Draft Revisions

to the FFIEC 031 and FFIEC 041 Schedule RC-R

Call Report Instructions

for the Proposed Regulatory Capital Transitions Rule

Proposed to Take Effect March 31, 2018

These redlined draft instructions reflect the revisions proposed to be made to the FFIEC 031 and FFIEC 041 Schedule RC-R Call Report instructions effective March 31, 2018, to implement the proposed regulatory capital transitions rule set forth in the federal banking agencies' Notice of Proposed Rulemaking published in the Federal Register on August 25, 2017.

No changes would be made to Schedule RC-R in the FFIEC 031 or FFIEC 041 Call Report forms to implement the proposed regulatory capital transitions rule.

Draft as of August 24, 2017

Questions concerning these draft instructions may be submitted to the FFIEC by going to https://www.ffiec.gov/contact/default.aspx, clicking on "Reporting Forms" under the "Reports" caption on the Web page, and completing the Feedback Form.

This page intentionally left blank.

Schedule RC-R, Part I. Regulatory Capital Components and Ratios

General Instructions for Schedule RC-R, Part I.

Unless otherwise indicated, references to Schedule RC-R item numbers in the instructions for Schedule RC-R, Part I, are to items in Part I, not to items in Part II of Schedule RC-R.

Transition Provisions: Transition provisions apply to the minimum regulatory capital ratios, the capital conservation buffer, the regulatory capital adjustments and deductions, and non-qualifying capital instruments. For example, transition provisions for the regulatory capital adjustments and deductions specify that certain items that were deducted from tier 1 capital previously will be deducted from common equity tier 1 capital under the regulatory capital rules, with the amount of the deduction changing each calendar year until the transition period ends. For some regulatory capital deductions and adjustments, the non-deducted portion of the item is either risk-weighted for the remainder of the transition period or deducted from additional tier 1 capital, as described in the instructions for the applicable items below. NOTE: For institutions that are not advanced approaches institutions (as described in footnote 1), the transition provisions applicable during 2017 under the banking agencies' regulatory capital rules have been extended indefinitely for certain regulatory capital deductions and risk weights as well as certain minority interest requirements. The Schedule RC-R instructions reflect the extension of the regulatory capital treatment of these capital deductions, risk weights, and minority interest requirements applicable to non-advanced approaches institutions during 2017.

Advanced approaches institutions:[1] Advanced approaches institutions may use the amounts reported in Schedule RC-R, Part I, to complete the FFIEC 101, Schedule A, as applicable. As described in the General Instructions for the FFIEC 101, an institution must begin reporting on the FFIEC 101, Schedule A, except for a few specific line items, at the end of the quarter after the quarter in which the institution triggers one of the threshold criteria for applying the advanced approaches rule or elects to use the advanced approaches rule (an opt-in institution),[2] and it must begin reporting data on the remaining schedules of the FFIEC 101 at the end of the first quarter in which it has begun its parallel run period.

Advanced approaches institutions must continue to file Schedule RC-R, Regulatory Capital, as well as the FFIEC 101.

An institution that is subject to the advanced approaches rule remains subject to the rule unless its primary federal supervisor determines in writing that application of the rule is not appropriate in light of the institution's asset size, level of complexity, risk profile, or scope of operations.

[1] An advanced approaches institution as defined in the federal supervisor's regulatory capital rules (i) has consolidated total assets (excluding assets held by an insurance underwriting subsidiary) on its most recent year-end regulatory report equal to $250 billion or more; (ii) has consolidated total on-balance sheet foreign exposure on its most recent year-end regulatory report equal to $10 billion or more (excluding exposures held by an insurance underwriting subsidiary), as calculated in accordance with FFIEC 009; (iii) is a subsidiary of a depository institution that uses the advanced approaches pursuant to subpart E of 12 CFR part 3 (OCC), 12 CFR part 217 (Board), or 12 CFR part 324 (FDIC) to calculate its total risk-weighted assets; (iv) is a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches pursuant to 12 CFR part 217 to calculate its total risk-weighted assets; or (v) elects to use the advanced approaches to calculate its total risk-weighted assets. As described in section 121 of the regulatory capital rules, an institution must adopt a written implementation plan no later than 6 months after the institution meets the criteria above and work with its primary federal supervisor on implementing the parallel run process.

[2] An institution is deemed to have elected to use the advanced approaches rule on the date that its primary federal supervisor receives from the institution a board-approved implementation plan pursuant to section 121(b)(2) of the regulatory capital rules. After that date, in addition to being required to report on the FFIEC 101, Schedule A, the institution may no longer apply the AOCI opt-out election in section 22(b)(2) of the regulatory capital rules and it becomes subject to the supplementary leverage ratio in section 10(c)(4) of the rules and its associated transition provisions.

