Draft Instructions

for Proposed Revised Call Report Schedule RC-R, Part II,

and Schedule RC-L, Item 6,

for March 2015

FFIEC 031 and FFIEC 041

Draft as of June 23, 2014

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Contents

NOTE: These draft instructions apply to the Call Report revisions proposed to take effect March 31, 2015, as described in the federal banking agencies' initial Paperwork Reduction Act Federal Register notice published in the Federal Register on June 23, 2014. These draft instructions are subject to change based on questions and comments received on the proposed Call Report revisions described in the agencies' Federal Register notice, the draft reporting forms for the proposal, and these draft instructions. These draft instructions also are subject to change in response to any identified inconsistencies between the instructions and the agencies' regulatory capital rules. The Federal Register notice for this Call Report proposal and the draft reporting forms are available at http://www.ffiec.gov/forms031.htm and http://www.ffiec.gov/forms041.htm. These Call Report revisions are subject to approval by the U.S. Office of Management and Budget.

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SCHEDULE RC-R – REGULATORY CAPITAL

General Instructions for Schedule RC-R

The instructions for Schedule RC-R should be read in conjunction with the regulatory capital rules issued by the primary federal supervisory authority of the reporting bank or saving association (collectively, banks).

Under the agencies' regulatory capital rules, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar or exposure amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the bank's total risk weighted assets which comprises the denominator of the risk-based capital ratio.

The term "exposure" generally refers to loans to, securities issued by, balances due from, accrued interest receivable from, and all other exposures against the various entities with which the reporting bank conducts its business. Generally, the exposure amount for on-balance sheet assets is the carrying value. In the case of derivative contracts, the exposure amount, or credit equivalent amount, is the sum of the current credit exposure (fair value of the contract, if positive) and the potential future exposure, subject to any applicable netting agreements. In the case of most off-balance sheet items, the exposure amount, or credit equivalent amount, is determined by multiplying the face value or notional amount of the off-balance sheet item by a credit conversion factor.

The revised regulatory capital rules also provide a definition in § .2 for the term "exposure amount." The definition of exposure amount (discussed further below in this document) is used to determine the amount of an exposure that banks will report and risk weight on this schedule.

Credit Conversion Factors for Off-Balance Sheet Items – A summary of the credit conversion factors (CCFs) follows. For further information on these factors, refer to the regulatory capital rules. Note that where a bank commits to provide a commitment, the bank may apply the lower of the two applicable CCFs. Where a bank provides a commitment structured as a syndication or participation, the bank is only required to calculate the exposure amount for its pro rata share.

Off-balance sheet items subject to a zero percent conversion factor:
(1) Unused portions of commitments that are unconditionally cancellable at any time by the bank.

Off-balance sheet items subject to a 20 percent conversion factor:
(1) Commercial and similar letters of credit with an original maturity of one year or less, including short-term, self-liquidating, trade-related contingent items that arise from the movement of goods.
(2) Commitments with an original maturity of one year or less that are not unconditionally cancelable.

Off-balance sheet items subject to a 50 percent conversion factor:
(1) Transaction-related contingent items, including performance standby letters of credit, bid bonds, performance bonds, and warranties.
(2) Commitments with an original maturity exceeding one year that are not unconditionally cancelable by the bank, including underwriting commitments, commercial letters of credit, and commercial credit lines.

Off-balance sheet items subject to a 100 percent conversion factor:
(1) Financial standby letters of credit.
(2) Repo-style transactions, including off-balance sheet securities lending transactions, off-balance sheet securities borrowing transactions, and repurchase agreements.
(3) Guarantees, certain credit-enhancing representations and warranties, and forward agreements.

Part II. Risk-Weighted Assets

General Instructions for Part II

The instructions for Schedule RC-R, Part II, items 1 through 21, provide general directions for the allocation of bank balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items to the risk weight categories in columns C through Q (and, for items 1 through 11 only, to the items adjusted from the totals reported in Schedule RC-R, Part II, column A in column B). These instructions should provide sufficient guidance for most banks for risk-weighting their balance sheet assets and credit equivalent amounts. However, these instructions do not address every type of exposure. Banks should review the capital regulations of their primary federal supervisory authority for the complete description of capital requirements.

Exposure Amount Subject to Risk Weighting

In general, banks need to risk weight the exposure amount. The exposure amount is defined in §.2 of the regulatory capital rules as follows:

(1) For the on-balance sheet component of an exposure,[1] the bank's carrying value of the exposure.

(2) For a security[2] classified as available-for-sale (AFS) or held-to-maturity (HTM) where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, the carrying value for the exposure (including net accrued but uncollected interest and fees)[3] less any net unrealized gains on the exposure plus any net realized loss on the exposure included in AOCI.

(3) For AFS preferred stock classified as an equity under GAAP where the bank has made the AOCI opt-out election, the carrying value less any net unrealized gains that are reflected in such carrying value, but are excluded from the bank's regulatory capital components.

(4) For the off-balance sheet component of an exposure,[4] the notional amount of the off-balance sheet component multiplied by the appropriate credit conversion factor (CCF) in §.33 of the regulatory capital rules.

(5) For an exposure that is an OTC derivative contract, the exposure amount determined under §.34 of the regulatory capital rules.

(6) For an exposure that is a derivative contract that is a cleared transaction, the exposure amount determined under §.35 of the regulatory capital rules.

(7) For an exposure that is an eligible margin loan or repo-style transaction (including a cleared transaction) for which the bank calculates the exposure amount as provided in §.37, the exposure amount determined under §.37 of the regulatory capital rules.

[1] Not including: (1) an available-for-sale or held-to-maturity security where the bank has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a, (2) an over-the-counter (OTC) derivative contract, (3) a repo-style transaction or an eligible margin loan for which the bank determines the exposure amount under §.37 of the regulatory capital rules, (4) a cleared transaction, (5) a default fund contribution, or (6) a securitization exposure.

[2] Not including: (1) a securitization exposure, (2) an equity exposure, or (3) preferred stock classified as an equity security under generally accepted accounting principles (GAAP).

[3] Where the bank has made the AOCI opt-out election, accrued but uncollected interest and fees reported in Schedule RC, item 11, "Other assets," associated with available-for-sale (AFS) or held-to-maturity securities (HTM) that are not securitization exposures should be reported in Schedule RC-R, Part II, item 8, "All other assets."

[4] Not including: (1) an OTC derivative contract, (2) a repo-style transaction or an eligible margin loan for which the bank calculates the exposure amount under §.37 of the regulatory capital rules, (3) a cleared transaction, (4) a default fund contribution, or (5) a securitization exposure.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

(8) For an exposure that is a securitization exposure, the exposure amount determined under §.42 of the regulatory capital rules.

As indicated in the definition in §.2 of the regulatory capital rules, *carrying value* means with respect to an asset, the value of the asset on the balance sheet of the bank determined in accordance with GAAP.

Amounts to Report in Column B

For items 1 through 9.d and 11 of Schedule RC-R, Part II, column B should include the amount of the reporting bank's on-balance sheet assets that are deducted or excluded (not risk weighted) in the determination of risk-weighted assets. Column B should include assets that are deducted from capital (subject to the transition provisions of the regulatory capital rules, as applicable) such as goodwill; intangibles; gain on sale of securitization exposures; threshold deductions above the 10 percent individual or 15 percent combined limits for (1) deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, (2) mortgage servicing assets, net of associated DTLs, and (3) significant investments in the capital of unconsolidated financial institutions in the form of common stock; and any other assets that must be deducted in accordance with the requirements of a bank's primary federal supervisory authority. Column B should also include items that are excluded from the calculation of risk-weighted assets, such as the allowance for loan and lease losses, allocated transfer risk reserves, and certain on-balance sheet asset amounts associated with derivative contracts that are included in the calculation of the credit equivalent amounts of the derivative contracts. In addition, for items 1 through 9.d and 11 of Schedule RC-R, Part II, column B should include any difference between the balance sheet amount of an on-balance sheet asset and its exposure amount as described above under "Exposure Amount Subject to Risk Weighting." Similarly, item 10 of Schedule RC-R, Part II, column B should include any difference between the amount of an off-balance sheet item that is a securitization exposure and its exposure amount when the exposure amount will be risk weighted by applying a 1,250 percent risk weight. For items 1 through 9 and 11 of Schedule RC-R, Part II, the sum of columns B through Q must equal the balance sheet asset amount reported in column A. For item 10 of Schedule RC-R, Part II, the sum of columns B through Q must equal the amount of off-balance sheet items reported in column A.

For items 12 through 21 of Schedule RC-R, Part II, column B should include the credit equivalent amounts of the reporting bank's derivative contracts and off-balance sheet items that are covered by the regulatory capital rules. For the off-balance sheet items in items 12 through 19, the credit equivalent amount to be reported in column B is calculated by multiplying the face, notional, or other amount reported in column A by the appropriate credit conversion factor. The credit equivalent amounts in column B are to be risk weighted in columns C through Q. For items 12 through 21 of Schedule RC-R, Part II, the sum of columns C through Q must equal the credit equivalent amount reported in column B.

