

# Banker Teleconference

## Proposed Call Report Risk-Weighted Assets Reporting Changes

Federal Deposit Insurance Corporation  
Federal Reserve Board  
Office of the Comptroller of the Currency

June 27, 2014

# Interagency Proposal

- Initial Paperwork Reduction Act Federal Register Notice
  - Published June 23, 2014, for 60-day comment period
  - Comment deadline is August 22, 2014
  - <http://www.gpo.gov/fdsys/pkg/FR-2014-06-23/pdf/2014-14549.pdf>
- Proposed changes to Call Report Schedule RC-R, Regulatory Capital, Part II, Risk-Weighted Assets
  - Incorporates standardized approach for calculating risk-weighted assets
  - Proposed revisions are consistent with banking agencies' regulatory capital rules adopted in July 2013
  - Proposal would also revise reporting of securities borrowed in Schedule RC-L, Derivatives and Off-Balance-Sheet Items

# Interagency Proposal

- Proposed revised Part II would take effect March 31, 2015, for all institutions
- Drafts of proposed revised reporting form and instructions for Schedule RC-R, Part II, are available at
  - [http://www.ffiec.gov/pdf/ffiec\\_forms/FFIEC031\\_FFIEC041\\_20140623\\_f.pdf](http://www.ffiec.gov/pdf/ffiec_forms/FFIEC031_FFIEC041_20140623_f.pdf)
  - [http://www.ffiec.gov/pdf/ffiec\\_forms/FFIEC031\\_FFIEC041\\_20140623\\_i.pdf](http://www.ffiec.gov/pdf/ffiec_forms/FFIEC031_FFIEC041_20140623_i.pdf)
  - Drafts also include Schedule RC-L changes for securities borrowed

# Schedule RC-R, Part II – Overview

- What has not changed from current Schedule RC-R, Part II
  - General structure of Part II: assets, derivatives and off-balance-sheet items, totals, and memoranda data for derivative contracts
  - Asset categories
    - Column A ties to amounts reported on Call Report balance sheet (Schedule RC)
    - Column B used to report adjustments, deductions, and exclusions
    - Amounts subject to risk weighting allocated to appropriate risk-weight categories
  - Derivatives and off-balance-sheet items
    - Column A used to report face, notional, or other amounts
    - Column A amounts multiplied by credit conversion factors equals credit equivalent amounts to be reported in column B
    - Credit equivalent amounts allocated to appropriate risk-weight categories

# Schedule RC-R, Part II – Overview

- What has not changed from current Schedule RC-R, Part II
  - Totals
    - Assets, derivatives, and off-balance-sheet items totaled by risk-weight category
    - Risk-weighted assets calculated for each risk-weight category
    - Deduction for any excess allowance for loan and lease losses
    - Total risk-weighted assets
  - Memoranda data for derivatives contracts
    - Current credit exposure
    - Remaining maturity by underlying risk exposure

# Schedule RC-R, Part II – Overview

- What has changed from current Schedule RC-R, Part II
  - Additional risk-weight categories (but many have limited applicability)
  - Treatment of exposures to sovereign entities and foreign banks
  - Securitization exposures
    - On- and off-balance-sheet exposures arising from mortgage-backed, asset-backed, and structured securities with tranching of credit risk
    - Excluded from otherwise appropriate on- or off-balance-sheet category and reported in Part II, items 9 and 10
  - Additional detail on loans and leases (held for sale and held for investment, Part II, items 4 and 5) with separate reporting of
    - Residential mortgage exposures
    - High volatility commercial real estate exposures
    - Exposures past due 90 days or more or on nonaccrual
    - All other exposures

# Schedule RC-R, Part II – Overview

- What has changed from current Schedule RC-R, Part II
    - New off-balance-sheet category for repo-style transactions, which includes
      - Securities lent
      - Securities borrowed (with change in reporting on Schedule RC-L)
      - Securities sold under agreements to repurchase (Schedule RC, item 14.b)
    - Reporting on additional groups of unused commitments
      - Unused commitments with an original maturity of one year or less
      - Unconditionally cancellable commitments
    - Separate reporting of
      - Over-the-counter derivatives
      - Centrally cleared derivatives
- for risk-weight category allocations and remaining maturities

# Schedule RC-R, Part II – Line Item Review

- Assume Accumulated Other Comprehensive Income (AOCI) opt-out election has been made
  - Also assume institution is not subject to the market risk capital rule
- Exclude securitization exposures from items for assets, derivatives, and off-balance sheet items (items 1-8 and 12-21)
- Cash and balances due from depository institutions (item 1)
  - Apply Country Risk Classification (CRC) methodology to balances due from foreign central banks and foreign depository institutions
- Held-to-maturity (HTM) securities (item 2.a)
  - Column B adjustments when AOCI includes unrealized gains (losses) due to OTTI or transfers to HTM from AFS