Part I. (cont.)

Item No. Caption and Instructions

4 (cont.) ***Transition provisions for surplus minority interest or non-qualifying minority interest:***

a. Surplus minority interest:

An institution may include in common equity tier 1 capital, tier 1 capital, or total capital the percentage of the common equity tier 1 minority interest, tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that exceeds any common equity tier 1 minority interest, tier 1 minority interest or total capital minority interest includable under section 21 of the regulatory capital rules (surplus minority interest) as follows:

(i) Determine the amounts of outstanding surplus minority interest (for the case of common equity tier 1, tier 1, and total capital).
(ii) For advanced approaches institutions, ~~M~~multiply the amounts in (i) ~~it~~ by the appropriate percentage in Table 2 below. For non-advanced approaches institutions, multiply the amounts in (i) by 20 percent.
(iii) Include the amounts in (ii) in the corresponding line items (that is, Schedule RC-R, item 4, item 22, or item 29).

In the worksheet calculation above, the transition provisions for surplus minority interest would apply at step (7). Specifically, if the institution has $3 of surplus common equity tier 1 minority interest of the subsidiary as of January 1, 2014, it may include $1.80 (that is, $3 multiplied by 60%) in Schedule RC-R, item 4, during calendar year 2015; $1.20 during calendar year 2016; $0.60 during calendar year 2017; ~~and~~ $0 starting on January 1, 2018, for an advanced approaches institution; and $0.60 on January 1, 2018, for a non-advanced approaches institution.

b. Non-qualifying minority interest:

An institution may include in tier 1 capital or total capital the percentage of the tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that does not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the regulatory capital rules (non-qualifying minority interest). The institution must phase-out non-qualifying minority interest in accordance with Table 2, using the following steps for each subsidiary:

(i) Determine the amounts of the outstanding non-qualifying minority interest (in the form of additional tier 1 and tier 2 capital).
(ii) Multiply the amounts in (i) by the appropriate percentage in Table 2 below.
(iii) Include the amounts in (ii) in the corresponding item (that is, Schedule RC-R, item 22 or item 29).

For example, if an institution has $10 of non-qualifying minority interest that previously qualified as tier 1 capital, it may include $6 (that is, $10 multiplied by 60%) during calendar year 2015, $4 during calendar year 2016, $2 during calendar year 2017, and $0 starting on January 1, 2018.

Table 2 – Percentage of the amount of surplus or non-qualifying minority interest includable in regulatory capital during the transition period

Transition period	Percentage of the amount of surplus minority interest for advanced approaches institutions or non-qualifying minority interest for all institutions that can be included in regulatory capital during the transition period
Calendar year 2015	60

Calendar year 2016	40
Calendar year 2017	20
Calendar year 2018 and thereafter	0

Part I. (cont.)

Item No. **Caption and Instructions**

10.b (cont.) The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same underlying index;
(ii) Short positions in index securities to hedge long cash or synthetic positions may be decomposed to recognize the hedge; and
(iii) The portion of the index composed of the same underlying exposure that is being hedged may be used to offset the long position only if both the exposure being hedged and the short position in the index are covered positions under the market risk rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: ~~Follow the transition provisions~~ Apply the appropriate percentage for deductions related to investments in capital instruments in Table 5 in the instructions for Schedule RC-R, item 11.

(4) Reciprocal cross-holdings in the capital of financial institutions in the form of common stock. Include investments in the capital of other financial institutions (in the form of common stock) that the institution holds reciprocally (this is the corresponding deduction approach). Such reciprocal crossholdings may result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

Transition provisions: ~~Follow the transition provisions~~ Apply the appropriate percentage for deductions related to investments in capital instruments in Table 5 in the instructions for Schedule RC-R, item 11.

(5) Equity investments in financial subsidiaries. Include the aggregate amount of the institutions' outstanding equity investments, including retained earnings, in its financial subsidiaries (as defined in 12 CFR 5.39 (OCC); 12 CFR 208.77 (Board); and 12 CFR 362.17 (FDIC)). The assets and liabilities of financial subsidiaries may not be consolidated with those of the parent institution for regulatory capital purposes. No other deduction is required for these investments in the capital instruments of financial subsidiaries. This deduction is not subject to transition provisions.

(6) Advanced approaches institutions only that exit parallel run.[4] Include the amount of expected credit loss that exceeds the institution's eligible credit reserves.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 8.