Treatment of Collateral and Guarantees

The rules for recognition of collateral are in §.37 and pertinent definitions in §.2 of the regulatory capital rules. The extent to which qualifying securities are recognized as collateral for risk-based capital purposes is determined by their current market value adjusted by any applicable volatility haircuts and other requirements of the regulatory capital rules. If an exposure is partially secured, that is, the adjusted market value of the pledged securities is less than the face amount of an asset or off-balance sheet exposure, only the portion that is covered by the adjusted market value of the collateral is to be reported in the risk-weight category item appropriate to the type of collateral. The uncovered portion of the exposure continues to be assigned to the initial risk-weight category item appropriate to the exposure. The face amount of an exposure secured by multiple types of qualifying collateral is to be reported in the risk-weight category items appropriate to the collateral types, apportioned according to the adjusted market value of the types of collateral.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

The rules for recognition of guarantees and credit derivatives are in §.36 and pertinent definitions are in §.2 of the regulatory capital rules. A bank may recognize the credit risk mitigation benefits of an eligible guarantee or eligible credit derivative by substituting the risk weight associated with the protection provider for the risk weight assigned to the exposure. Please refer to the definitions of *eligible guarantee, eligible guarantor,* and *eligible credit derivative* in §.2 of the regulatory capital rules. Note that in the definition of eligible guarantee, where the definition discusses continent guarantees, only contingent guarantees of the U.S. government or its agencies are recognized.

NOTE: Portions of exposures collateralized by deposits in <u>other</u> depository institutions in the United States (e.g., certificates of deposit issued by other banks) should be risk weighted at 20 percent provided the reporting bank has a perfected first-priority security interest. For portions of exposures collateralized by deposits in foreign depository institutions, the risk weight will be determined according to Table 2 in §.32(d) of the regulatory capital rules and will depend on the Country Risk Classification (CRC) of the home country of the foreign depository institution, provided the reporting bank has a perfected first-priority security interest.

There is a general 20 percent risk weight floor on the recognition of financial collateral. However, as indicated in §.37 of the regulatory capital rules, a bank may assign a zero percent risk weight to the collateralized portion of an exposure where the financial collateral is cash on deposit at the bank. Under conditions specified in §.37 of the regulatory capital rules, a bank may also assign a zero percent risk weight to the collateralized portion of an exposure where the financial collateral is U.S. Government securities, subject to a 20 percent discount to the fair value of the collateral. Also, as indicated in §.37, a financial institution may assign a 10 percent risk weight to an OTC derivative contract that is marked-to-market daily and subject to daily margin maintenance, to the extent that the contract is collateralized by a sovereign exposure that qualifies for a zero percent risk weight under §.32 of the regulatory capital rules.

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. Most CERWs should be treated as securitization exposures for purposes of risk weighting. However, those CERWs that do not qualify as securitization exposures receive a 100 percent credit conversion factor as indicated in §.33 of the regulatory capital rules. For example, if the bank has agreed to repurchase the loans that it has sold, it will generally need to risk weight those loans in Schedule RC-R, Part II, item 17, until the warranties expire. Note that CERWs do not include certain early default clauses and similar warranties that permit the return of, or premium refund clauses covering, 1-4 family residential mortgage loans that qualify for a 50 percent risk weight provided the warranty period does not exceed 120 days from the date of transfer.

> <u>Example</u>: A bank sells $100 in qualifying 1-4 family residential first mortgage loans and agrees to repurchase them in case of early default for up to 180 days. This warranty exceeds the 120-day limit, and therefore the full $100 should be reported in Schedule RC-R, Part II, item 17, until the warranty expires.

If the bank has made a credit-enhancing representation and warranty that is limited or capped (e.g., a warranty to cover first losses on loans up to a set amount that is less than the full loan amount), such warranties are regarded as securitization exposures under the capital rules as they represent a transaction that has been separated into at least two tranches reflecting different levels of seniority for credit risk. (Refer to the definitions of *securitization exposure, synthetic securitization, traditional securitization,* and *tranche* in §.2 of the regulatory capital rules). The bank will need to report and risk weight these warranties in Schedule RC-R, Part II, item 10, as off-balance sheet securitization exposures.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

Example: A bank sells $100 in qualifying 1-4 family residential first mortgage loans and agrees to compensate the buyer up to $2 if the loans default during the first 12 months. Twelve months exceeds the 120 day limit and therefore these are credit-enhancing representations and warranties. They are also securitization exposures because the $2 is effectively a first loss tranche on a $100 transaction. For purposes of reporting this transaction in Schedule RC-R, Part II, item 10, the bank should report $100 in Column A, an adjustment of -$98 in Column B, and then $2 in Column Q as an exposure amount that is risk weighted by applying a 1,250 percent risk weight (if the bank does not use the Simplified Supervisory Formula Approach or the Gross-Up Approach for purposes of risk weighting its securitization exposures). The bank will not need to report any amount in columns R or S unless it uses the SSFA or Gross-Up approach for calculating the risk weighted asset amount for this transaction.

Treatment of Exposures to Sovereign Entities and Foreign Banks

These instructions contain several references to Country Risk Classifications (CRC) used by the Organization for Economic Cooperation and Development (OECD). The CRC methodology classifies countries into one of eight risk categories (0-7), with countries assigned to the zero category having the lowest possible risk assessment and countries assigned to the 7 category having the highest possible risk assessment. The OECD regularly updates CRCs for more than 150 countries and makes the assessments publicly available on its website.[5] The OECD does not assign a CRC to every country; for example, it does not assign a CRC to a number of major economies; it also does not assign a CRC to many smaller countries. As such, the table below also provides risk weights for countries with no CRC based on whether or not those particular countries are members of the OECD. In addition, there is a higher risk weight of 150 percent for any country that has defaulted on its sovereign debt within the past 5 years, regardless of the CRC rating.

Risk weights for reported balance sheet (items 1 through 11) and off-balance sheet (items 12 through 21) exposures are to be assigned based upon the tables below:

- Exposures to foreign central governments (including foreign central banks):

<table>
<tr><th colspan="2"></th><th>Risk Weight (%)</th></tr>
<tr><td rowspan="5">Home Country CRC</td><td>0-1</td><td>0</td></tr>
<tr><td>2</td><td>20</td></tr>
<tr><td>3</td><td>50</td></tr>
<tr><td>4-6</td><td>100</td></tr>
<tr><td>7</td><td>150</td></tr>
<tr><td colspan="2">OECD Member with No CRC</td><td>0</td></tr>
<tr><td colspan="2">Non-OECD Member with No CRC</td><td>100</td></tr>
<tr><td colspan="2">Countries with Sovereign Default in Previous Five Years</td><td>150</td></tr>
</table>

5 *See* http://www.oecd.org/trade/xcred/crc.htm.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

- Exposures to foreign banks:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- General obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- Revenue obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	50
	2-3	100
	4-7	150
OECD Member with No CRC		50
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

All risk-weight categories pertaining to exposures to central foreign governments:

- All exposures to foreign central governments may be assigned a lower risk weight if the following conditions are met: (1) the exposures are denominated in the particular foreign country's local currency; (2) the bank has at least equivalent liabilities in that currency; and (3) the risk weight is not lower than the risk weight that particular foreign country allows under its jurisdiction to assign to the same exposures to that country.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

Summary of Risk Weights for Exposures to Government and Public Sector Entities

The following are some of the most common exposures to government and public sector entities and the risk weights that apply to them:

Column C – 0% column:
- All exposures (defined broadly to include securities, loans, and leases) that are direct exposures to, or the portion of exposures that are directly and unconditionally guaranteed by, the U.S. Government or U.S. Government agencies. This includes the portions of deposits insured by the FDIC or the National Credit Union Administration (NCUA).
- Exposures that are collateralized by cash on deposit in the reporting bank.
- Exposures that are collateralized by securities issued or guaranteed by the U.S. Government, or other sovereign governments that qualify for the zero percent risk weight. Collateral value must be adjusted under §.37 of the regulatory capital rules.
- Exposures to, and the portions of exposures guaranteed by, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, or a multilateral development bank (as specifically defined in §.2 of the regulatory capital rules).

Column G – 20% column:
- The portion of exposures that are conditionally guaranteed by the U.S. Government or U.S. Government agencies. This includes exposures, or the portions of exposures, conditionally guaranteed by the FDIC or the NCUA.
- The portion of exposures that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government or U.S. Government agencies that are not included in zero percent column.
- General obligation exposures to U.S. states, municipalities, or other political subdivisions of the U.S.
- Exposures to U.S. government sponsored entities (GSEs) other than equity exposures or preferred stock, and risk sharing securities.

Column H – 50% column:
- Revenue obligation exposures to U.S. states, municipalities, or other political subdivisions of the U.S.

Column I – 100% column:
- Preferred stock of U.S. GSEs.

Risk Weighted Assets for Securitization Exposures

Under the agencies' regulatory capital rules, three separate approaches are available for setting the regulatory capital requirements for securitization exposures, as defined in §.2 of the regulatory capital rules. Securitization exposures include asset-backed and mortgage-backed securities, other positions in securitization transactions, re-securitizations, and structured finance programs[6] (except credit-enhancing interest-only strips). In general, under each of three approaches, the risk-based capital requirement for a position in a securitization or structured finance program (hereafter referred to collectively as a securitization) is computed by multiplying the calculated amount of the position by the appropriate risk weight. The three approaches to determining the proper risk weight for a securitization exposure are the Simplified Supervisory Formula Approach (SSFA), the Gross-Up Approach, or the 1,250 Percent Risk Weight Approach.

[6] Structured finance programs include, but are not limited to, collateralized debt obligations.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

If a securitization exposure is not an after-tax gain-on-sale resulting from a securitization that requires deduction, or the portion of a credit-enhancing interest-only (CEIO) strip that does not constitute an after-tax gain-on-sale,[7] a bank may assign a risk weight to the securitization exposure using the SSFA if certain requirements are met. If a bank is not subject to Subpart F (the market risk rules) of the regulatory capital rules, it may instead choose to assign a risk weight to the securitization exposure using the Gross-Up Approach if certain requirements are met. However, the bank must apply either the SSFA or the Gross-Up Approach consistently across all of its securitization exposures. However, if the bank cannot, or chooses not to, apply the SSFA or the Gross-Up Approach to an individual securitization exposure, the bank must assign a 1,250 percent risk weight to that exposure.

