the columns, the sum of Columns B through R must equal Column A of Item 11 as well. So there's another tie-in that there will be an edit for in your Call Report software.

Moving to Slide 49, the off-balance sheet items side of Part II of Schedule RC-R. I'll point out that the main change here for these first off-balance sheet categories is the new 150 percent risk weight. Otherwise, we have pretty much the standard zero percent, 20 percent, 50 percent, and 100 percent risk weights that you're familiar with.

Item 12 covers financial standby letters of credit. Depending on what the usage is of these standbys, that will determine what amount should be reported in Column A. If the standbys are in fact a credit enhancement of assets, but don't met the definition a securitization exposure, which is essentially where the standbys are protecting the entire amount of an asset -- not just a tranching of its credit risk -- you'll be looking at reporting the effective risk-based capital requirement for the credit-enhanced assets in Column A.

For all the other standbys, which is probably most community institutions' situation, the amount outstanding and unused of the financial standby letter of credit would be reported in Column A subject to a 100 percent credit conversion factor to get to the credit equivalent amount. Then you would just allocate the credit equivalent amount across the risk-weight categories based on the counterparty or any qualifying collateral or guarantees.

For performance standby letters of credit and commercial and similar letters of credit -- Items 13 and 14 -- Column A would, as today, look at the amount outstanding and unused. Then we allocate the credit equivalent amount across the columns similar to what we do with financial standby letters of credit. The one noteworthy change is that for the commercial and similar letters of credit we're now limiting Item 14 and the 20 percent credit conversion factor to those letters of credit with an original maturity of one year or less.

If you have longer-term commercial letters of credit, they would be reported as unused commitments with an original maturity exceeding one year down in Item 18.c, which we'll get to in a moment. Retained recourse on small business obligations sold with recourse is not commonly encountered, but it's reported in Item 15 using the same treatment as applies today because this treatment is a statutory requirement.

On Slide 51 we come to the repo-style transactions that we've touched on several times already. This includes securities lent, securities borrowed, reverse repos, and regular repos. The amounts that have to be reported in

Column A aren't necessarily the same amounts that would be reported elsewhere in the Call Report. For all securities lent, the fair value of the securities lent is reported in Column A. For held-to- maturity securities lent, the amortized cost of the securities is reported in Schedule RC-L, so you'll have to note that difference.

For securities borrowed, it's the amount of cash or the fair value of collateral posted by the bank when it borrowed the securities that should be reported in Column A. For reverse repos, the amount to report in Column A would actually tie to Item 3.b on the Call Report balance sheet because that's the amount of cash provided to the counterparty.

Then for the regular repos, as the last bullet point says, the fair value as of the report date of securities sold under agreements to repurchase should be reported in Column A. That is likely going to be different than the liability amount that you report in Item 14.b on the Call Report balance sheet because the liability amount is based on the amount of cash that you received in exchange for the securities that you sold under agreements to repurchase. So you have to pick up the fair value of the repoed securities for reporting purposes in Column A. A 100 percent credit conversion factor is applied to get to the credit equivalent amount. There is an ability to do some netting of repo-style transactions, which we won't cover here. On Slide 52, we'll focus primarily on reporting a repo, expecting that for most community institutions the most common repo-style transaction would be a regular repo. There is an example in the instructions for Item 16 and that's the source of the example on Slide 52.

In the example, we're looking at where the bank has an available-for-sale debt security that it repoed out and normally, under the accounting standards, repos don't qualify for sale accounting. So the security would continue to be reported as an asset and that's why you see about half way down Slide 52 what the reporting would be for the available-for-sale security.

We're assuming -- to keep the example simple -- that it's an available-for-sale security for which the amortized cost and fair value are the same and it gets risk weighted at 20 percent. Then for the repo style transaction, the fair value of the collateral is $100 even though the bank only borrowed $98 against it because the lender on the transaction wanted a margin of collateral protection.

The repo liability is $98, so that's the amount of cash that was received in the transaction. The cash in this situation would qualify for a zero percent risk weight, but our exposure is for the risk of the security not being returned under the repo. The extra $2 exposure to the 100 percent risk weight repo counterparty in the example is reported in Column I – 100 percent for $2.

We end up having $22 of risk-weighted assets from these two transactions whereas under the old rules the repo liabilities didn't have any risk-weight exposure allocated to them, but we've only increased the overall exposure to the combined transactions by $2.

Item 17 covers all other off-balance sheet liabilities. Looking at Item 9 of Schedule RC-L -- anything that's reported in Item 9, "All other off-balance sheet liabilities," and is covered in the regulatory capital rules -- that will be included in Item 17 of Schedule RC-R, Part II, along with any risk participations in bankers acceptances that are acquired by the institution. These risk participations are currently reported in Item 47 of Part II, but when we move to the new report form for Part II in March, there won't be a separate item for them. They will just be included in all other off-balance sheet liabilities in Item 17. Also, if you have loans that you've sold with credit-enhancing representations and warranties that are not securitization exposures, they are also included in Item 17. In the General Instructions for Part II there is a discussion about these credit-enhancing representations and warranties.

Moving to Slide 53, unused commitments. You can see, as I mentioned before, we now have a category for unused commitments with an original maturity of one year or less. It excludes those to asset-backed commercial paper conduits. Slide 54 notes that these unused commitments previously had a zero percent credit conversion factor, but now under the new capital rule there is a 20 percent credit conversion factor, which is why these are being added to Part II as Item 18.a.

Item 18.c covers those unused commitments with an original maturity exceeding one year. These commitments have been reported in Part II in the past and they'll continue to be reported.

The risk weight columns for unused commitments primarily are the same ones as before -- zero percent, 20 percent, 50 percent, and 100 percent --with 150 percent added potentially due to country risk classification -- and then we've got Columns R and S available in case these unused commitment exposures would be collateralized by securitization exposures or mutual funds, which we've talked about before.