(7) Deductions for non-includable subsidiaries. A savings association that has a non-includable subsidiary must deduct its outstanding investments (both equity and debt) in, and extensions of credit to, the subsidiary in this item 10.b. This deduction is not subject to transition provisions.

[4] An advanced approaches institution that exits the parallel run is an advanced approaches institution that has completed the parallel run process and that has received notification from the primary federal supervisor pursuant to section 121(d) of subpart E of the regulatory capital rules.

Part I. (cont.)

Item No. **Caption and Instructions**

11 (cont.) ***Transition provisions for investments in capital instruments:***

(i) Calculate the amount as described in the instructions for this item 11.
(ii) For advanced approaches institutions, ~~M~~multiply the amount in (i) by the appropriate percent in Table 5 below. For non-advanced approaches institutions, multiply the amount in (i) by 80 percent. For all institutions, r~~R~~eport this product in this item 11.
(iii) Subtract (ii) from (i); assign it the applicable risk weight; and report it in Schedule RC-R, Part II, as part of risk-weighted assets.

Table 5 – Deductions related to investments in capital instruments during the transition period

Transition period	Transition deductions – percentage of the deductions from common equity tier 1 capital
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

12 **Subtotal.** Report the amount in Schedule RC-R, item 5, less the amounts in Schedule RC-R, items 6 through 11.

This subtotal will be used in Schedule RC-R, items 13 through 16, to calculate the amounts of items subject to the 10 and 15 percent common equity tier 1 capital threshold deductions (threshold items):

(i) Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of DTLs,
(ii) MSAs, net of associated DTLs; and
(iii) DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs.

13 **LESS: Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.** An institution has a significant investment in the capital of an unconsolidated financial institution when it owns more than 10 percent of the issued and outstanding common shares of that institution.

Report the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold, calculated as follows:

(1) Determine the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs.
(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, item 12, report the difference in this item 13.
(3) If the amount in (2) is less than 10 percent of Schedule RC-R, item 12, report zero in this item 13.

If the institution included embedded goodwill in Schedule RC-R, item 6, to avoid double counting, the institution may net such embedded goodwill already deducted against the exposure amount of the significant investment. For example, if an institution has deducted $10 of goodwill embedded in a $100 significant investment in the capital of an unconsolidated

Part I. (cont.)

Item No. **Caption and Instructions**

13 (cont.) financial institution in the form of common stock, the institution would be allowed to net such embedded goodwill against the exposure amount of such significant investment (that is, the value of the investment would be $90 for purposes of the calculation of the amount that would be subject to deduction).

Transition provisions for items subject to the threshold deductions:

(i) Calculate the amount as described in the instructions for this item 13.
(ii) For advanced approaches institutions, ~~M~~multiply the amount in (i) by the appropriate percent in Table 6 below. For non-advanced approaches institutions, multiply the amount in (i) by 80 percent. For all institutions, ~~R~~report this product as this item amount. In addition:
(iii) *For report dates until January 1, 2018*: For all institutions, ~~S~~subtract the amount in (ii) from the amount in (i), without regard to any associated DTLs; assign it a 100 percent risk weight in accordance with transition provisions in section 300 of the regulatory capital rules. Report this amount in Schedule RC-R, Part II, item 2.b, 7, or 8, as appropriate.
(iv) *For report dates after January 1, 2018*: For advanced approaches institutions, ~~A~~apply a 250 percent risk-weight to the aggregate amount of the items subject to the 10 and 15 percent common equity tier 1 capital deduction thresholds that are not deducted from common equity tier 1 capital, without regard to any associated DTLs. For non-advanced approaches institutions, continue to apply a 100 percent risk weight to these items. Report this amount in Schedule RC-R, Part II, item 2.b, 7, or 8, as appropriate.

Table 6 – Transition provisions for items subject to the threshold deductions

Transition period	Percentage of the deduction
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

14 **LESS: MSAs, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.** Report the amount of MSAs included in Schedule RC-M, item 2.a, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold as follows:

(1) Take the amount of MSAs as reported in Schedule RC-M, item 2.a, net of associated DTLs.
(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, item 12, report the difference in this item 14.
(3) If the amount in (1) is less than 10 percent of Schedule RC-R, item 12, enter zero in this item 14.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 13 (that is, for advanced approaches institutions, use Table 6 in the instructions for Schedule RC-R, item 13; for non-advanced approaches institutions, apply 80 percent of the deduction and a 100 percent risk weight to the portion of items not deducted).