Both traditional and synthetic securitizations must meet certain operational requirements before applying either the SSFA or the Gross-Up Approach. Furthermore, banks must complete certain due diligence requirements and satisfactorily demonstrate a comprehensive understanding of the features of the securitization exposure that would materially affect the performance of the exposure. If these due diligence requirements are not met, the bank must assign the securitization exposure a risk weight of 1,250 percent. The bank's analysis must be commensurate with the complexity of the securitization exposure and the materiality of the exposure in relation to its capital. Banks should refer to the regulatory capital rules issued by their primary federal supervisor to review the details of these operational and due diligence requirements.

For example, a bank not subject to the market risk rules has 12 securitization exposures. The operational and due diligence requirements have been met for 10 of the exposures, to which the bank applies the Gross-Up Approach. The bank then assigns a 1,250 percent risk weight to the other two exposures. Alternatively, the bank could assign a 1,250 percent risk weight to all 12 securitization exposures.

a. Exposure Amount Calculation

The exposure amount of an on-balance sheet securitization exposure that is not an available-for-sale or held-to-maturity security where the bank has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a, a repo-style transaction, an eligible margin loan, an over-the-counter (OTC) derivative contract, or a cleared transaction is equal to the carrying value of the exposure.

The exposure amount of an off-balance sheet securitization exposure that is not a repo-style transaction, an eligible margin loan, a cleared transaction (other than a credit derivative), an OTC derivative contract (other than a credit derivative), or an exposure to an asset-backed commercial paper (ABCP) program is the notional amount of the exposure.

For an off-balance sheet securitization exposure to an ABCP program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the bank could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets). An exposure amount of an eligible ABCP liquidity facility for which the SSFA does not apply is calculated by multiplying the notional amount of the exposure by a credit conversion factor (CCF) of 50 percent. An exposure amount of an eligible ABCP liquidity facility for which the SSFA does apply is calculated by multiplying the notional amount of the exposure by a CCF of 100 percent.

[7] Consistent with the regulatory capital rules, a bank must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from a securitization and must apply a 1,250 percent risk weight to the portion of a CEIO strip that does not constitute an after-tax gain-on-sale.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

The exposure amount of a securitization exposure that is a repo-style transaction, eligible margin loan, or derivative contract (other than a credit derivative) is the exposure amount of the transaction as calculated using the instructions for calculating the exposure amount of over-the-counter derivatives or collateralized transactions outlined in §.34 or §.37 of the regulatory capital rules.

If a bank has multiple securitization exposures that provide duplicative coverage to the underlying exposures of a securitization, the bank is not required to hold duplicative risk-based capital against the overlapping position. Instead, the bank may apply to the overlapping position the applicable risk-based capital treatment that results in the highest risk-based capital requirement.

If a bank provides support to a securitization in excess of the bank's contractual obligation to provide credit support to the securitization (implicit support) it must include in risk-weighted assets all of the underlying exposures associated with the securitization as if the exposures had not been securitized and must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from the securitization.

b. Simplified Supervisory Formula Approach (SSFA)

To use the SSFA to determine the risk weight for a securitization exposure, a bank must have data that enables it to accurately assign the parameters. The data used to assign the parameters must be the most currently available data and no more than 91 calendar days old. A bank that does not have the appropriate data to assign the parameters must assign a risk weight of 1,250 percent to the exposure. See the operational requirements outlined in §.43 of the regulatory capital rules for further instructions.

To calculate the risk weight for a securitization exposure using the SSFA, a bank must have accurate information on the following five inputs to the SSFA calculation:

- Parameter K_G is the weighted-average (with unpaid principal used as the weight for each exposure) total capital requirement of the underlying exposures calculated. K_G is expressed as a decimal value between zero and 1 (that is, an average risk weight of 100 percent represents a value of K_G equal to .08).

- Parameter W is the ratio of the sum of the dollar amounts of any underlying exposures within the securitized pool to the ending balance, measured in dollars, of underlying exposures, that meet any of the following criteria: (1) 90 days or more past due; (2) subject to a bankruptcy or insolvency proceeding; (3) in the process of foreclosure; (4) held as real estate owned; (5) has contractually deferred interest payments for 90 days or more (other than in the case of deferments on federally guaranteed student loans and certain consumer loans deferred according to provisions in the contract); or (6) is in default. Parameter W is expressed as a decimal value between zero and one.

- Parameter A is the attachment point for the exposure, which represents the threshold at which credit losses will first be allocated to the exposure. Parameter A equals the ratio of the current dollar amount of underlying exposures that are subordinated to the exposure of the bank to the current dollar amount of underlying exposures. Any reserve account funded by the accumulated cash flows from the underlying exposures that is subordinated to the bank's securitization exposure may be included in the calculation of parameter A to the extent that cash is present in the account. Parameter A is expressed as a decimal value between zero and one.

- Parameter D is the detachment point for the exposure, which represents the threshold at which credit losses of principal allocated to the exposure would result in a total loss of principal. Parameter D equals parameter A plus the ratio of the current dollar amount of the securitization exposures that are pari passu with the exposure (that is, have equal seniority with respect to credit risk) to the current dollar amount of the underlying exposures. Parameter D is expressed as a decimal value between zero and one.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

- A supervisory calibration parameter, p, is equal to 0.5 for securitization exposures that are not resecuritization exposures and equal to 1.5 for resecuritization exposures.

There are three steps to calculating the risk weight for a securitization using the SSFA. First, a bank must complete the following equations using the previously described parameters:

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$
$$a = -\frac{1}{p \cdot K_A}$$
$$u = D - K_A$$
$$l = \max(A - K_A, 0)$$
$e = 2.71828$, the base of the natural logarithms

Second, using the variables calculated in first step, find the value of K_{SSFA} using the formula below:

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

Third, the risk weight of any particular securitization exposure (expressed as a percent) will be equal to:

$$K_{SSFA} \times 1{,}250$$

To determine the risk-based capital requirement under the SSFA, multiply the exposure amount by the higher of either (1) the calculated risk weight or (2) a 20 percent risk weight.

c. Gross-Up Approach

A bank that is not subject to the Market Risk Rule (Subpart F) of the regulatory capital rules may apply the gross-up approach instead of the SSFA to determine the risk weight of its securitization exposures, provided that it applies the gross-up approach consistently to all of its securitization exposures.

To calculate the risk weight for a securitization exposure using the gross-up approach, a bank must calculate the following four inputs:

(1) Pro rata share, which is the par value of the bank’s securitization exposure as a percent of the par value of the tranche in which the securitization exposure resides.

(2) Enhanced amount, which is the par value of the tranches that are more senior to the tranche in which the bank’s securitization resides.

(3) Exposure amount of the bank’s securitization exposure.

(4) Risk weight, which is the weighted-average risk weight of underlying exposures in the securitization pool.

The bank would calculate the credit equivalent amount which is equal to the sum of the exposure amount of the bank’s securitization exposure (3) and the pro rata share (1) multiplied by the enhanced amount (2).

A bank must assign the higher of the weighted-average risk weight (4) or a 20 percent risk weight to the securitization exposure using the gross-up approach.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

To determine the risk-based capital requirement under the gross-up approach, multiply the higher of the two risk weights by the credit equivalent amount. These steps are outlined in the worksheet below:

Gross-Up Approach Worksheet to Calculate the Capital Charge for a Securitization

(a)	Currently outstanding par value of the bank's subordinated security divided by the currently outstanding par value of the entire tranche (e.g., 60%[8])	______________
(b)	Currently outstanding par value of the more senior positions in the securitization that are supported by the tranche in which the bank owns a subordinated security	______________
(c)	Pro rata share of the more senior positions currently outstanding in the securitization that are supported by the bank's subordinated security: enter (b) multiplied by (a)	______________
(d)	Face amount[9] of the bank's subordinated security	______________
(e)	Enter the sum of (c) and (d)	______________
(f)	The higher of the weighted average risk weight applicable to the assets underlying the securitization (e.g., 100%) or 20%	______________
(g)	Risk-weighted asset amount of the bank's purchased subordinated security: enter (e) multiplied by (f)	______________
(h)	Capital charge for the risk-weighted asset amount of the bank's subordinated security: enter (g) multiplied by 8%	______________

Reporting in Schedule RC-R When Using the Gross-Up Approach:

If the bank's subordinated security is a <u>held-to-maturity securitization exposure</u>, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, "Held-to-maturity securities," and on the regulatory capital schedule in column A of Schedule RC-R, Part II, item 9.a, "On-balance sheet securitization exposures – Held-to-maturity securities." A held-to-maturity security is risk-weighted using its amortized cost. Because the bank's security could be subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its subordinated security is also subject to risk-weighting, which is the amount from line (c) in the gross-up calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, Part II, item 9.a. The bank must then report the sum of the face amount of its purchased subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's subordinated security from line (e) in the gross-up calculation above in column S of Schedule RC-R, Part II, item 9.a.

If the bank's subordinated security is an <u>available-for-sale securitization exposure</u>, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, "Available-for-sale securities," and on the regulatory capital schedule in column A of Schedule RC-R, Part II, item 9.b, "On-balance sheet securitization exposures – Available-for-sale securities." Because available-for-sale securities are risk-weighted using their amortized cost rather than their fair value, a gross unrealized loss on the bank's security (i.e., fair value is less than amortized cost) should be reported as a negative number in column B of Schedule RC-R, Part II, item 9.b; a gross unrealized gain (i.e., fair value is greater than amortized cost) should be reported as a positive number in column B of Schedule RC-R, Part II, item 9.b. In addition, because the bank's securitization exposure could be subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions

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[8] For example, if the currently outstanding par value of the entire tranche is $100 and the currently outstanding par value of the bank's subordinated security is $60, then the bank would enter 60% in (a).