Item 19 covers unconditionally cancelable commitments, but these continue to have a zero percent credit conversion factor. Generally speaking, Item 19 would cover your home equity line of credit commitments and your retail credit card commitments.

Finally, Slide 55 shows the last part of Part II where we do risk weightings by risk-weight category. Over-the-counter and centrally cleared derivatives are reported separately in Items 20 and 21 as I mentioned before. The credit equivalent amount of derivatives includes both a current credit exposure and a potential future exposure. There are some additional elements to the measurement of credit equivalent amounts for centrally cleared derivatives that are explained in the instructions for Item 21.

Then last but not least, to the extent you have any unsettled transactions -- either on or off the balance sheet -- the amount of these unsettled transactions are reported in Column A. What do we mean by unsettled transactions? These are transactions involving securities, foreign currency instruments, and commodities that have a risk of delayed settlement or delivery or actually already are experiencing a delay in settlement or delivery. That exposure can come from the trading portfolio, regular investments, or off-balance sheet items. Those exposures will be picked up and risk weighted for the first time under the new capital rule.

We go to Slide 56 and this should look somewhat familiar. It’s the totaling process comparable to what we have in Part II today where we calculate the totals for all the various risk-weight categories in Columns C through Q. We risk weight the totals by the appropriate percentages to get to a risk-weighted asset amount by risk-weight category and then those numbers feed into -- if we go to Slide 57 -- the reporting of the totals.

If you look at Slide 57 and Slide 58 together, Item 26 gives you the calculation for the risk-weighted assets base from which the 1-1/4 percent limit on the allowance for loan and lease losses is calculated. That asset base is a slightly different calculation than is used for determining total risk-weighted assets.

The difference primarily comes from -- if you look at the fourth bullet point under the first main bullet point on Slide 58 -- certain assets that are deducted from tier one and tier two capital in Schedule RC-R, Part I, that David went over a while ago. We add those assets back to get to the risk-weighted assets base for the 1-1/4 percent limit and the specific assets that are to be added back are spelled out in the draft instructions for Item 26.

The small number of market risk institutions would report market-risk-weighted assets in Item 27. Turning to Slide 59, Item 28 gives you the total risk-weighted assets before the last couple of deductions for the excess allowance and the allocated transfer risk reserve. The risk-weighted assets base in Item 26 and the risk-weighted assets before deductions in Item 28 are similar in terms of their first three components, but to the extent the institution is subject to the market risk capital rule, standardized market-risk-weighted assets would be included in Item 28 as well.

Then we come to the excess allowance for loan and lease losses. After we've determined the base in Item 26, we can determine how much, if any, of the allowance is excess and deduct that amount in Item 29. If your bank has an allocated transfer risk reserve, then that would be reported in Item 30 and also deducted to arrive at total risk-weighted assets as shown on Slide 60. Your risk-weighted assets before deductions is reported in Item 28, and then the two deductions are reported in Items 29 and 30 to arrive at total risk-weighted assets in Item 31.

Finally, before we get to questions, Slide 61 gives you a pictorial representation of the memoranda section for derivative items. It is quite similar to the current approach that's been in Part II except that the over-the-counter and centrally cleared derivatives are reported separately. However, we still capture the current credit exposure and then the remaining maturities by type of underlying exposure.

That is a whirlwind tour through Part II of Schedule RC-R. We can now open it up to questions from you to help you better understand what the reporting requirements will be. If you want to send an email question, the address is rac@fdic.gov and if we have questions on the phone, operator we can turn to those now. Thank you very much.

Coordinator: Thank you. We'll now begin the question and answer session. If you would like to ask a question, please press star one. Please unmute your phone and record your name clearly when prompted. Your name is required to introduce your question. To withdraw your question, press star two. One moment please for the first question.

Our first question comes from Justin Salem. Your line is now open.

Justin Salem: Yes, I would like to get clarification on the securitizations from Item 10.b in Part I for the gains and wanted to clarify if that was for both securitizations in which the bank had securitized assets as well as for securitizations in which they were purchased as an investment. I wanted to clarify if this rule applies to both scenarios.

David Riley: Okay, this is David Riley and I'll give you my answer and I'll invite any of my colleagues to add anything if they would like.

So this is important -- the deduction is for the gain on a sale of a securitization exposure. First of all it only applies to securitization exposures as defined under the capital rules. You should look at all the definitions, but I'll give you my shortcut way of identifying a securitization under the new rules. It is tranched for credit risk meaning that some pieces of the securitization absorb losses before others do, and it has multiple underlying financial exposures, so it has to meet those two criteria. And as Bob said, most of the Fannie Mae and Freddie Mac securities that are out there are not securitization exposures as defined under the rule.

The deduction for Item 10.b would be for a case where your bank pools together and sells securities and records a gain-on-sale that is not an all-cash gain. So basically it is the reporting of a gain on sale where you still have an obligation in that securitization. It will generally not apply to purchased securitizations. It mostly will apply to the originator/ securitizer.

Bob Storch: So David, this is Bob Storch. I would add that if the question about the purchase is, for example, you bought an investment in a securitization exposure and you held it in your held-to-maturity or available-for-sale portfolio. If it's available-for-sale, it's reported at fair value and unrealized gains and losses are in AOCI. We're not talking about those unrealized gains and losses.

There's the separate issue of whether you can opt out or not and there's also the question of does that securitization asset meet the definition of a securitization exposure that leads to the reporting treatment for Items 9.a through 9.d. but any unrealized gain is not subject to deduction in Item 10.b of Part I.

David Riley: That's right. This is not about the AOCI component on securitizations. It's for a gain on sale typically for the originator/pooler of the assets who sells the securities.

Bob Storch: Okay, one of the questions that came in from email -- before we get back to the operator -- is asking about the qualifying collateral and eligible guarantees that I mentioned a number of times. The question specifically makes reference to that subject on Slide 39 pertaining to the 90-day or more past due and nonaccrual exposures that generally require a 150 percent risk weight. The question was where can we find the specific definitions of qualifying collateral and eligible guarantees.