15 **LESS: DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.**

Part I. (cont.)

Item No. Caption and Instructions

15 (cont.)

(3) If the amount in (1) is less than 10 percent of Schedule RC-R, item 12, enter zero in this item 15.

DTAs arising from temporary differences that could be realized through net operating loss carrybacks are not subject to deduction, and instead must be assigned to a 100 percent risk-weight category. For an institution that is a member of a consolidated group for tax purposes, the amount of DTAs that could be realized through net operating loss carrybacks may not exceed the amount that the institution could reasonably expect to have refunded by its parent holding company.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 13 (that is, for advanced approaches institutions, use Table 6 in the instructions for Schedule RC-R, item 13; for non-advanced approaches institutions, apply 80 percent of the deduction and a 100 percent risk weight to the portion of items not deducted). ~~use Table 6 in the instructions for item 13).~~

16 **LESS: Amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs; that exceeds the 15 percent common equity tier 1 capital deduction threshold.**

The aggregate amount of the threshold items (that is, significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs) may not exceed 15 percent of the institution's common equity tier 1 capital, net of applicable adjustments and deductions (the 15 percent common equity tier 1 capital deduction threshold).

Transition provisions:

A. *For advanced approaches institutions for report dates until January 1, 2018, and for non-advanced approaches institutions for report dates both before and after January 1, 2018*, calculate this item 16 as follows:
   - (i) Calculate the aggregate amount of the threshold items before deductions:
     - a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs (Schedule RC-R, item 13, step 1);
     - b. MSAs, net of associated DTLs (Schedule RC-R, item 14, step 1); and
     - c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs (Schedule RC-R, item 15, step 1).
   - (ii) Multiply the amount in Schedule RC-R, item 12 (Subtotal) by 15 percent. This is *the 15 percent common equity deduction threshold for transition purposes*.
   - (iii) Sum up the amounts that would have been reported in Schedule RC-R, items 13, 14, and 15 prior to applying the transition provisions (that is, as if the 10 percent common equity tier 1 capital deduction threshold were fully phased in).
   - (iv) Deduct (iii) from (i).
   - (v) Deduct (ii) from (iv). If this amount is negative, enter zero in this item 16.
   - (vi) For advanced approaches institutions, ~~M~~multiply the amount in (v) by the percentage in Table 6 in the instructions for Schedule RC-R, item 13. For non-advanced approaches institutions, multiply the amount in (v) by 80 percent. For all institutions, r~~R~~eport the resulting amount in this item 16.

Example and a worksheet calculation for non-advanced approaches institutions:

Assume the following balance sheet amounts prior to deduction of these items:

- Common equity tier 1 capital subtotal amount reported in Schedule RC-R, item 12 = $100
- Significant investments in the common shares of unconsolidated financial institutions, net of associated DTLs = $15.

Part I. (cont.)

Item No. **Caption and Instructions**

16 (cont.)

- MSAs, net of associated DTLs = $7
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs = $6
- Amount of each item that exceeds the 10% common equity tier 1 capital deduction threshold (as if the amounts subject to the 10% limit were fully phased in):
  - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $5 (amount that would have been reported in Schedule RC-R, item 13, if the amount were fully phased in)
  - MSAs net of associated DTLs = $0 (amount that would have been reported in Schedule RC-R, item 14, if the amount were fully phased in)
  - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = $0 (amount that would have been reported in Schedule RC-R, item 15, if the amount were fully phased in).

Calculation steps:

(i) Sum of the significant investments in the common shares of unconsolidated financial institutions, MSAs, and DTAs (all net of associated DTLs) before deductions: $15 + $7 + $6 = $28

(ii) 15% of the amount from Schedule RC-R, item 12: 15% x $100 = $15

(iii) Sum of the amounts that would have been reported in Schedule RC-R, items 13, 14, and 15, if the amounts subject to the 10% common equity tier 1 capital deduction threshold were fully phased in: $5

(iv) Deduct the amount in step (iii) from the amount in step (i): $28 - $5 = $23 (This is the amount of these three items that remains after the 10% deductions are taken.)

(v) Deduct the amount in step (ii) from the amount in step (iv): $23 - $15 = $8 (This is an additional deduction that must be taken).

(vi) Multiply the amount in step (v) by 80%~~Determine the amount of the deduction for the applicable calendar year~~: $8 x ~~4~~80% ~~(amount that applies in calendar year 2015)~~ = $6.40~~3.20~~

Report $6.40~~3.20~~ in this item 16.