[9] For risk-based capital purposes, the "face amount" of an available-for-sale security and a held-to-maturity security is its amortized cost; the "face amount" of a trading security is its fair value.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

supported by its subordinated security is also subject to risk-weighting, which is the amount from line (c) in the gross-up calculation worksheet above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, Part II, item 9.b. The bank must then report the sum of the face amount of its subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's subordinated security from line (e) in the gross-up calculation worksheet above in column S of Schedule RC-R, Part II, item 9.b.

If the bank's subordinated security is a trading securitization exposure, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, "Trading assets," and on the regulatory capital schedule in column A of Schedule RC-R, Part II, item 9.c, "On-balance sheet securitization exposures – Trading assets that receive standardized charges." A trading security is risk-weighted using its fair value if the bank is not subject to the market risk rule. Because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its subordinated security is also subject to risk-weighting, which is the amount from line (c) in the gross-up calculation worksheet above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, Part II, item 9.c. The bank must then report the sum of the face amount of its subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's subordinated security from line (e) in the gross-up calculation above in column S of Schedule RC-R, Part II, item 9.c.

d. 1,250 Percent Risk Weight Approach

If the bank cannot, or chooses not to, apply the SSFA or the Gross-Up Approach to the securitization exposure, the bank must assign a 1,250 percent risk weight to the exposure.

Banks That Are Subject to the Market Risk Capital Rule

The banking agencies' regulatory capital rules require all banks with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a bank is subject to the market risk capital guidelines if its consolidated trading activity, defined as the sum of trading assets and liabilities as reported in its Call Report for the previous quarter, equals: (1) 10 percent or more of the bank's total assets as reported in its Call Report for the previous quarter, or (2) $1 billion or more. However, a bank's primary federal supervisory authority may exempt or include the bank if necessary or appropriate for safe and sound banking practices.

A bank that is subject to the market risk capital rule must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions.

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC-D, that is held for any of the following reasons:

(1) For the purpose of short-term resale;
(2) With the intent of benefiting from actual or expected short-term price movements;
(3) To lock in arbitrage profits; or
(4) To hedge another covered position.

Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. Covered positions generally should not be risk-weighted as part of the bank's gross credit risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives as well as cleared transactions and unsettled transactions continue to have a counterparty credit risk capital charge. Those positions are included in both gross risk-weighted assets for credit risk and the bank's covered positions for market risk.

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank must be able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions).

A covered position does not include:

(1) An intangible asset (including any servicing asset);
(2) A hedge of a trading position that is outside the scope of the bank's hedging strategy (required by the market risk capital rule);
(3) Any position that, in form or substance, acts as a liquidity facility that provides support to asset-backed commercial paper;
(4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the regulatory capital rules for credit risk;
(5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity);
(6) A position held with the intent to securitize; or
(7) A direct real estate holding.

Covered positions generally should not be risk-weighted as part of the bank's gross risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all OTC derivatives continue to have a counterparty credit risk capital charge. Those positions are included in both gross risk-weighted assets for credit risk and the bank's covered positions for market risk.

A bank subject to the market risk capital rule must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital and Tier 2 capital, net of all deductions) to the sum of risk-weighted assets and market risk-weighted assets. Banks should refer to the regulatory capital rules of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

Balance Sheet Asset Categories

Credit-Enhancing Interest-Only Strips – Portions of credit-enhancing interest-only strips that do not constitute an after-tax gain-on-sale and do not qualify as securitization exposures must be risk-weighted at 1,250 percent and reported in the appropriate Schedule RC-R, Part II, balance sheet asset category (items 2 through 8). Note: Many credit-enhancing interest-only strips would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9, for purposes of calculating risk-weighted assets.

Treatment of Embedded Derivatives – If a bank has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank's assets on Schedule RC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule RC-R, Part II (items 1 to 11). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral.

Treatment of FDIC Loss-Sharing Agreements – Loss-sharing agreements entered into by the FDIC with acquirers of assets from failed institutions are considered conditional guarantees for risk-based capital purposes due to contractual conditions that acquirers must meet. The guaranteed portion of assets subject to a loss-sharing agreement may be assigned a 20 percent risk weight. Because the structural

Part II. Risk-Weighted Assets

General Instructions for Part II (cont.)

arrangements for these agreements vary depending on the specific terms of each agreement, institutions should consult with their primary federal regulator to determine the appropriate risk-based capital treatment for specific loss-sharing agreements.

Allocated Transfer Risk Reserve (ATRR) – If the reporting bank is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, the ATRR should be reported in Schedule RC-R, Part II, item 29. The ATRR is not eligible for inclusion in either tier 1 or tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule RC, item 4.c., "Allowance for loan and lease losses," and separately disclosed in Schedule RI-B, part II, Memorandum item 1. However, if the bank must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule RC. In this situation, the ATRR should be reported as a negative number (i.e., with a minus (-) sign) in column B, "Adjustments to total reported in Column A," of the corresponding asset category in Schedule RC-R, Part II, items 1 through 5 and 7 through 10. The amount to be risk-weighted for this asset in columns C through Q, as appropriate, would be its net carrying value plus the ATRR. For example, a bank has a held-to-maturity security issued by a foreign commercial company against which it has established an ATRR of $20. The security, net of the ATRR, is included in Schedule RC, item 2.a, "Held-to-maturity securities," at $80. The security should be included in Schedule RC-R, Part II, item 2.a, column A, at $80. The bank should include $-20 in Schedule RC-R, item 2.a, column B, and $100 in item 2.a, column I.

Item Instructions for Part II

Balance Sheet Asset Categories

Item No. Caption and Instructions

1 **Cash and balances due from depository institutions.** Report in column A the amount of cash and balances due from depository institutions reported in Schedule RC, sum of items 1.a and 1.b, excluding those balances due from depository institutions that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The amount of those balances due from depository institutions reported in Schedule RC, items 1.a and 1.b, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.

- *In column C–0% risk weight*, include:
  - The amount of currency and coin reported in Schedule RC, item 1.a;
  - Any balances due from Federal Reserve Banks reported in Schedule RC, item 1.b; and
  - The insured portions of deposits in FDIC-insured depository institutions and NCUA-insured credit unions reported in Schedule RC, items 1.a and 1.b.

- *In column G–20% risk weight*, include:
  - Any balances due from depository institutions and credit unions that are organized under the laws of the United States or a U.S. state reported in Schedule RC, items 1.a and 1.b, in excess of any applicable FDIC or NCUA deposit insurance limits for deposit exposures or where the depository institutions are not insured by either the FDIC or the NCUA;

Part II. (cont.)

Item No. **Caption and Instructions**

1 (cont.)

- ○ Any balances due from Federal Home Loan Banks reported in Schedule RC, items 1.a and 1.b; and
- ○ The amount of cash items in the process of collection reported in Schedule RC, item 1.a.

- *In column I–100% risk weight*, include all other amounts that are not reported in columns C through Q.

- Cash and balances due from depository institutions that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - ○ *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - ○ The amounts reported in Schedule RC, items 1.a and 1.b, composed of balances due from foreign depository institutions;
  - ○ Any balances due from foreign central banks;

If the reporting bank is the correspondent bank in a pass-through reserve balance relationship, report in column C the amount of its own reserves as well as those reserve balances actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions.

If the reporting bank is the respondent bank in a pass-through reserve balance relationship, report in column C the amount of the bank's reserve balances due from its correspondent bank that its correspondent has actually passed through to a Federal Reserve Bank on the reporting bank's behalf, i.e., for purposes of this item, treat these balances as balances due from a Federal Reserve Bank. This treatment differs from that required in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S.," which treats pass-through reserve balances held by a bank's correspondent as balances due from a depository institution as opposed to balances due from the Federal Reserve.

If the reporting bank is a participant in an excess balance account at a Federal Reserve Bank, report in column C the bank's balance in this account.

If the reporting bank accounts for any holdings of certificates of deposit (CDs) like available-for-sale debt securities that do not qualify as securitization exposures, report in column A the fair value of such CDs and include in column B the difference between the fair value and amortized cost of these CDs. When fair value exceeds amortized cost, report the difference as a positive number in column B. When amortized cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in column B. Risk weight the amortized cost of these CDs in columns C through J, as appropriate.

2 **Securities (excluding securitization exposures).** Do not include securities that qualify as securitization exposures in items 2.a and 2.b below; instead, report these securities in Schedule RC-R, Part II, items 9.a and 9.b. In general, under the regulatory capital rules, securitizations are exposures that are "tranched" for credit risk. Refer to the definitions of *securitization, traditional securitization, synthetic securitization* and *tranche* in §.2 of the regulatory capital rules.

Part II. (cont.)

Item No. Caption and Instructions

2.a **Held-to-maturity securities.** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a, excluding those HTM securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The amount of those HTM securities reported in Schedule RC, item 2.a, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.a, column A. The sum of Schedule RC-R, Part II, items 2.a and 9.a, column A, must equal Schedule RC, item 2.a.

Exposure amount to be used for purposes of risk weighting – bank cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as held-to-maturity where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP and in column A.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as held-to-maturity where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security reported on the balance sheet of the bank and in column A, less any net unrealized gains on the exposure plus any net realized loss on the exposure included in AOCI. For such a held-to-maturity security, report in column B any difference between the carrying value of the security reported in column A of this item and its exposure amount.