# Schedule RC-R, Part II – Line Item Review

- Available-for-sale (AFS) securities (item 2.b)
  - Column B adjustments related to unrealized gains (losses) on AFS debt and equity securities included in AOCI are the same as at present
  - Risk weights for AFS equity securities include 100%, 300%, and 600%
  - Certain mutual fund investments may be risk weighted using simple risk-weight and look-through approaches, with a 20% risk-weight floor
- Federal funds sold and securities purchased under agreements to resell (item 3)
- Residential mortgage exposures (items 4.a and 5.a)
  - Includes loans secured by first and junior liens on:
    - 1-to-4 family residential properties, and
    - Multifamily residential properties, provided loan has an original and outstanding amount of \$1 million or less and is managed as part of a homogeneous segment and not individually including those past due 90 days or more or on nonaccrual

# Schedule RC-R, Part II – Line Item Review

- Residential mortgage exposures (items 4.a and 5.a)
  - Also includes statutory multifamily mortgages, i.e., multifamily mortgages not 90 days or more past due or on nonaccrual that meet loan-to-value, timely repayment performance, maximum amortization period, minimum original maturity, debt service coverage, and certain other criteria
- High volatility commercial real estate exposures (HVCRE) (items 4.b and 5.b)
  - Acquisition, development, or constructions loans not financing:
    - 1-4 family residential properties
    - Purchase or development of agricultural land
    - Commercial real estate projects that meet certain loan-to-value ratio and borrower contributed capital criteria
  - 150% risk weight applies, including for past due and nonaccrual HVCRE loans

# Schedule RC-R, Part II – Line Item Review

- Exposures 90 days or more past due or on nonaccrual (items 4.c and 5.c)
  - Excludes residential mortgage exposures, HVCRE exposures, and sovereign claims
  - Generally, 150% risk weight applies, except for portions covered by qualifying collateral or eligible guarantees
- All other loan and lease exposures (items 4.d and 5.d)
  - Include all loans and leases not reported in items 4.a – 4.c / 5.a – 5.c
- Allowance for loan and lease losses (item 6)
- Trading assets (item 7)
  - Risk weight fair values of trading assets using risk weight categories applicable to securities and loans

# Schedule RC-R, Part II – Line Item Review

- All other assets (item 8)
  - As at present, covers remaining Call Report balance sheet asset categories
  - Column B includes “All other asset” amounts that are deducted when calculating regulatory capital in Part I of Schedule RC-R
  - Risk weights for equity securities reported in “All other assets” (except FRB and FHLB stock) include 100%, 400%, and 600%
- Securitization exposures (items 9 and 10)
  - Institution may elect to use either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach to determine amount of risk-weighted assets for all such exposures, but any individual exposure (or all exposures) may instead be risk weighted at 1250%

# Schedule RC-R, Part II – Line Item Review

- On-balance sheet securitization exposures (items 9.a – 9.d)
  - Report in column A the balance sheet amounts of HTM securities, AFS securities, trading assets, and all other on-balance sheet items (excluding derivatives) that are securitization exposures
  - Reporting in column B depends on the risk-weighting approach an institution applies to its securitization exposures
    - If the SSFA or Gross-Up Approach is used, report securitization exposure's balance sheet amount from column A in column B
    - If the 1250% risk weight is used, report any difference between the securitization exposure's balance sheet amount reported in column A and the exposure amount to be risk-weighted at 1250%

# Schedule RC-R, Part II – Line Item Review

- On-balance sheet securitization exposures (items 9.a – 9.d)
  - If the 1250% risk weight is used, report the exposure amount of the securitization exposure in column Q
  - If the SSFA is used, calculate the risk-weighted asset amount for the securitization exposure under the SSFA and report the calculated amount (not the exposure amount) in column R
  - If the Gross-Up Approach is used, calculate the risk-weighted asset amount for the securitization exposure under this approach and report the calculated amount (not the exposure amount) in column S

# Schedule RC-R, Part II – Line Item Review

- Off-balance sheet securitization exposures (item 10)
  - Include in item 10 any derivatives and off-balance sheet items reported in Schedules RC-L or RC-S that are securitization exposures
  - Report in column A the notional amounts of these exposures
  - For the amounts to report in columns B, Q, R, and S, follow the same methodology as for on-balance sheet securitization exposures, which depends on the risk-weighting approach (SSFA, Gross-Up Approach, or 1250% risk weight) an institution applies to its securitization exposures
- Total assets (item 11)
  - Report in item 11 the sum of items 1 - 9 for columns A through Q
  - Total assets reported in item 11, column A, must equal the sum of item 11, columns B through Q

# Schedule RC-R, Part II – Line Item Review

- Financial standby letters of credit (item 12)
  - For standbys that are credit enhancements of assets, amount to report in column A depends on the effective risk-based capital requirement for the credit-enhanced assets
  - For all other standbys, report amount outstanding and unused in column A
- Performance standby letters of credit (item 13)
- Commercial and similar letters of credit with an original maturity of one year or less (item 14)
  - Report commercial letters of credit with an original maturity exceeding one year as unused commitments with an original maturity exceeding one year (item 18.c)