B. *For advanced approaches institutions only for report dates after January 1, 2018*, calculate this item 16 as follows:

Example and a worksheet calculation:

Assumptions:

- The amount reported in Schedule RC-R, item 12 is $130. (This amount is common equity tier 1 after all deductions and adjustments, except for deduction of the threshold items).
- Assume that the associated DTLs are zero; also assume the following balance sheet amounts prior to deduction of these items:
  - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $10.
  - MSAs net of associated DTLs = $20
  - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = $30.

Part I. (cont.)

Item No.	**Caption and Instructions**

22 (cont.) item 4) of common equity tier 1 minority interest). In 2015, the institution would include an additional $3.52 in item 22 (60% of $5.86). ~~and s~~Starting in 2018, if the institution is an advanced approaches institution it would not include any surplus minority interest in regulatory capital. Starting in 2018, a non-advanced approaches institution would include the amount of surplus minority interest included in 2017 (20% of $5.86 or $1.17) in regulatory capital.

23 **Additional tier 1 capital before deductions.** Report the sum of Schedule RC-R, items 20, 21, and 22.

24 **LESS: Additional tier 1 capital deductions.** Report additional tier 1 capital deductions as the sum of the following elements.

Note that an institution should report additional tier 1 capital deductions in item 24 irrespective of the amount of additional tier 1 capital before deductions reported in item 23. If an institution does not have a sufficient amount of additional tier 1 capital before deductions in item 23 to absorb these deductions, then the institution must deduct the shortfall from common equity tier 1 capital in Schedule RC-R, item 17. For example, if an institution reports $0 of "Additional tier 1 capital before deductions" in item 23 and has $100 of additional tier 1 capital deductions, the institution would report $100 in item 24, add $100 to the amount to be reported in item 17, and report $0 in item 25, "Additional tier 1 capital."

(1) Investments in own additional tier 1 capital instruments. Report the institution's investments in (including any contractual obligation to purchase) its own additional tier 1 capital instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
(ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
(iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: ~~Follow the transition provisions~~ Apply the appropriate percentage for deductions related to investments in capital instruments in Table 5 in the instructions for Schedule RC-R, item 11.

(2) Reciprocal cross-holdings in the capital of financial institutions. Include investments in the additional tier 1 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal cross-holdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments. If the institution does not have a sufficient amount of a specific component of capital to effect the required deduction, the shortfall must be deducted from the next higher (that is, more subordinated) component of regulatory capital.

Part I. (cont.)

Item No. Caption and Instructions

24 (cont.)

For example, if an institution is required to deduct a certain amount from additional tier 1 capital and it does not have additional tier 1 capital, then the deduction should be from common equity tier 1 capital in Schedule RC-R, item 17.

Transition provisions: ~~Follow the transition provisions~~ Apply the appropriate percentage for deductions related to investments in capital instruments in Table 5 in the instructions for Schedule RC-R, item 11.

(3) Non-significant investments in additional tier 1 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments. As noted in the instructions for Schedule RC-R, item 11 above, an institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution. Calculate this amount as follows:

(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1 capital, and tier 2 capital.
(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.
(3) If the amount in (1) is greater than the ten percent threshold for non-significant investments (Schedule RC-R, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item 24.
(4) If the amount in (1) is less than the 10 percent threshold for non-significant investments, report zero.

For example, assume an institution has a total of $200 in non-significant investments (step 1), including $60 in the form of additional tier 1 capital (step 2), and its ten percent threshold for non-significant investments is $100 (as calculated in step 4 of item 11). Since the aggregate amount of non-significant investments exceeds the ten percent threshold for non-significant investments by $100 ($200-$100), the institution would multiply $100 by the ratio of 60/200 (step 3). Thus, the institution would need to deduct $30 from its additional tier 1 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11 (that is, for advanced approaches institutions, use Table 5 in the instructions for Schedule RC-R, item 11; for non-advanced approaches institutions, apply 80 percent of the deduction and assign the applicable risk weight to the portion of the investments not deducted).

(4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from additional tier 1 capital. Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11 (that is, for advanced approaches institutions, use Table 5 in the instructions for Schedule RC-R, item 11; for non-advanced approaches institutions, apply 80 percent of the deduction and a 100 percent risk weight to the portion of the investments not deducted).

(5) Other adjustments and deductions. Include adjustments and deductions applied to additional tier 1 capital due to insufficient tier 2 capital to cover deductions (related to reciprocal cross-holdings, non-significant investments in the tier 2 capital of

Part I. (cont.)