- *In column C–0% risk weight*. The zero percent risk weight applies to exposures to the U.S. government, a U.S. government agency, or a Federal Reserve Bank, and those exposures otherwise unconditionally guaranteed by the U.S. government. Include exposures to or unconditionally guaranteed by the FDIC or the NCUA. Certain foreign government exposures and certain entities listed in §.32 of the regulatory capital rules may also qualify for the zero percent risk weight. Include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the zero percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 1, "U.S. Treasury securities,"
  - Item 2.a, Securities "Issued by U.S. Government agencies,"
  - Item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA,"
  - Item 4.b.(1), those other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies, such as GNMA exposures,
  - Item 4.c.(1)(a) , those commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent GNMA securities, and
  - Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent GNMA securities.

- *In column G–20% risk weight*. The 20 percent risk weight applies to general obligations of U.S. states, municipalities, and U.S. public sector entities. It also applies to exposures to U.S. depository institutions and credit unions, exposures conditionally guaranteed by the U.S. government, as well as exposures to U.S. government-sponsored enterprises. Certain foreign government and foreign bank exposures may qualify as indicated in §.32 of the regulatory capital rules. Include the exposure amounts of securities reported in

Part II. (cont.)

Item No. Caption and Instructions

2.a (cont.)

Schedule RC-B, Column A, that do not qualify as securitization exposures that qualify for the 20 percent risk weight. Such securities may include portions of, but may not be limited to:

- Item 2.b, Securities "Issued by U.S. Government-sponsored agencies" (exclude interest-only securities),
  Item 3, "Securities issued by states and political subdivisions in the U.S." that represent general obligation securities,
- Item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC,"
- Item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude interest-only securities),
- Item 4.c.(1)(a), those commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent FHLMC and FNMA securities (exclude interest-only securities),
- Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent FHLMC and FNMA securities (exclude interest-only securities),
- Item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude interest-only securities), and
- Any securities categorized as "structured financial products" on Schedule RC-B that are not securitization exposures and qualify for the 20 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets.

- *In column H–50% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the 50 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 3, "Securities issued by states and political subdivisions in the U.S.," that represent revenue obligation securities,
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for 50 percent risk weight. (Pass-through securities that do not qualify for the 50 percent risk weight should be assigned to the 100 percent risk weight category.)
  - Item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude portions subject to an FDIC loss-sharing agreement and interest-only securities) that represent residential mortgage exposures that qualify for 50 percent risk weight, and
  - Item 4.b.(3), "All other residential MBS.". Include only those MBS that qualify for the 50 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS portions that are tranched for credit risk; those must be reported as securitization exposures in Schedule RC-R, Part II, item 9.a. Exclude interest-only securities.

- *In column I–100% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for the 100 percent risk weight,

Part II. (cont.)

Item No. Caption and Instructions

2.a (cont.)

- Item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (excludes portions subject to an FDIC loss-sharing agreement), that represent residential mortgage exposures that qualify for the 100 percent risk weight,
- Item 4.b.(3), "All other residential MBS," Include only those MBS that qualify for the 100 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. (Note: Do not include MBS that are tranched for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.a.),
- Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
- Item 4.c.(2)(b), "All other commercial MBS,"
- Item 5.a, "Asset-backed securities," and
- Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are <u>not</u> securitization exposures and qualify for the 100 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets.
- Also include all other HTM securities that do not qualify as securitization exposures reported in Schedule RC, item 2.a, that are not included in columns C through H and J through Q.

- Held-to-maturity securities that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include the exposure amounts of those securities reported in Schedule RC-B, Column A, that are directly and unconditionally guaranteed by foreign central governments or are exposures to foreign depository institutions that do <u>not</u> qualify as securitization exposures. Such securities may include portions of, but may not be limited to:
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities,"
  - Item 4.b.(3), "All other residential MBS,"
  - Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
  - Item 4.c.(2)(b), "All other commercial MBS,"
  - Item 5.a, "Asset-backed securities,"
  - Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are <u>not</u> securitization exposures. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets, and
  - Item 6.b, "Other foreign debt securities."

2.b **<u>Available-for-sale securities.</u>** Report in column A the fair value of available-for-sale (AFS) securities reported in Schedule RC, item 2.b, <u>excluding</u> those AFS securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The fair value of those AFS securities reported in Schedule RC, item 2.b, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.b, column A. The sum of Schedule RC-R, Part II, items 2.b and 9.b, column A, must equal Schedule RC, item 2.b.

<u>Exposure amounts to be used for purposes of risk weighting by a bank that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:</u>

Part II. (cont.)

Item No.	Caption and Instructions

2.b (cont.)

For a security classified as available-for-sale where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is:

- **For debt securities:** the carrying value, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP (i.e., the fair value of the available-for-sale debt security) and in column A.
- **For equity securities and preferred stock classified as an equity under GAAP:** the adjusted carrying value.[10]

Exposure amounts to be used for purposes of risk weighting by a bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as available-for-sale where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is:

- **For debt securities:** the carrying value, less any net unrealized gains on the exposure plus any net realized loss on the exposure included in AOCI.
- **For equity securities and preferred stock classified as an equity under GAAP):** the carrying value less any net unrealized gains that are reflected in such carrying value but are excluded from the bank's regulatory capital components.

- *In column B*, a bank that has made the AOCI opt-out election should include the difference between the fair value and amortized cost of those AFS debt securities that do not qualify as securitization exposures. This difference equals the amounts reported in Schedule RC-B, items 1 through 6, column D, minus items 1 through 6, column C, for those AFS debt securities included in these items that are not securitization exposures.
  - When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, Part II, item 2.b, column B.
  - When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule RC-R, Part II, item 2.b, column B.
  - If AFS equity securities with readily determinable fair values have a net unrealized gain (i.e., Schedule RC-B, item 7, column D, exceeds item 7, column C), the portion of the net unrealized gain (55 percent or more) not included in Tier 2 capital should be included in Schedule RC-R, Part II, item 2.b, column B. The portion that is not included in Tier 2 capital equals Schedule RC-B, item 7, column D minus column C, minus Schedule RC-R, item 31.

- *In column C–0% risk weight*, the zero percent risk weight applies to exposures to the U.S. government, a U.S. government agency, or a Federal Reserve Bank, and those exposures otherwise unconditionally guaranteed by the U.S. government. Include exposures to or unconditionally guaranteed by the FDIC or the NCUA. Certain foreign government exposures and certain entities listed in §.32 of the regulatory capital rules may also qualify for zero percent risk weight. Include the exposure amounts of securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the zero percent risk weight. Such securities may include portions of, but may not be limited to:

[10] Adjusted carrying value applies only to equity exposures and is defined in §.51 of the regulatory capital rules. In general, it includes an on-balance sheet amount as well as application of conversion factors to determine on-balance sheet equivalents of any off-balance sheet commitments to acquire equity exposures. For institutions that cannot or have not made the AOCI opt-out election, the on-balance sheet component is equal to the carrying value. For institutions that have made the AOCI opt-out election, the on-balance sheet component is the carrying value less any net unrealized gains that are reflected in the carrying value but excluded from regulatory capital. Refer to §.51 for the precise definition.

Part II. (cont.)

Item No. **Caption and Instructions**

2.b (cont.)

- ○ Item 1, "U.S. Treasury securities,"
- ○ Item 2.a, Securities "Issued by U.S. Government agencies,"
- ○ Item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA,"
- ○ Portions of item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies," such as GNMA exposures,
- ○ Item 4.c.(1)(a) , certain portions of commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent GNMA securities, and
- ○ Item 4.c.(2)(a), certain portions of commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent GNMA securities.

- *In column G–20% risk weight*, the 20 percent risk weight applies to general obligations of U.S. states, municipalities, and U.S. public sector entities. It also applies to exposures to U.S. depository institutions and credit unions, exposures conditionally guaranteed by the U.S. government, as well as exposures to U.S. government sponsored enterprises. Certain foreign government and foreign bank exposures may qualify for the 20 percent risk weight as indicated in §.32 of the regulatory capital rules. Include the exposure amounts of those securities reported in Schedule RC-B, Column C, that do <u>not</u> qualify as securitization exposures that qualify for the 20 percent risk weight. Such securities may include portions of, but may not be limited to:
  - ○ Item 2.b, Securities "Issued by U.S. Government-sponsored agencies" (exclude interest-only securities),
  - ○ Item 3, "Securities issued by states and political subdivisions in the U.S." that represent general obligation securities,
  - ○ Item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC" (exclude interest-only securities),
  - ○ Item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies," (exclude interest-only securities)
  - ○ Item 4.c.(1)(a), those commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent FHLMC and FNMA securities (exclude interest-only securities),
  - ○ Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent FHLMC and FNMA securities (exclude interest-only securities),
  - ○ Item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude interest-only securities), and
  - ○ Any securities categorized as "structured financial products" on Schedule RC-B that are <u>not</u> securitization exposures and qualify for the 20 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets. Exclude interest-only securities.

- *In column H–50% risk weight*, include the exposure amounts of those securities reported in Schedule RC-B, column C, that do <u>not</u> qualify as securitization exposures that qualify for the 50 percent risk weight. Such securities may include portions of, but may not be limited to:
  - ○ Item 3, "Securities issued by states and political subdivisions in the U.S.," that represent revenue obligation securities,
  - ○ Item 4.a.(3), "Other [residential mortgage] pass-through securities," (that represent residential mortgage exposures that qualify for the 50 percent risk weight. (Pass-through securities that do not qualify for the 50 percent risk weight should be assigned to the 100 percent risk weight category.)

Part II. (cont.)

Item No. **Caption and Instructions**

2.b (cont.)

- Item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude portions subject to an FDIC loss-sharing agreement and interest-only securities) that represent residential mortgage exposures that qualify for the 50 percent risk weight, and
- Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 50 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS that are tranched for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.b. Do not include interest-only securities.