In the final rule of each of the agencies, the rules for recognition of collateral are in Section 37, so for example if you're FDIC-supervised, that would be Part 324 and Section 37. The section number for collateral would be the same for all the agencies. Then it would be Section 36 for the treatment of guarantees, including credit derivatives.

In the draft instructions for Schedule RC-R, Part II, page four starts the discussion of collateralized transactions and page five starts a discussion of guarantees and credit derivatives. I would point out that one of the types of eligible guarantees, to the extent that it remains in place for your institution. is FDIC loss-sharing agreements. The covered portion of assets would qualify for a 20 percent risk weight.

Operator, do we have any other questions on the line?

Coordinator: Yes, we do. Our next question comes from Mrs. Susan Satinstricker. Your line is now open.

Susan Satinstricker: Yes, I noticed on the old Schedule RC-R form there was a separate line item for all other financial assets sold with recourse. It was Item 51. I just want to confirm that that amount will now be reported on Item 17, "All other off-balance sheet liabilities."

Bob Storch: Would you repeat the question please?

Susan Satinstricker: On the old Schedule RC-R form there is a separate line item for all other financial assets sold with recourse and on the new Schedule RC-R form there's not a separate line for that. I wanted to confirm with you that it will now be going in Item 17,"All other off-balance sheet liabilities."

Tom Boemio: So ma'am, most of those transactions that were in the old Item 51 I think it was.

Susan Satinstricker: Yes.

Tom Boemio: Those transactions essentially would be securitization exposures for the most part and included in off-balance sheet securitization exposures. That's Item 10 now. That would cover letters of credit and things along those lines.

Bob Storch: The other thing that could be included potentially in Item 17 is credit-enhancing representations and warranties where they cover the entire asset and would not be a tranching of credit risk. I think I mentioned that earlier.

Susan Satinstricker: Okay, thank you very much.

Coordinator: Our next question comes from Mr. Dennis Degresta. Your line is now open.

Dennis Degresta: Okay, I actually have two questions. The first is we have a subsidiary that is a consolidated minority subsidiary. We own 80 percent of it and it is a financial institution. So you're telling me that under common equity tier one, the minority interest would never be included, but would be included only under additional tier one capital?

And then the second question was on deferred tax assets or liabilities. We have different components of that, you know. One offsets our goodwill and another looks under these guidelines like we could offset it against our mortgage servicing assets and determine a phase-out of those, but there's somewhere in the regulations it's kind of saying I think that you can only use them in one place. Could you comment on that also?

David Riley: Okay, on the first question, you own the majority of a subsidiary that also has minority investors, if I understood it correctly, and the subsidiary is not a depository institution. If that's the case, the minority interest could not count as common equity tier one minority interest, but may very well count as tier one minority interest. It could also potentially count as total capital minority interest and, as we mentioned before, those are subject to some mathematical limitations that are shown in the Call Report instructions.

And then if I have this right -- deferred tax liabilities -- you could only use those one time. –You are able to offset various assets subject to deduction by netting deferred tax liabilities. You simply cannot net the same deferred tax liability more than one time. So what that means is if you have $100 in total deferred tax liabilities, the maximum you could use for netting is $100. It could not add up to more than $100 if that helps.

Bob Storch: Let me go to one of the questions we received by email before going back to the phone line. This question says what risk weighting is applied to nonaccrual and 90 day past due loans if they have been charged down to the fair value of the underlying collateral less cost to sell. And the question says, is it 150 percent or 100 percent.

I would interpret the question as dealing with loans secured by real estate because that's typically where we could have a charge-off down to the fair value of the collateral less cost to sell. Real estate itself is not qualifying collateral, so if you had a residential mortgage that has been charged down, residential mortgages even though past due still only have a 100 percent risk weight. The 150 percent risk weight does not apply to residential mortgage exposures.

In that case what would be reported in Item 4.a or 5.a as a residential mortgage exposure would get a 100 percent risk weight. However, if it were another type of real estate loan, say commercial real estate loans for example that have been charged down to the fair value of the collateral less cost to sell, those would be reported in the past due category –in Item 4.c or 5.c depending on whether the loan is held for sale or held for investment and in that case the remaining amount of the loan after the charge-down would be reported in the 150 percent risk weight category.

Operator, can we go back to the phone line please?

Coordinator: Yes. Our next question comes from Zane. Your line is now open.

Zane: Hello, thank you. I think actually the last question you answered, answered my question - essentially just the real estate securing a loan that's past due or in nonaccrual.

Bob Storch: So did you have a question or were you saying it was answered?

Zane: No, I'm saying it was answered. Thank you.

Bob Storch: All right, thank you. Operator?

Coordinator: Our next question comes from Mr. Vincent Malone. Your line is now open.

Vincent Malone: Thank you. The rules for Schedule RC-L have not changed. Is there an expectation that the notional amounts in Schedule RC-L will be based on standardized to essentially match what's in the memoranda section of Schedule RC-R?

Bob Storch: This is Bob Storch. You're right, we have not changed the reporting in Schedule RC-L. So, for the normal types of off-balance sheet items like unused commitments and letters of credit and so forth, it would be those amounts reported in Schedule RC-L that would get reported in Column A of Schedule RC-R, Part II.

There was one exception I mentioned that's on the slide for the financial standby letters of credit where they are acting as a credit enhancement for the entire amount of assets so those standbys would be reported in Schedule RC-R at a different amount than what's reported in Schedule RC-L.

For the repo-style transactions, the securities lent instructions that have been carried forward would indicate that for available-for-sale and trading securities that are lent, their fair value is reported in Schedule RC-L and the held-to-maturity securities that are lent are reported in Schedule RC-L at amortized cost. But when they're reported for the repo-style transactions in Schedule RC-R, it has to be the fair value of the securities lent that would be reported in all cases, so there would be a difference there as well. I think those are the most noteworthy ones that come quickly to mind.