Item No. **Caption and Instructions**

29 (cont.) ***Transition provisions:*** For surplus minority interest and non-qualifying minority interest that can be included in tier 2 capital during the transition period, follow the transition provisions in the instructions for Schedule RC-R, item 4, after taking into consideration (that is, excluding) any amount of surplus tier 1 minority interest (from step 7 of the worksheet in item 22). In the example (and assuming no outstanding amounts of non-qualifying minority interest), the institution has $1.53 of surplus total capital minority interest available to be included during the transition period in tier 2 capital ($10.39 (from step 7 of the worksheet in item 29) of surplus total capital minority interest minus $8.86 (from step 7 of the worksheet in item 22) of tier 1 minority interest). In 2015, the institution would include an additional $0.92 in item 29 (60% of $1.53) and starting in 2018 the institution would not include any surplus minority interest in its regulatory capital if it is an advanced approaches institution. If it is a non-advanced approaches institution, starting in 2018 the institution would include the same amount of surplus minority interest in its regulatory capital as it included in 2017 (20% of $1.53 or $0.31). NOTE: If the amount of surplus total capital minority interest (from step 7 of the worksheet in item 29) is less than the amount of surplus tier 1 minority interest (from step 7 of the worksheet in item 22), the amount of surplus total capital minority interest available to be included during the transition period in tier 2 capital is zero.

30.a **Allowance for loan and lease losses includable in tier 2 capital.** Report the portion of the institution's allowance for loan and lease losses (ALLL) for regulatory capital purposes that is includable in tier 2 capital. None of the institution's allocated transfer risk reserve, if any, is includable in tier 2 capital.

An institution's allowance for loan and lease losses for regulatory capital purposes equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, Part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, Part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

The amount to be reported in this item is the lesser of (1) the institution's allowance for loan and lease losses for regulatory capital purposes, as defined above, or (2) 1.25 percent of the institution's risk-weighted assets base for the ALLL calculation as reported in Schedule RC-R, Part II, item 26. In calculating the risk-weighted assets base for this purpose, an institution would not include items that are deducted from capital under section 22(a). However, an institution would include risk-weighted asset amounts of items deducted from capital under sections 22(c) through (f) of the regulatory capital rule, in accordance with the applicable transition provisions. While amounts deducted from capital under sections 22(c) through (f) are included in the risk-weighted assets base for the ALLL calculation, such amounts are excluded from standardized total risk-weighted assets used in the denominator of the risk-based capital ratios.

The amount, if any, by which an institution's allowance for loan and lease losses for regulatory capital purposes exceeds 1.25 percent of the institution's risk-weighted assets base for the ALLL calculation (as reported in Schedule RC-R, Part II, item 26) should be reported in Schedule RC-R, Part II, item 29, "LESS: Excess allowance for loan and lease losses." The sum of the amounts reported in Schedule RC-R, Part I, item 30.a, plus Schedule RC-R, Part II, item 29, must equal Schedule RC, item 4.c, less Schedule RI-B, Part II, Memorandum item 1, plus Schedule RC-G, item 3.

30.b **Advanced approaches institutions that exit parallel run only: eligible credit reserves includable in tier 2 capital.** Report the amount of eligible credit reserves includable in tier 2 capital as reported in FFIEC 101, Schedule A, item 50.

Part I. (cont.)

Item No. **Caption and Instructions**

33 (cont.)

(iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: ~~Follow the transition provisions~~ Apply the appropriate percentage for deductions related to investments in capital instruments in Table 5 in the instructions for Schedule RC-R, item 11.

(2) Reciprocal cross-holdings in the capital of financial institutions. Include investments in the tier 2 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal crossholdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

Transition provisions: ~~Follow the transition provisions~~ Apply the appropriate percentage for deductions related to investments in capital instruments in Table 5 in the instructions for Schedule RC-R, item 11.

(3) Non-significant investments in tier 2 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments.

Calculate this amount as follows (similar to Schedule RC-R, item 11):

(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.
(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.
(3) If (1) is greater than the ten percent threshold for non-significant investments (Schedule RC-R, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item.
(4) If (1) is less than the ten percent threshold for non-significant investments, enter zero.

For example, assume an institution has a total of $200 in non-significant investments (step 1), including $40 in the form of tier 2 capital (step 2), and its ten percent threshold for non-significant investments is $100 (as calculated in Schedule RC-R, item 11, step 4). Since the aggregate amount of non-significant investments exceed the ten percent threshold for non-significant investments by $100 ($200-$100), the institution would multiply $100 by the ratio of 40/200 (step 3). Thus, the institution would need to deduct $20 from its tier 2 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11 (that is, for advanced approaches institutions, use Table 5 in the instructions for Schedule RC-R, item 11; for non-advanced approaches institutions, apply 80 percent of the deduction and assign the applicable risk weight to the portion of items not deducted).