- *In column I–100% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for the 100 percent risk weight,
  - Item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude portions subject to an FDIC loss-sharing agreement) that represent residential mortgage exposures that qualify for the 100 percent risk weight,
  - Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 100 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS portions that are tranched for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.b.
  - Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
  - Item 4.c.(2)(b), "All other commercial MBS,"
  - Item 5.a, "Asset-backed securities,"
  - Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures and qualify for the 100 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets.
  - 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 and J through Q.

- *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 regulatory capital rules. This risk weight takes effect in 2018, and therefore this item is blocked from being completed until that time. Before 2018, 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

Part II. (cont.)

Item No. Caption and Instructions

2.b (cont.) Schedule RC-R, Part I, item 31). (NOTE: Certain investments in mutual funds reported in Schedule RC-B, item 7, may be risk-weighted using the simple risk-weight and look-through approaches as described in §§.51 to .53 of the regulatory capital rules.)

- *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, item 31).

- Available-for-sale securities that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include the exposure amounts of those securities reported in Schedule RC-B, Column C, that are directly and unconditionally guaranteed by foreign central governments or are exposures to foreign depository institutions that do not qualify as securitization exposures. Such securities may include portions of, but may not be limited to:
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities,"
  - Item 4.b.(3), "All other residential MBS,"
  - Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
  - Item 4.c.(2)(b), "All other commercial MBS,"
  - Item 5.a, "Asset-backed securities,"
  - Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures. Note: Many structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets, and
  - Item 6.b, "Other foreign debt securities," and
  - Item 7, "Investments in mutual funds and other equity securities with readily determinable fair values."

3 **Federal funds sold and securities purchased under agreements to resell.** Report in column A the amount of federal funds sold and securities purchased under agreements to resell (securities resale agreements) reported in Schedule RC, sum of items 3.a and 3.b, excluding those federal funds sold and securities resale agreements that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those federal funds sold and securities resale agreements reported in Schedule RC, items 3.a and 3.b, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.d, column A.

- *In column C–0% risk weight*, include the portion of Schedule RC, item 3, that is directly and unconditionally guaranteed by U.S. Government agencies.

- *In column D–2% risk weight,* include the amount of centrally cleared securities resale agreements reported in Schedule RC, item 3,with Qualified Central Counterparties (QCCPs), as defined in §.2 of the regulatory capital rules, where the collateral posted by the bank to the QCCP or clearing member is subject to an arrangement that prevents any losses to the clearing member client due to the joint default or a concurrent insolvency, liquidation, or receivership proceeding of the clearing member and any other clearing

Part II. (cont.)

Item No. Caption and Instructions

3 (cont.) member clients of the clearing member; and the clearing member client bank has conducted sufficient legal review to conclude with a well-founded basis (and maintains sufficient written documentation of that legal review) that in the event of a legal challenge (including one resulting from default or from liquidation, insolvency, or receivership proceeding) the relevant court and administrative authorities would find the arrangements to be legal, valid, binding and enforceable under the law of the relevant jurisdictions.

- *In column E–4% risk weight,* include the amount of centrally cleared securities resale agreements reported in Schedule RC, item 3, with QCCPs in all other cases that do not meet the criteria of qualification for a 2% risk weight.

- *In column G–20% risk weight*, include exposures to U.S. depository institution counterparties.

- *In column I–100% risk weight*, include exposures to non-depository institution counterparties that lack qualifying collateral (refer to the regulatory capital rules for specific criteria). Also include the amount of federal funds sold and securities resale agreements reported in Schedule RC, item 3, that are not included in columns C through Q.

- Federal funds sold and securities purchased under agreements to resell that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - The portion of Schedule RC, item 3, that is directly and unconditionally guaranteed by foreign central governments and exposures to foreign depository institutions.

4 **Loans and leases held for sale.** Report in column A of the appropriate subitem the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a, excluding those HFS loans and leases that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The carrying value of those HFS loans and leases reported in Schedule RC, item 4.a, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.

4.a **Residential mortgage exposures.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a, that are residential mortgage exposures.[11] Also include the carrying value of HFS loans that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Exclude HFS loans secured by multifamily residential properties included in Schedule RC-C, Part I, item 1.d, that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*. Such loans should be reported in Schedule RC-R, Part II, item 4.d.

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[11] Residential mortgage exposure means an exposure (other than a securitization exposure, equity exposure, statutory multifamily mortgage, or presold construction loan) that is:
(1) An exposure that is primarily secured by a first or subsequent lien on one-to-four family residential property; or
(2) (i) An exposure with an original and outstanding amount of $1 million or less that is primarily secured by a first or subsequent lien on residential property that is not one-to-four family; and
(ii) For purposes of calculating capital requirements under Subpart E of this part, is managed as part of a segment of exposures with homogeneous risk characteristics and not on an individual exposure basis.

Part II. (cont.)

Item No.	Caption and Instructions

4.a (cont.)

- *In column G–20% risk weight*, include the carrying value of the guaranteed portion of HFS FHA and VA mortgage loans included in Schedule RC-C, Part I, item 1.c.(2)(a).
- *In column H–50% risk weight*, include the carrying value of HFS loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans), qualifying loans from items 1.c.(2)(a) and 1.d, or those that meet the definition of a residential mortgage exposure and qualify for 50% risk weight under §.32(g) of the regulatory capital rules. For 1-4 family residential mortgages, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family or multifamily residential properties, not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury's Home Affordable Mortgage Program (HAMP)). Also include loans that meet the definition of statutory multifamily mortgage in §.2 of the regulatory capital rules.
- *In column I–100% risk weight*, include the carrying value of HFS loans that are residential mortgage exposures reported in Schedule RC, item 4.a, that are not included in columns G, H, or Q.

4.b **High volatility commercial real estate exposures.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a., that are high volatility commercial real estate (HVCRE) exposures,[12] including HVCRE exposures that are 90 days or more past due or in nonaccrual status.

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[12] High volatility commercial real estate (HVCRE) exposure means a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction (ADC) of real property, unless the facility finances:
(1) One- to four-family residential properties;
(2) Real property that:
  (i) would qualify as an investment in community development under 12 U.S.C. 338a or 12 U.S.C. 24 (Eleventh), as applicable, or as a ''qualified investment'' under [12 CFR part 25 (national bank), 12 CFR part 195 (federal savings association) (OCC); 12 CFR part 228 (Board); 12 CFR part 345 (FDIC)], and
  (ii) is not an ADC loan to any entity described in [12 CFR part 25.12(g)(3) (national banks) and 12 CFR 195.12(g)(3) (federal savings associations) (OCC); 12 CFR 208.22(a)(3) or 228.12(g)(3) (Board); 12 CFR 345.12(g)(3) (FDIC)], unless it is otherwise described in paragraph (1), (2)(i), (3) or (4) of this definition;
(3) The purchase or development of agricultural land, which includes all land known to be used or usable for agricultural purposes (such as crop and livestock production), provided that the valuation of the agricultural land is based on its value for agricultural purposes and the valuation does not take into consideration any potential use of the land for non-agricultural commercial development or residential development; or
(4) Commercial real estate projects in which:
  (i) the loan-to-value ratio is less than or equal to the applicable maximum supervisory loan-to-value ratio in the real estate lending standards at [12 CFR part 34, subpart D (national banks) and 12 CFR part 160, subparts A and B (federal savings associations) (OCC); 12 CFR part 208, appendix C (Board); 12 CFR part 365, subpart A (state nonmember banks) and 12 CFR 390.264 and 390.265 (state savings associations) (FDIC)];
  (ii) The borrower has contributed capital to the project in the form of case or unencumbered readily marketable asset (or has paid development expenses out-of-pocket) of at least 15 percent of the real estate's appraised ''as completed'' value; and
  (iii) The borrower contributed the amount of capital required by paragraph (4)(ii) of this definition before the bank advances funds under the credit facility, and the capital contributed by the borrower, or internally generated by the project, is contractually required to remain in the project throughout the life of the project. The life of a project concludes only when the credit facility is converted to permanent financing or is sold or paid in full. Permanent financing may be provided by the bank that provided the ADC facility as long as the permanent financing is subject to the bank's underwriting criteria for long-term mortgage loans.

Part II. (cont.)

Item No. Caption and Instructions

4.b (cont.)

- *In column J–150% risk weight,* include the portion of the carrying value of high volatility commercial real estate exposures, as defined in §.2 of the regulatory capital rules, included in Schedule RC, item 4.a.

4.c **Exposures past due 90 days or more or on nonaccrual.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a., that are 90 days or more past due or in nonaccrual status according to the requirements set forth in in §.32(k) of the regulatory capital rules. Do not include HFS exposures to sovereigns or HFS residential mortgage exposures, as described in §.32(a) and §.32(g), respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule RC-R, Part II, item 4.d and item 4.a, respectively). Also do not include HFS high volatility commercial real estate exposures that are 90 days or more past due or in nonaccrual status (report such exposures in Schedule RC-R, Part II, item 4.b).

- *In column J–150% risk weight,* include the carrying value of exposures included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- Loans and leases held for sale that are past due 90 days or more or in nonaccrual status that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include only those HFS loans that are exposures to foreign banks (excluding foreign central banks):
  - The carrying value of exposures included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status, excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

4.d **All other exposures.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a, that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above.

- *In column C–0% risk weight,* include the carrying value of the unconditionally guaranteed portion of HFS SBA "Guaranteed Interest Certificates" purchased in the secondary market that are included in Schedule RC-C, part I.

- *In column G–20% risk weight*, include the carrying value of HFS loans to and acceptances of other U.S. depository institutions that are reported in Schedule RC-C, part I, item 2, plus the carrying value of the guaranteed portion of HFS SBA loans originated and held by the reporting bank included in Schedule RC-C, part I, and the carrying value of the portion of HFS student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.d, "Other consumer loans."