Vincent Malone: My question was specific to the memoranda section for derivatives.

Bob Storch: I don't have the slide right in front of me, but one of the last few slides showed Items 20 and 21 for derivatives. The notional amount is not reported there. Only the credit equivalent amount is reported because there's no direct simple multiplication of a credit conversion factor times a notional amount of a derivative to get to the credit equivalent amount. That because the credit equivalent amount of a derivative is the current credit exposure, which Memorandum Item 1 would pick up for all derivatives subject to the risk-based capital requirements, plus the potential future exposure, which is based on the derivative's remaining maturity.

A percentage is applied to the remaining maturity based on the underlying risk exposure and the instructions for items 20 and 21 include a table that shows what those percentages are. Then if it's a centrally cleared derivative, the capital rules address how to factor the presence of collateral into the measurement of the credit equivalent amount. So there's no direct correspondence between notional amounts and credit equivalent amounts for your derivatives, which is why we don't ask for the notional amount of derivatives to be reported in Schedule RC-R.

There won't be any change to Schedule RC-L's reporting of notional amounts for derivatives if that gets to the crux of your question.

Vincent Malone: Yes, it does. So essentially we're not going to have to tie because we're going to continue to do Schedule RC-L the same way we've been doing Schedule RC-L and we're just making Schedule RC-R based on the standardized method.

Bob Storch: That's right, yes.

Vincent Malone: Okay. Thank you.

Bob Storch: Operator?

Coordinator: Our next question comes from Mrs. Julie Shepard. Your line is now open.

Julie Shepard: Hi there. This is going to be a much broader question. We've been digging into the details along with everybody else and attempting to, you know, calculate risk-based capital before we actually have to, but I was wondering what your recommendation is for us when we have our next examination. Is there any reason to be calculating capital the old way anymore so we can share a comparison? Also, I assume examiners will look at Schedule RC-R and everything that goes into it this year.

What kind of collaboration is going to be provided? I mean, we'll do our best to get this right. I'd like to send some of my drafts to somebody if I can for feedback, things like that. What are some of your recommendations regarding how to get this right and how to avoid issues during an examination?

Bob Storch: This is Bob Storch. I would say you should do the best job you can and document in your work papers the calculations you've done. The vendors that provide Call Report software are working on aids to assist in preparing Schedule RC-R as it would be revised and some of the software vendors have asked the agencies questions to try to help them with the products they are designing.

Julie Shepard: I know, for example, our software vendor isn't going to update their software until days before quarter–end, so they're not a very good source.

Bob Storch: I can't comment on different software vendors, but the agencies also have a calculation tool on their websites where you can at least do a quick and dirty calculation of your capital and risk-weighted assets.

Julie Shepard: I've used some of those and they don't do the phase-in. They help but there's a lot of nuances here, so do you know how the examination teams are going to be looking at the capital calculations this year?

Bob Storch: I think they'll be looking carefully at your calculations to understand the decisions you've made. I know we've been providing a fair amount of training at the FDIC for our examiners. I'm sure the same is true with the other agencies. However, to the extent there are grey areas or questionable areas in the new rules, I think that if you've got a logical basis for why you've done something the way you've done it, based on your reading of the rules, when you have your discussions with the examiner, I would think you should be able to get to some reasonable meeting of the minds about the extent to which any adjustments or amendments should be made to your Schedule RC-R as originally reported in March.

Going back to your first question, there wouldn't be any need -- at least from a regulatory standpoint – for you to continue measuring capital the old way. The old rules have gone away. Unless for some reason your board of directors is interested in seeing what the impact of the new rules was, there wouldn't be any reason for examiners to now be looking at your capital under the old calculations.

Julie Shepard: Okay. That's what I suspected.

Bob Storch: Thank you.

Julie Shepard: Thank you.

Coordinator: Our next question comes from Mrs. Annette Hopkin. Your line is now open.

Annette Hopkin: Hello, thank you. I have two questions. The first question is on the supplementary leverage ratio (SLR) that's required to be reported for advanced approaches institutions. My question is in the final rule it indicates that banks should use a daily average for on-balance sheet but a month-end average for off-balance sheet, a mean of a month-end average month end balances for off-balance sheet.

However, in the FFIEC 101 instructions, which the Call Report is referring to, it uses a month-end mean of month-end ratios for both on- and off-balance sheet. I did note in the final rule that there was a comment that the FFIEC 101 instructions were going to be updated to reflect the final rule and I was wondering when that would happen and if we should just follow the FFIEC 101 calculation methodology for disclosure. And my second question is on the...

Tom Boemio: If you don't mind, maybe I can answer the first one first.

With respect to the SLR, as you've indicated, there was initially an SLR calculation included on the FFIEC 101. Then there were changes internationally and we did not get the new final rule for the SLR put in place until September 2014. As a result, the FFIEC 101 has not yet been revised to update the section on the SLR, which of course as you know flows to the Call Report and the Y-9C.

So at the moment you don't have to worry about reporting the SLR in the FFIEC 101 and don't have to worry about it on the Call Report or the Y-9C. If you're an advanced approaches institution, you have to be reporting the disclosure table in Section 173 of the new capital rule -- I think it's Table 13 -- and that table could go on your website or in your annual report or however you'd like to disclose it. That would be sufficient for disclosure purposes until we get the FFIEC 101 revised. The agencies have started work on updating the SLR portion of the FFIEC 101. Hopefully we'll have that done in the next couple of quarters.