(4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from tier 2 capital. Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11 (that is, for advanced approaches institutions, use Table 5 in the instructions for Schedule RC-R, item 11; for non-advanced approaches institutions, apply 80 percent of the deduction and a 100 percent risk weight to the portion of items not deducted).

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

- *20 percent risk weight:* An equity exposure to a public sector entity, Federal Home Loan Bank, and the Federal Agricultural Mortgage Corporation (Farmer Mac).

- *100 percent risk weight:* Equity exposures to:
  - Certain qualified community development investments,
  - The effective portion of hedge pairs, ~~and~~
  - Non-significant equity exposures, to the extent that the aggregate carrying value of the exposures does not exceed 10 percent of total capital. To utilize this risk weight, the bank must aggregate the following equity exposures: unconsolidated small business investment companies or held through consolidated small business investment companies; publicly traded (including those held indirectly through mutual funds or other investment funds); and non-publicly traded (including those held indirectly through mutual funds or other investment funds), and
  - For non-advanced approaches institutions: Significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital.

- *250 percent risk weight:* For advanced approaches institutions only: Significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital. This risk weight takes effect in 2018. Before 2018, advanced approaches institutions, along with non-advanced approaches institutions, report such significant investments in the 100 percent risk weight category.

- *300 percent risk weight:* Publicly traded equity exposures.

- *400 percent risk weight:* Equity exposures that are not publicly traded.

- *600 percent risk weight:* An equity exposure to an investment firm, provided that the investment firm would (1) meet the definition of *traditional securitization* in §.2 of the regulatory capital rules were it not for the application of paragraph (8) of the definition and (2) has greater than immaterial leverage.

(2) Full look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks calculate the aggregate risk-weighted asset amounts of the carrying value of the exposures held by the fund as if they were held directly by the bank multiplied by the bank's proportional ownership share of the fund.

(3) Simple modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, risk-weighted assets for an equity exposure is equal to the exposure's adjusted carrying value multiplied by the highest risk weight that applies to any exposure the fund is permitted to hold under the prospectus, partnership agreement, or similar agreement that defines the funds permissible investments.

(4) Alternative modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks may assign the adjusted carrying value on a pro rata basis to different risk-weight categories based on the limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments.

Treatment of Sales of 1-4 Family Residential First Mortgage Loans with Credit-Enhancing Representations and Warranties

When a bank transfers mortgage loans with credit-enhancing representations and warranties in a transaction that qualifies for sale accounting under GAAP, the bank will need to report and risk weight those exposures. The definition of *credit-enhancing representations and warranties* (CERWs) is found in §.2 of the regulatory capital rules. Many CERWs should be treated as securitization exposures for

Part II. (cont.)

Item No. **Caption and Instructions**

2.b (cont.)

AFS equity exposures in column S) and the exposure amount of its other AFS equity exposures in either columns L or N, as appropriate.

- o Also include all other AFS securities that do not qualify as securitization exposures reported in Schedule RC, item 2.b, that are not included in columns C through H, J through N, or R.
- o For non-advanced approaches institutions, include the portion of Schedule RC, item 2.b, that represents the adjusted carrying value of exposures that are significant investments in the common stock of unconsolidated financial institutions that are not deducted from capital. For further information on the treatment of equity exposures, refer to §.51 to §.53 of the regulatory capital rules.

- *In column J–150% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column C, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- *In column K–250% risk weight*, include the portion that does not qualify as a securitization exposure of Schedule RC, item 2.b, that represents the adjusted carrying value of exposures that are significant investments in the common stock of unconsolidated financial institutions that are not deducted from capital. For further information on the treatment of equity exposures, refer to §.51 to §.53 of the regulatory capital rules. This risk weight takes effect only for advanced approaches institutions in 2018, and therefore this item is blocked from being completed until that time. Before 2018, all institutions report such significant investments in the 100 percent risk weight category.

- *In column L–300% risk weight*, for publicly traded AFS equity securities with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their adjusted carrying value (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in tier 2 capital (as reported in Schedule RC-R, Part I, item 31).

- *In column N–600% risk weight*, for AFS equity securities to investment firms with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their adjusted carrying value (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in tier 2 capital (as reported in Schedule RC-R, Part I, item 31).

- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the bank's AFS equity exposures to investment funds (including mutual funds) if the aggregate carrying value of the bank's equity exposures is greater than 10 percent of total capital. Report in column R the exposure amount of these equity exposures to investment funds. Report in column S the risk-weighted asset amount of these equity exposures to investment funds as measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach described in §.53 of the regulatory capital rules. All three of these approaches require a minimum risk weight of 20 percent. For further information, refer to the discussion of "Treatment of Equity Exposures" in the General Instructions for Scheduler RC-R, Part II.

Part II. (cont.)

Item No.	Caption and Instructions

7 (cont.)

- If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
- Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such trading assets may include portions of, but may not be limited to:
  - The fair value of those MBS reported in item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and
  - Item 5, "Other debt securities," (column A on the FFIEC 031) that represent exposures to corporate entities and special purpose vehicles (SPVs).
  - If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
  - Also include the fair value of significant investments in the capital of unconsolidated financial institutions in the form of common stock held as trading assets that does not exceed the 10 percent and 15 percent common equity tier 1 capital deduction thresholds and are included in capital, as described in §.22 of the regulatory capital rules.[14] Publicly traded equity exposures and equity exposures to investment funds (including mutual funds) reported in Schedule RC, item 5, to the extent that the aggregate carrying value of the bank's equity exposures does not exceed 10 percent of total capital. If the bank's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report its trading equity exposures in columns L, M, or N, as appropriate.
  - Also include the fair value of trading assets reported in Schedule RC, item 5, that is not included in columns C through H, J through N, and R. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
  - Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight*, include the exposure amounts of trading assets reported in Schedule RC, item 5, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- *In column K–250% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent exposures that are significant investments in the common stock of unconsolidated financial institutions that are not deducted from capital. For further information on the treatment of equity exposures, refer to §.51 to .53 of regulatory capital rules. This risk weight takes effect only for advanced approaches institutions in 2018, and therefore this item is blocked from being completed until that time. Before 2018, all institutions report such significant

[14] Note: For advanced approaches institutions, ~~T~~this item will become subject to a 250 percent risk weight beginning in 2018. Non-advanced approaches institutions should continue to apply a 100 percent risk weight.

Part II. (cont.)

Item No. **Caption and Instructions**

8 §.22 of the regulatory capital rules. These amounts pertain to three items:[15]
(cont.)
- Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
- MSAs; and
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances;

o Publicly traded equity exposures, equity exposures without readily determinable fair values, and equity exposures to investment funds, to the extent that the aggregate carrying value of the bank's equity exposures does not exceed 10 percent of total capital. If the bank's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report its equity exposures reported in Schedule RC, items 6 through 11, in either columns L, M, or N, as appropriate; and

[15] Note: For advanced approaches institutions, ~~T~~these items will become subject to a 250 percent risk weight beginning in 2018. Non-advanced approaches institutions should continue to apply a 100 percent risk weight.

Part II. (cont.)

Item No. **Caption and Instructions**

8 (cont.)

- ○ The portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight*, include accrued interest receivable on assets included in the 150 percent risk weight category (column J of Schedule RC-R, Part II, items 1 through 7). Also include the portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 150 percent risk weight.

- *In column K–250% risk weight*, include the amounts of items that do not exceed the 10 percent and 15 percent common equity tier 1 capital deduction thresholds and are included in capital, as described in §.22 of the regulatory capital rules. These amounts pertain to three items:
  - o Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
  - o MSAs; and
  - o DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances.

  This risk weight takes effect only for advanced approaches institutions in 2018, and therefore this item is blocked from being completed until that time. Before 2018, all institutions report such significant investments in the 100 percent risk weight category.

- *In column L–300% risk weight*, include the fair value of publicly traded equity securities with readily determinable fair values that are reported in Schedule RC, items 8 and 9.

- *In column M–400% risk weight*, include the historical cost of equity securities (other than those issued by investment firms) that do not have readily determinable fair values that are reported in Schedule RC-F, item 4.

- *In column N–600% risk weight,* include the historical cost of equity securities issued by investment firms that do not have readily determinable fair values that are reported in Schedule RC-F, item 4.

- *In columns R and S of item 8–Application of Other Risk-Weighting Approaches*, include the portion of any asset reported in Schedule RC, items 6 through 11 (except separate account bank-owned life insurance and default fund contributions to central counterparties, which are to be reported in columns R and S of items 8.a and 8.b, respectively), that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - o Include in column R the carrying value of the portion of an asset that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the asset secured by such collateral. Any remaining portion of the asset that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J.