- *In column H–50% risk weight*, include the carrying value of HFS loans that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 50 percent risk weight.

Part II. (cont.)

Item No. Caption and Instructions

4.d (cont.)

- *In column I–100% risk weight*, include the carrying value of HFS loans and leases reported in Schedule RC, item 4.a, that are not included in columns C through H and J through Q. Also include the carrying value of HFS loans that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 100 percent risk weight.

- All other loans and leases held for sale that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II:*
  - The carrying value of other loans and leases held for sale reported in Schedule RC, item 4.a, that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above.

5 **Loans and leases, net of unearned income.** Report in column A of the appropriate subitem the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b, excluding those loans and leases, net of unearned income, that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The carrying value of those loans and leases, net of unearned income, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.

5.a **Residential mortgage exposures.** Report in column A the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that are residential mortgage exposures.[13] Also include the carrying value of loans, net of unearned income, that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Exclude loans secured by multifamily residential properties included in Schedule RC-C, Part I, item 1.d, that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*. Such loans should be reported in Schedule RC-R, Part II, item 5.d.

- *In column G–20% risk weight*, include the carrying value of the guaranteed portion of FHA and VA mortgage loans included in Schedule RC-C, part I, item 1.c.(2)(a).

- *In column H–50% risk weight*, include the carrying value of loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans), qualifying loans from items 1.c.(2)(a) and 1.d, or those that meet the definition of a residential mortgage exposure and qualify for 50% risk weight under §.32(g) of the regulatory capital rules. For 1-4 family residential mortgages, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family or multifamily residential properties, not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury's Home Affordable Mortgage Program (HAMP)). Also include loans that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules.

[13] See the instructions for Schedule RC-R, Part II, item 4.a, above for the definition of *residential mortgage exposure*.

Part II. (cont.)

Item No.	Caption and Instructions
5.a (cont.)	• *In column I–100% risk weight*, include the carrying value of loans related to residential mortgages exposures reported in Schedule RC, item 4.b, that are not included in columns G, H, or Q.
5.b	**High volatility commercial real estate exposures.** Report in Column A the portion of the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that are high volatility commercial real estate (HVCRE) exposures,[14] including HVCRE exposures that are 90 days or more past due or in nonaccrual status. • *In column J–150% risk weight,* include the portion of the carrying value of high volatility commercial real estate exposures, as defined in §.2 of the regulatory capital rules, included in Schedule RC, item 4.b.
5.c	**Exposures past due 90 days or more or on nonaccrual.** Report in column A the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status according to the requirements set forth in in §.32(k) of the regulatory capital rules. Do not include exposures to sovereigns or residential mortgage exposures, as described in §.32(a) and §.32(g), respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule RC-R, Part II, items 5.d and 5.a, respectively). Also do not include high volatility commercial real estate exposures that are 90 days or more past due or in nonaccrual status (report such exposures in Schedule RC-R, Part II, item 5.b). • *In column J–150% risk weight,* include the carrying value of exposures included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules. • Loans and leases, net of unearned income, that are past due 90 days or more or in nonaccrual status that must be risk weighted according to the Country Risk Classification (CRC) methodology o *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include only those loans that are exposures to foreign banks (excluding foreign central banks): o The carrying value of exposures included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status, excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.
5.d	**All other exposures.** Report in column A the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b., that are not reported in items 5.a through 5.c above. • *In column C–0% risk weight,* include the carrying value of the unconditionally guaranteed portion of SBA "Guaranteed Interest Certificates" purchased in the secondary market that are included in Schedule RC-C, part I.

[14] See the instructions for Schedule RC-R, Part II, item 4.b, above for the definition of HVCRE exposure.

Part II. (cont.)

Item No. Caption and Instructions

5.d (cont.)

- *In column G–20% risk weight*, include the carrying value of loans to and acceptances of other U.S. depository institutions that are reported in Schedule RC-C, part I, item 2 (excluding the carrying value of any long-term exposures to non-OECD banks), plus the carrying value of the guaranteed portion of SBA loans originated and held by the reporting bank included in Schedule RC-C, part I, and the carrying value of the portion of student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.d, "Other consumer loans."

- *In column H–50% risk weight*, include the carrying value of loans and leases that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 50 percent risk weight.

- *In column I–100% risk weight*, include the carrying value of loans and leases reported in Schedule RC, item 4.b, that is not included in columns C through H and J through Q (excluding loans that are assigned a higher than 100 percent risk weight, such as HVCRE loans and past due loans). Also include the carrying value of loans that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 100 percent risk weight.

- All other loans and leases, net of unearned income, that must be risk weighted according to the Country Risk Classification (CRC) methodology
    - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II:*
    - The carrying value of other loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that are not reported in Schedule RC-R, Part II, items 5.a through 5.c above.

6 **LESS: Allowance for loan and lease losses.** Report in columns A and B the balance of the allowance for loan and lease losses reported in Schedule RC, item 4.c.

7 **Trading assets (excluding securitization exposures that receive standardized charges).** Report in column A the fair value of trading assets reported in Schedule RC, item 5, excluding those trading assets that are securitization exposures, as defined in §.2 of the regulatory capital rules.

The fair value of those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.c, column A. The sum of Schedule RC-R, Part II, items 7 and 9.c, column A, must equal Schedule RC, item 5.

If the bank is subject to the market risk capital rules, include in Column B the fair value of all trading assets that are covered positions as defined in Schedule RC-R, Part II, item 26. The bank will report its standardized market risk-weighted assets in Schedule RC-R, Part II, item 26.

For all trading assets reported in column A that do not meet the definition of a covered position and for banks not subject to the market risk capital rules:

- *In column B*, if the bank completes Schedule RC-D, include the fair value of derivative contracts that are reported as assets in Schedule RC-D, item 11 (column A on the FFIEC 031). If the bank does not complete Schedule RC-D, include the portion of the

Part II. (cont.)

Item No. Caption and Instructions

7 (cont.)

amount reported in Schedule RC, item 5, that represents the fair value of derivative contracts that are assets. Exclude from column B those derivative contracts reported in these items that qualify as securitization exposures.

- *In column C–0% 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 zero percent risk weight. Such trading assets may include portions of, but may not be limited to:
  - Item 1, "U.S. Treasury securities," (column A on the FFIEC 031),
  - The portion of the amount reported in item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government agencies, and
  - The portion of the amounts reported in item 4, (column A on the FFIEC 031) that represents the fair value of mortgage-backed securities guaranteed by GNMA.
  - 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 securities. 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.

- *In column G–20% 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 20 percent risk weight. Such trading assets may include portions of, but may not be limited to:
  - Item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government-sponsored agencies,
  - The portion of the amount reported in item 3, (column A on the FFIEC 031) that represents the fair value of general obligations issued by states and political subdivisions in the U.S.,
  - The portion of the amount reported in item 4, (column A on the FFIEC 031) that represents the fair value of mortgage-backed securities issued by FNMA and FHLMC,
  - The fair value of those asset-backed securities, structured financial products, and other debt securities reported in item 5, "Other debt securities," (column A on the FFIEC 031) that represent exposures to U.S. depository institutions,
  - The portion of the amount reported in item 6.d, "Other loans," (column A on the FFIEC 031) that represents loans to and acceptances of U.S. depository institutions, and
  - The portion of the amount reported in item 9, "Other trading assets," (column A on the FFIEC 031) that represents the fair value of certificates of deposit.
  - 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.

- *In column H–50% 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 50 percent risk weight. Such trading assets may include portions of, but may not be limited to:
  - Item 3, (column A on the FFIEC 031) that represents the fair value of revenue obligations issued by states and political subdivisions in the U.S., and
  - The fair value of those mortgage-backed securities reported in item 4, "Mortgage-backed securities," (column A on the FFIEC 031).

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.

- *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 mortgage-backed securities 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 trading assets reported in Schedule RC, item 5, that is not included in columns C through H and J through Q. 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.

- Trading assets that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include the portions of those exposures reported in Schedule RC-D that are directly and unconditionally guaranteed by foreign central governments or are exposures on foreign depository institutions that do not qualify as securitization exposures. Such exposures may include portions of, but may not be limited to:
  - The fair value of those mortgage-backed securities reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and other debt securities reported in Schedule RC-D, Item 5, "Other debt securities," (column A on the FFIEC 031), issued by foreign depository institutions and foreign sovereign units.
  - 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.

8 **All other assets.** Report in column A the sum of the amounts reported in Schedule RC, item 6, "Premises and fixed assets"; item 7, "Other real estate owned"; item 8, "Investments in unconsolidated subsidiaries and associated companies"; item 9, "Direct and indirect investments in real estate ventures"; item 10.a, "Goodwill"; item 10.b, "Other intangible assets"; and item 11, "Other assets," excluding those assets reported in Schedule RC, items 6 through 11, that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those assets reported in Schedule RC, items 6 through 11, that qualify as securitization exposure must be reported in Schedule RC-R, Part II, item 9.d, column A.

Part II. (cont.)

Item No. Caption and Instructions

8 (cont.) Treatment of Default Fund Contributions

Also include the amount of default fund contributions made by the bank to central counterparties (CCP) and collateral provided by the bank to CCPs that are not bankruptcy remote as described in §.35 of the regulatory capital rules, excluding securities provided as collateral. However, if the collateral is securities, report the securities amounts in Schedule RC-R, Part II, items 2.a, 2.b, or 7, as appropriate.