Bob Storch: I would add that the item for the supplemental leverage ratio in Schedule RC-R, Part I, will continue to be shaded out until those changes to the FFIEC 101 have been made. The Schedule RC-R form that you had in the slides said the SLR item was effective January 1, 2015. That wording will actually be changed on the form for March 2015 to say the effective date of this item, which is Item 45, is to be determined because it's a function of when we can go through the FFIEC 101 revision process to relink the SLR item in the Call Report to what the revised FFIEC 101 would have for the SLR.

So now I think you had a second question.

Annette Hopkin: Yes. So, basically, just to summarize, for the first quarter we would have nothing to report, even though we're an advanced approaches institution, in the Call Report for the supplementary leverage ratio. It would be shaded out.

Bob Storch: That's correct.

Annette Hopkin: Okay. My second question is around the deduction from capital of the change in the fair value of liabilities from the bank's own credit risk or, you know, in other words the DVA. And the question is, am I understanding correctly that it's the cumulative DVA that needs to be deducted, like to date that's sitting in equity, and is our interpretation correct that the accounting DVA, the U.S. GAAP DVA is what should be deducted and not some other calculation that would not be different from U.S. GAAP.

Bob Storch: That’s a pretty complicated question and I think most of the banks on the line probably don’t have to deal with that, so I would suggest that you contact your primary federal regulator to go over that question specifically.

Annette Hopkin: Okay, thank you.

Bob Storch: Do we have an email question here we wanted to answer?

Mark Ginsberg: Yes, we have a question. What makes a bank want to opt in or opt out for AOCI? Is this a product-based decision, such as having a large volume of AFS securities versus having none?

Just as some background, the agencies got considerable numbers of comments on the original regulatory capital proposal where we said all banks had to include AOCI as a general matter and in response to that we in the final rule provided an opt-out election, which would allow banks to neutralize AOCI to the same extent that they are able to or were able to under the rules that had been in effect.

One of the primary concerns that was raised by the industry, and by community banks in particular, because this election is only available for non-advanced approaches banks was the fact that there can be considerable volatility in AOCI, particularly with respect to AFS debt securities. And, you know, it would be an additional challenge, particularly for community banks, to manage that AOCI volatility in our capital ratios. So that was the driving factor that caused the agencies to revise or to change the proposal to allow for the neutralization.

Each institution has to go through its own evaluation as to whether it wants to neutralize AOCI, but one of the main considerations I would think would be the volatility associated particularly with AFS debt securities.

David Riley: Okay, I have a question here by email. Please clarify where investments in another financial institution's trust preferred securities will be placed. Is it Item 21 or 22? I think you're referring to Part I here.

So if you hold the trust preferred securities of another financial institution, you're going to need to risk weight them, but in terms of Part I, the question is do you have to deduct them? You have to determine if you have significant or non-significant investments in that other institution. More than likely they'd be non-significant investments because most of the time you don't own more than 10 percent of the common shares of the other institution.

If you own 10 percent or less of the shares of the other unconsolidated financial institution, that would mean that any capital instruments you own of that other institution are non-significant investments. So yes, if you have to make a deduction for non-significant investments, it means you have investments over the threshold amount of 10 percent of common equity tier one capital. Where you would make that deduction is Item 24. Item 24 says *less* additional tier one capital deductions and I say that because TruPS typically were tier one instruments when they were issued by bank holding companies. That's typically the tier of capital they pertained to at the bank holding company level at the time they were issued.

Under our capital rule, it's not where the capital instrument counts today at that other institution, but where it counted when it was issued. TruPS generally counted as tier one instruments, so they would generally be a tier one deduction from your capital if you have to deduct any amounts over the

10 percent threshold for non-significant investments, or if they are significant investments. You will make this deduction in Item 24 of Part I. However, if you don't have enough tier one capital, they would be deducted via Item 17, which will be deductions for common equity tier one capital.

Bob Storch: We received one question by email asking for the link to the presentation. It is provided in the Financial Institution Letter from the FFIEC that announced this teleconference, but let me give it to you and I'll try to do it slowly enough: www.ffiec.gov/ffiec_report_forms.htm. If you go to the main FFIEC webpage, about the center of the page you'll see a link that says "Report Forms." You can click on that link and the presentation link is a little more than halfway down the page where it lists all the FFIEC forms and Call Report forms.

There's a link to the presentation and there's also a link on the separate webpages for the FFIEC 031 and the FFIEC 041 Call Report forms. We also got a question that says I mentioned that the Part II changes are subject to OMB approval. When is OMB approval expected?

Our experience with Call Report changes has been that we get OMB approval shortly before the effective date of the reporting changes. Part I has already been approved by OMB. That took place in March of 2014 because we were implementing what was then labeled Part I.B in March of 2014 for the advanced approaches institutions. So it's only Part II for which expect OMB approval before the March 31 report date.

One other email question and then I'll go back to the phone lines, operator. This question deals with the example on Slide 52 of how to report a repo-style transaction. The bank in that example only had the repo liability and the question is for the $2 that ended up risk weighted at 100 percent in Item 16, since the underlying security qualifies for a 20 percent risk weight, could you not risk weight the 2 percent in a 20 percent risk-weight column?

The answer would be "no" because the exposure is to the counterparty, the person to whom you've repoed the security. You have a risk that that counterparty will fail to perform and not return the security and the counterparty in the example was a counterparty with a 100 percent risk weight. The benefit of the 20 percent risk weight carried through on the available-for-sale debt securities on the asset side in item 2.b. So the exposure that isn't cash collateralized by the amount of cash received from the repo counterparty. That's what we're risk weighting in Item 16, the exposure to the counterparty and not the exposure to the security itself.

So operator if we could go back to the phone line with any other phone questions.

Coordinator: Our next question comes from Mr. Raymond Zow. Your line is now open.

Raymond Zow: Hi, thank you. Yes, I just have a quick question. How do we report the commitment to purchase investment funds with material leverage? I think currently they're getting a 600 percent risk weight.

Bob Storch: Are you asking about a commitment to purchase such an investment or the actual investment?

Raymond Zow: The commitment to purchase the investment fund with material leverage.