# Schedule RC-R, Part II – Line Item Review

- Retained recourse on small business obligations sold with recourse (item 15)
- Repo-style transactions (item 16)
  - Report in column A the sum of the amounts reported in Schedule RC-L for securities lent (item 6.a) and securities borrowed (item 6.b) plus the on-balance sheet amount of securities sold under agreements to repurchase (Schedule RC, item 14.b)
- All other off-balance sheet liabilities (item 17)
  - In addition to those “All other off-balance sheet liabilities” reported in Schedule RC-L, item 9, covered by the regulatory capital rules, includes such items as
    - Risk participations in bankers acceptances acquired by the reporting institution (currently reported in Schedule RC-R, Part II, item 47)
    - Loans sold with credit-enhancing representations and warranties that are not securitization exposures

# Schedule RC-R, Part II – Line Item Review

- Unused commitments (items 18 - 19)
  - Items 18.a – 18.c cover unused commitments that are not unconditionally cancelable based on original maturity
    - Commitments with an original maturity of one year or less, excluding those to asset-backed commercial paper (ABCP) conduits, now have a 20%, rather than a 0%, credit conversion factor (item 18.a)
    - Commitments with an original maturity of one year or less to ABCP conduits now have a 20%, rather than a 10%, credit conversion factor (item 18.b)
    - Commitments with an original maturity exceeding one year (item 18.c)
  - Item 19 covers unconditionally cancelable commitments, but these continue to have a 0% credit conversion factor

# Schedule RC-R, Part II – Line Item Review

- Derivative contracts (items 20 - 21)
  - Separately report over-the-counter derivatives (item 20) and centrally cleared derivatives (item 21) covered by the regulatory capital rules
  - Credit equivalent amount calculations differ for the two categories of derivatives

# Schedule RC-R, Part II – Totals Section

- Total assets, derivatives, and off-balance sheet items by risk-weight category (item 22, columns C - Q)
  - For each risk weight category column, report the sum of items 10 – 21 in item 22
- Risk-weighted assets by risk-weight category (item 24, columns C – Q)
  - Multiply the total in each column of item 22 by the applicable risk weight factor in item 23

# Schedule RC-R, Part II – Totals Section

- Report in item 25 the risk-weighted asset base to be used to calculate the 1.25% limit for the allowance for loan and lease losses includable in tier 2 capital
  - The base includes total risk-weighted assets by risk-weight category (item 24, sum of columns C – Q) plus any risk-weighted assets for securitization exposures calculated under the SSFA or Gross-Up Approach (items 9 and 10, columns R and S) with adjustments for certain assets deducted from tier 1 and tier 2 capital
  - Report in item 28 the amount (if any) by which the allowance for loan and lease losses exceeds 1.25% of the risk-weighted asset base reported in item 25
    - For regulatory capital purposes, the allowance includes
      - Schedule RC, item 4.c, “Allowance for loan and lease losses”
      - Less: Schedule RI-B, Part II, Memo item 1, “Allocated transfer risk reserve . . . ”
      - Plus: Schedule RC-G, item 3, “Allowance for credit losses on off-balance sheet credit exposures”

# Schedule RC-R, Part II – Totals Section

- Report in item 27 risk-weighted assets before deductions for any excess allowance for loan and lease losses and allocated transfer risk reserve
  - Item 27 includes total risk-weighted assets by risk-weight category (item 24, sum of columns C – Q) plus any risk-weighted assets for securitization exposures calculated under the SSFA or Gross-Up Approach (items 9 and 10, columns R and S)
  - For institutions subject to the market risk capital rules, item 27 also includes standardized market-risk weighted assets reported in item 26
- Total risk-weighted assets (item 30) equals
  - Risk-weighted assets before deductions (item 27)
  - Less: Excess allowance for loan and lease losses (item 28)
  - Less: Allocated transfer risk reserve (item 29)

# Schedule RC-R, Part II – Memoranda

- Memorandum items 1 -3 provide data on derivative contracts covered by the regulatory capital rules
  - Memo item 1: Current credit exposure across all such derivatives
  - Memo item 2: Notional amounts of over-the-counter derivatives by remaining maturity and underlying risk exposure
  - Memo item 3: Notional amounts of centrally cleared derivatives by remaining maturity and underlying risk exposure

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

- Reporting form for Schedule RC-R, Part I, has been finalized
  - Currently in use by advanced approaches institutions and labeled Part I.B in Call Report forms for report dates in 2014
  - Institutions that are not advanced approaches institutions will continue to complete Part I.A of Schedule RC-R for report dates in 2014
  - Part I.A will be removed from Schedule RC-R in March 2015
  - Part I.B will be designated Part I in March 2015 and will be completed by all institutions
    - Institutions that are not advanced approaches institutions will make their AOCI opt-out election in March 2015
  - March 2014 Call Report instruction book update included instructions for Part I (but labeled Part I.B in the update)



Questions?