David Riley: I believe the definition, we're checking here, but I believe the definition of equity exposure in the rule includes a commitment to purchase an equity exposure so that would imply that you would apply the same risk weight to the commitment that you would apply to the equity exposure itself.

Raymond Zow: So where do we report it on Schedule RC-R?

David Riley: Under 600 percent risk weight. I have to look for the line item here. It's included in the equity exposure. We may answer this in a minute or two as my colleagues here are furiously looking at the rule to double check it.

Raymond Zow: Okay.

Bob Storch: In the meantime while that research is going on, operator can we turn to the next question please?

Coordinator: Yes. Our next question comes from Yaya Doshi. Your line is now open.

Yaya Doshi: This question relates to Memo Items 2 and 3, the notional principal amount of OTC derivative contracts in Memo Item 2 and Memo Item 3 where we're required to report centrally cleared derivative contracts.

For current reporting under the Basel I rule there were certain items in Schedule RC-L we used to reference -- Item 7 and Item 12 -- and most of the contracts were over-the-counter derivative contracts. I had forward contracts and purchased protection.

So under the new rule we understand that written options continue to be excluded for exchange-traded derivatives as well as the over-the-counter derivatives. We're not sure about futures contracts, whether exchange-traded future contracts should be included and also under sold protection whether we should include sold protection and also exchange-traded options for purchased options. Should we include that as a part of scope to report in Memo Items 2 and 3?

David Riley: We're going to ask please could you repeat the question. There was a lot to that one and we'd like to hear it again.

Yaya Doshi: This question is about the scope of the Schedule RC-R Memo Item 2 and 3 disclosures where you're required to report the notional balances and most of these balances have to come from what we report on Schedule RC-L derivative Item 12 and derivative Item 7. As for the current reporting, only the over-the-counter derivative contracts are included in the scope of reporting the notional balances.

The proposed rule doesn't specifically mention anything about the exchange-traded derivative contracts, especially as it relates to futures contract and purchased options. Under sold protection , we didn't see anything where it should be included or not included, and about the written options. For written options, we do see that continues to be excluded. So should these exchange-traded contracts continue to be excluded or is it only the OTC derivative contracts that we should be looking to report in Memo Items 2 and 3?

Mark Ginsberg: Well, as a general matter, the old rules as you noted did not assign a risk weight to exchange-traded derivatives. The new rules do. And if there's a central counterparty, then it's treated as such under the rules, so you have to determine whether it's a centrally cleared derivative or not.

If it is, then you follow the rule and the derivative is reported on Item 21. If it's not considered a centrally cleared derivative, then it would be treated as an over-the-counter derivative even though it's exchange traded and would be reported in Item 20.

Bob Storch: I'd suggest on that question that if there's further follow-up specific to particular types of derivatives, you should contact your primary federal regulator. I know we're looking at the instructions to Schedule RC-L, Item 7, on credit derivatives to make sure they align with the new rules. We haven't updated those instructions yet, but for the reporting in Schedule RC-L, Item 12, for all the other derivatives, nothing would change for that compared to what's done for Schedule RC-R, which has changed.

A quick question asks how may we listen to a recording of this teleconference again. The agencies are planning to provide a transcript as I mentioned at the outset, but we had not been planning to make an audio recording of the teleconference available.

Operator, should we go to another question? Wait. Before you do that, do we have follow-up from one of the previous questions?

Tom Boemio: No. This is a new one. We're still looking at the other one. I thought this new question was actually important. One of the listeners said we do not have any AOCI items at the moment. All of our securities are held–to-maturity. How are we to handle the opt-out election? Should we make the election now or will we be able to do it in the future?

So there is a one-time opt-out election as of the first quarter of 2015. My advice would be make the opt-out election now and that way you're covered for the future. If you do actually then get to holding available-for-sale securities and have to deal with AOCI, you'd already be covered.

David Riley: I'll cover one question that came in via email. This is about Part I, Item 36, about the leverage ratio and the question is: Does the exception for savings and loans still apply where a savings association could use period-end assets for the leverage ratio? The answer is no, you should use average assets just like all the banks do at this point under the new rules. So use average assets for the leverage ratio.

Bob Storch: I have a quick email question as well. It says is the Call Report instruction manual updated and online for printing yet? The final version of the instructions for March is not available online for printing. What is available is a draft of the instructions for Schedule RC-R, Part II, dated January 30 and the link for those Schedule RC-R, Part II, is at the bottom of Slide 2. The existing instructions for Schedule RC-R, Part I.B, which will become the instructions for Part I are already in the Call Report instruction book and the link for that was toward the top half of that Slide 2.

There will be some adjustments and clarifications of the Part I instructions as well and the provisions in those instructions that only applied during 2014 will be removed. For preparing for the March Call Report, the existing Part I.B instructions are your best resource until the updated version becomes available.

We're in the process of looking at some clarifications of and corrections to the Part II draft instructions and probably by early March there will be an updated draft of those instructions available on the FFIEC's website. If you go to the FFIEC 031 and 041 webpages periodically, you will be able to see when an updated version of the Schedule RC-R, Part II, draft instructions is there. The draft will say "Updated as of" and it will have a date after January 30, which is the current draft that's available. I hope that answers that question.

Operator, can we go back to the phone if there are questions there, please?

Coordinator: Our next question comes from Mr. Joe Stubbs. Your line is now open.

Joe Stubbs: Thank you. I've just got a quick question referencing Slide 16 in regards to the components for calculating tier two capital. It references a bullet point, a limited amount of allowance for loan and lease losses. Can you define limited? Is it a percentage or can you expand on that?

David Riley: Yes. It's up to 1.25 percent of risk-weighted assets, so that's the same rule that applied before.

Joe Stubbs: Oh, so that hasn't changed, okay.

David Riley: It has not changed, no.

Joe Stubbs: Okay. Thank you.

Bob Storch: Just to follow up, Item 26 of Schedule RC-R, Part II, is for the calculation of the risk-weighted assets base against which you measure the 1-1/4 percent limit. That base calculation is somewhat different under the new rules than it was under the old rules, but the 1-1/4 percent limit hasn't changed.

Joe Stubbs: Okay, thank you.

David Riley: I have a question from email here. This is about my earlier explanation. It says the speaker noted that, during the transition period, DTA deductions that can't be deducted from Part I, Item 24, due to insufficient tier one capital would be reported in Item 17. However, the instructions indicate to include the deduction in Item 8, so can you confirm where this should be reported during the phase-in period.

What happens is, if you look at the instructions for Item 8, you'll see a transition table. This is for DTAs that are due to net operating loss and tax credit carryforwards. What the transition table shows is that part of the deduction is from common equity tier one in Item 8, and the remainder is from additional tier one, so that would reported in Item 24.

During the transition period, if you don't have enough tier one capital to make the deduction in Item 24, the rest of the amount to be deducted that would otherwise be reported in Item 24 will go to Item 17. By having that portion of it in Item17 instead of Item 8, it's more favorable toward your thresholds against which the various other items subject to deduction are measured. So you don't want to deduct more in Item 8 than you have to, the rest of the deduction would go in Item 24 or 17.

Tom Boemio: If I can jump in with some more email questions. These are on unconditionally cancelable commitments. I have several questions on that. First of all you can find the definition of unconditionally cancelable in Section 2 of the final rule, the definitions section.

It reads that unconditionally cancelable means with respect to a commitment where a bank may, at any time, with or without cause, refuse to extend credit under the commitment to the extent permitted under applicable law.

So as Bob indicated earlier in the briefing, we're really looking at retail credit cards and home equity lines of credit. There are some restrictions under I believe federal law that would prohibit you from cancelling the commitment outright, but we have historically allowed the relevant law to come into play with respect to canceling the home equity line.

Also, people have called and asked about whether MAC clauses are sufficient to be unconditionally cancelable. The answer is no.

Bob Storch: What's a MAC clause?

Tom Boemio: Material Adverse Change clause. Thank you, Bob. If you have a material adverse change clause that would say that you would no longer have to lend or you can withdraw the line to a borrower if the borrower hits a trigger outlined in a covenant or other provision, that is not sufficient to be unconditionally cancelable. If you wait until the borrower defaults before you cancel the line, that's not unconditionally cancelable. Again, the definition is in Section 2 of the final rule.

Bob Storch: I have a couple of email questions here too I'll try to answer. One says is there a regulatory definition of a discretionary bonus. The last item Part I of Schedule RC-R dealt with discretionary bonus payments. That same Section 2 of the agencies' new capital rule, which is the very lengthy definition section of the rule, defines discretionary bonus payment as a payment made to an executive officer of an institution where:

- The institution retains discretion as to whether to make, and the amount of, the payment until the payment is awarded to the executive officer;
- The amount paid is determined by the institution without prior promise to, or agreement with, the executive officer; and
- The executive officer has no contractual right, whether expressed or implied, to the bonus payment.

So that is defined in Section 2 and you should be able to find it there.

Then there is also an email question about financial subsidiaries. It says the capital ratios in Columns A and B in Part I will now relate to advanced approaches banks and others. Current Part , or part I.A that is going away, has capital ratio Columns A and B that relate to banks with financial subsidiaries. It says I didn't see any reference to capital ratios for banks with financial subsidiaries. Is this no longer applicable?

While adjustments are still required for financial subsidiaries, there will no longer be any separate reporting of with and without capital ratios as there has been in the past. There is guidance on the adjustments that banking organizations that have financial subsidiaries will need to make in order to report their ratios, which will end up taking the financial subsidiaries out of the picture as is required.

In the draft Part II instructions, pages 17 and 18 discuss the adjustments that need to be made when reporting risk-weighted assets and so forth in Part II of Schedule RC-R.

Operator, do we have any other questions on the phone?

Coordinator: Yes. Our next question comes from Mr. Lichtenberger. Your line is now open.

Mr. Lichtenberger: Yes, I was hoping that you could clarify for Item 21 of Part I on the phase-out of trust preferred securities. In the Federal Register, it describes that the amount that's includable is calculated by the transition percentage or 25 percent, for a non-advanced approaches institution, of the outstanding principal amounts that are outstanding as of January 1, 2014. Could you clarify whether this means the actual balance as of January 1, 2014, times that percentage or is it really getting to whether it actually existed as of that date, in which case you would use the current outstanding balance? So, first quarter of 2015 times the percentage for these trust preferred securities.

Tom Boemio: So let me first say that with respect to holding companies that are under $15 billion, as of December 31, 2009, the trust preferred securities are grandfathered into additional tier one capital. Then if you're over $15 billion, you have to essentially phase them out and, as you said, it's 25 percent in this calendar year, calendar year 2015. It's basically whatever the carrying value that you have of the TruPS. You multiply that by the 25 percent.

What you're asking is whether the carrying value is the current amount outstanding versus the original amount that you held? Is that right?

Mr. Lichtenberger: Right. The Federal Register specifically notes the date that they are outstanding as of January 1, 2014, and I took that to mean that if there were new TruPS issued after January 1, 2014, that would not be able to be includable for these transition provisions, but if they did exist before January 1, 2014, they would be subject to this transition provision, but I would be taking the amount of the trust preferred securities at March 31, 2015, times the 25 percent to include versus the amount as of January 1, 2014, times the percentage. I was just trying to clarify that that interpretation would be correct.

Tom Boemio: Right. Basically what we said in the Federal Register preambles was that the banking organizations would include in tier two capital TruPS that have been phased out of tier one from January 1, 2014, and that you would apply Table 8 for tier one so it would be 25 percent against the amount that you have that's no longer qualifying.

Mr. Lichtenberger: Correct.

Tom Boemio: Alright. Okay.

Mark Ginsberg: The only amount that would qualify would be the amount that was outstanding as of the transition date. The amount of TruPS that might have been issued after the transition date would not be included in the base. I think what you're asking is how do you disentangle any TruPS that were issued after the transition date. Is that what your question is?

Mr. Lichtenberger: No, there's no difference in the TruPS as far as any being issued after that date. I just wanted to clarify that the trust preferred securities balance that we would take times that transition percentage or 25 percent would be the balance outstanding as of the balance sheet report date or March 31, 2015, versus the date that's referenced in the Federal Register of January 1, 2014.

Mark Ginsberg: I would follow the Federal Register provisions and hold it constant during the transition period at that January 1, 2014, date. If there's a conflict between the capital rule and the instructions to the Call Report, the rule prevails.

Bob Storch: If you believe there are errors in the call report instructions, the agencies would appreciate you letting us know about them so we can get them corrected.

We've gone well past the four o'clock hour that was mentioned in the Financial Institution Letter, so we appreciate those of you who have managed to stay on for a very lengthy teleconference. Operator, maybe we have time for one more call before we wrap this up.

Coordinator: Yes, our next question comes from Mr. Ramsey. Your line is now open.

Mr. Ramsey: Yes, my question concerns the contributed capital for HVCRE. I had heard a definition recently that was quite disturbing in that if an institution lent money against unencumbered assets that were then injected into a project, then that would not be counted toward contributed capital. Could you clarify that definition for us.

Mark Ginsberg: The agencies have gotten a number of questions on HVCRE and we understand the concern of the industry on this. Your question is one of the questions we've gotten. As you can imagine, given the way the language in the capital rule is written, there have been a lot of questions for interpretation and so I would say that you should expect some clarifications in the future on a lot of HVCRE questions. However, at this point I would be reluctant to provide a response to your question because these things are under deliberation at each of the agencies.

Tom Boemio: What Mark has said is all true, but let me just make one point. I have gotten a number of questions where folks are asking -- I'm making a loan to a borrower and it's an HVCRE loan -- and what the borrower wants to know is, can I get a second loan from the same bank and then use the money I received from the bank that's making the HVCRE loan as contributed capital? I've gotten that question about 25 times and the answer would be no, that's not the borrower's skin in the game essentially.

So if a borrower is under the 15 percent limit, he can't go back to the same bank, or frankly any bank, and get a loan to basically make up the contributed capital. It's really oftentimes in connection with the same bank where the borrower wants to get a second loan so that he can use that money then to contribute back as capital for the first loan.

Mr. Ramsey: Even in cases where the loan is against an unrelated property?

Tom Boemio: Well, then it's not cash.

Mr. Ramsey: They may have taken cash to purchase that property though.

Tom Boemio: So you got a loan. You borrowed money for one property and you want to use the loan proceeds. Maybe my understanding of your example is not exactly up to snuff, but essentially what folks have been asking to do is, can I borrow money a second time from an institution in order to use that borrowed money as cash contributed to cover 15 percent threshold in order to avoid being an HVCRE loan, and the answer would be no.

Bob Storch: I'm looking at the HVCRE definition. This is on page 33 of the draft instructions for Part II where we quote the definition from the final rule. One of the conditions for these commercial real estate projects not to be HVCRE is that the borrower is contributing capital to the project in the form of cash, which we were talking about and -- maybe this is what the gentleman was getting to -- or unencumbered readily marketable assets. I guess the question would be would the agencies view unencumbered land as readily marketable. I don't think that was the intent, but I think what Mark was saying was that may be one of the issues under advisement.

Readily marketable would be like securities or something like that, but whether the meaning of readily marketable extends beyond may be a question that the agencies are considering.

Tom Boemio: That's one of the things that we've been talking about and, as Mark indicated, this is still up in the air. We hope to have FAQs out very shortly, within the next couple of weeks, and one of the questions would be not whether the land would be allowed but whether the cash that you have actually paid for the land is one of the things that would be allowed as a contributed amount toward the 15 percent.

Bob Storch: It sounds like you will have to stay tuned, there may be an answer forthcoming outside of the Call Report instructions from the agencies' capital policy staffs.

Mr. Ramsey: Well, it is a big concern because there are a lot of instances where qualified borrowers are using capital, not in the form of cash, you know. I mean, we live in an environment where capital is the net of assets minus liabilities, so it's just unfortunate to have some of our hands tied when you have situations that are creditworthy and would not meet these qualifications.

Mark Ginsberg: We understand the concerns and we will try to provide clarifications and hopefully answer your questions. You may not necessarily approve or like the answer, but we will try to answer and if you see the FAQs and your question is not specifically answered, I would encourage you to pose the question to the agencies through your examiner or your respective capital policy divisions.

Mr. Ramsey: Thank you.

David Riley: For FDIC-supervised institutions, we also take questions at regulatorycapitol@fdic.gov. That is the address you can use if you're supervised by the FDIC.

Bob Storch: We've come to the end of the time allotted for the phone lines. We greatly appreciate all of your questions, both by email and by phone. We appreciate your attention during the presentation. We hope you found the slides themselves useful for getting better prepared for the looming March 31 effective date of the first reporting under the new capital rules.

As mentioned, there are a number of resources available and there are people, from the examiners to the agencies' capital policy staffs, and email addresses you can continue to send questions to. As we receive questions, they do help us clarify the instructions to get them more in line with what your needs are. If you have additional questions, at least probably for another day, you also can send them to the rac@fdic.gov email address as well for follow-up.

Thank you all very much for your attention this afternoon. We hope that you found this useful and we look forward to working with you as you implement the new capital rules through the regulatory reporting requirements. Thank you very much. Operator, we'll turn it back to you.

Coordinator: Thank you for joining. This concludes today's conference call. All participants may disconnect at this time.

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