Treatment of Defined Benefit Postretirement Plan Assets – Applicable Only to Banks That Have Made the Accumulated Other Comprehensive Income (AOCI) Opt-Out Election in Schedule RC-R, Part I, item 3.a

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158)), the institution should adjust the asset amount reported in column A of this item for any amounts included in Schedule RC, item 26.b, "Accumulated other comprehensive income," affecting assets as a result of the initial and subsequent application of the funded status and measurement date provisions of ASC Subtopic 715-20. The adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, Part I, item 9.d) is to reverse the effects on AOCI of applying ASC Subtopic 715-20 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Subtopic 715-20 should be reported as an adjustment to assets in column B of this item. For example, the derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying ASC Subtopic 715-20 should be reported in this item as a negative amount in column B and as a positive amount in column I. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b, as an increase to AOCI and in column A of this item should be excluded from risk-weighted assets by reporting the amount as a positive number in column B of this item.

- *In column B*, include the amount of:
  - Any goodwill net of associated deferred tax liabilities (DTLs) reported in Schedule RC-R, Part I, item 6;
  - Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs reported in Schedule RC-R, Part I, item 7;
  - Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs reported in Schedule RC-R, Part I, item 8;
  - The fair value of derivative contracts that are reported as assets in Schedule RC, item 11;
  - Items subject to the 10 percent and 15 percent common equity tier 1 capital threshold limitations that have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13 through 16. These excess amounts pertain to three items:
    - Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
    - Mortgage servicing assets; and
    - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances; and
  - The bank's investments in unconsolidated banking and finance subsidiaries that are reported in Schedule RC, item 8, and have been deducted for risk-based capital purposes in Schedule RC-R, Part I, item 33.

Part II. (cont.)

Item No.	Caption and Instructions

8 (cont.)

- *In column C–0% risk weight*, include:
  - The carrying value of Federal Reserve Bank stock included in Schedule RC-F, item 4;
  - Accrued interest receivable on assets included in the zero percent risk weight category (column C of Schedule RC-R, Part II, items 1 through 7); and
  - The carrying value of gold bullion not held for trading that is held in the bank's own vault or in another bank's vault on an allocated basis, and exposures that arise from the settlement of cash transactions (such as equities, fixed income, spot foreign exchange, and spot commodities) with a central counterparty where there is no assumption of ongoing credit risk by the central counterparty after settlement of the trade and associated default fund contributions.

- *In column G–20% risk weight*, include:
  - The carrying value of Federal Home Loan Bank stock included in Schedule RC-F, item 4;
  - Accrued interest receivable on assets included in the 20 percent risk weight category (column G of Schedule RC-R, Part II, items 1 through 7); and
  - The portion of customers' acceptance liability reported in Schedule RC, item 11, that has been participated to other depository institutions.

- *In column H–50% risk weight*, include accrued interest receivable on assets included in the 50 percent risk weight category (column H of Schedule RC-R, Part II, items 1 through 7).

- *In column I–100% risk weight*, include:
  - Accrued interest receivable on assets included in the 100 percent risk weight category (column I of Schedule RC-R, Part II, items 1 through 7);
  - Delivery-versus-payment (DvP) and payment-versus-payment (PvP) transactions in which the counterparty has not made delivery or payment within 5 to 15 business days after the contractual settlement date as described in §.38 of the regulatory capital rules; and
  - The amount of all other assets reported in column A that is not included in columns B through Q.
  - Also include the amounts of items that do not exceed the 10% and 15% 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:[15]
    - Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
    - Mortgage servicing assets; and
    - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances.

- *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).

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

[15] Note: These items will become subject to a 250 percent risk weight beginning in 2018.

Part II. (cont.)

Item No.	Caption and Instructions
8 (cont.)	• *In column N–600% risk weight,* for equity securities issued by investment firms that do not have readily determinable fair values reported in Schedule RC-F, item 4, include the historical cost of these equity securities (as reported in Schedule RC-F, item 4). • *In column O–625% risk weight*, include DvP and PvP transactions in which the counterparty has not made delivery or payment within 16 to 30 business days after the contractual settlement date as described in §.38 of the regulatory capital rules. • *In column P–937.5% risk weight*, include DvP and PvP transactions in which the counterparty has not made delivery or payment within 31 to 45 business days after the contractual settlement date as described in §.38 of the regulatory capital rules. • *In column Q–1250% risk weight,* include: o DvP and PvP transactions in which the counterparty has not made delivery or payment 46 or more business days after the contractual settlement date as described in §.38 of the regulatory capital rules; o The amount of default fund contributions to both qualified and non-qualified central counterparties according to the methodologies described in §.35(d) of the regulatory capital rules; and o Non-DvP/non-PvP transactions in which the bank has not received deliverables from the counterparty five or business days after which the delivery was due.
9	**On-balance sheet securitization exposures.** When determining the amount of risk-weighted assets for securitization exposures, banks that are not subject to the market risk capital rule may elect to use either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, as described above and in §§.41 to 45 of the regulatory capital rules. However, such banks must use the SSFA or Gross-Up Approach consistently across all securitization exposures (items 9.a through 10), but banks may risk weight any individual securitization exposure at 1,250 percent in lieu of applying the SSFA or Gross-Up Approach to that individual exposure. Banks subject to the market risk capital rule must use the SSFA when determining the amount of risk-weighted assets for securitization exposures. For further information, refer to the discussion of “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Part II.
9.a	**Held-to-maturity securities.** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a, that are securitization exposures. Refer to the instructions for Schedule RC-R, Part II, item 2.a, for a summary of the reporting locations of HTM securitization exposures. Exposure amount to be used for purposes of risk weighting – bank cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a: For a security classified as held-to-maturity where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP and in column A.

Part II. (cont.)

Item No. Caption and Instructions

9.a (cont.) Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as held-to-maturity where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security reported on the balance sheet of the bank and in column A, less any net unrealized gains on the exposure plus any net realized loss on the exposure included in AOCI. *In column B*, report any difference between the carrying value and the exposure amount of those HTM securities reported in column A of this item that qualify as securitization exposures and will be risk weighted by applying the 1,250 percent risk weight.

- *In column B*, all banks should include the amount reported in column A of this item for those HTM securities reported in Schedule RC, item 2.a, that qualify as securitization exposures and will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach.

- *In column Q*, report the exposure amount of those HTM securitization exposures that are risk weighted by applying the 1,250 percent risk weight (i.e., those HTM securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).

- *In column R,* report the risk-weighted asset amount (and not the exposure amount) of those HTM securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Part II and in §§.41 to 45 of the regulatory capital rules.

- *In column S*, report the risk-weighted asset amount (and not the exposure amount) of HTM securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Part II and in §§.41 to 45 of the regulatory capital rules.

9.b **Available-for-sale securities.** Report in column A the fair value of those available-for-sale (AFS) securities reported in Schedule RC, item 2.b, that are securitization exposures. Refer to the instructions for Schedule RC-R, Part II, item 2.b, for a summary of the reporting locations of AFS securitization exposures.

Exposure amount to be used for purposes of risk weighting – bank that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as available-for-sale where the bank cannot or has not made the AOCI opt-out election (i.e. most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is:

- **For debt securities:** the carrying value, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP (i.e., the fair value of the available-for-sale debt security) and in column A.
- **For equity securities and preferred stock classified as an equity under GAAP:** the adjusted carrying value.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as available-for-sale where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is:

Part II. (cont.)

Item No.	Caption and Instructions
9.b (cont.)	• **For debt securities:** the carrying value, less any net unrealized gains on the exposure plus any net realized loss on the exposure included in AOCI. • **For equity securities and preferred stock classified as an equity under GAAP:** the carrying value less any net unrealized gains that are reflected in such carrying value but are excluded from the bank's regulatory capital components. • *In column B,* a bank that has made the AOCI opt-out election should include the difference between the fair value and amortized cost of those AFS debt securities that qualify as securitization exposures and will be risk weighted by applying the 1,250 percent risk weight. This difference equals the amounts reported in Schedule RC-B, items 4 and 5, column D, minus items 4 and 5, column C, for those AFS debt securities included in these items that are securitization exposures. When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, Part II, item 9.b, column B. When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule RC-R, Part II, item 9.b, column B. • *In column B*, all banks should include the amount reported in column A of this item for those AFS securities reported in Schedule RC, item 2.b, that qualify as securitization exposures and will be risk-weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach. • *In column Q*, report the exposure amount of those AFS securitization exposures that are risk-weighted by applying the 1250 percent risk weight (i.e., those AFS securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach). • *In column R,* report the risk-weighted asset amount (and not the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Part II and in §§.41 to 45 of the regulatory capital rules. • *In column S*, report the risk-weighted asset amount (and not the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Part II and in §§.41 to 45 of the regulatory capital rules.
9.c	**Trading assets that receive standardized charges.** Report in column A the fair value of those trading assets reported in Schedule RC, item 5, that are securitization exposures. Refer to the instructions for Schedule RC-R, Part II, item 7, for a summary of the reporting locations of trading assets that are securitization exposures. If the bank is subject to the market risk capital rules, report in column B the fair value of those trading assets reported in column A of this item that are securitization exposures. The bank will report its standardized market risk-weighted assets in Schedule RC-R, Part II, item 26. For those trading assets that are securitization exposures that do not meet the definition of a covered position and for banks not subject to the market risk capital rules: • *In column B*, report the fair value reported in column A of this item for those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and will be risk-weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach.

Part II. (cont.)

Item No. **Caption and Instructions**

9.c (cont.)

- *In column Q*, report the fair value of those trading assets that are securitization exposures that are risk-weighted by applying the 1250 percent risk weight (i.e., those trading asset securitization exposures for which the risk-weighted asset amount is not calculated using the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach).

- *In column R*, report the risk-weighted asset amount (and not the fair value) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Part II and in §§.41 to 45 of the regulatory capital rules.

- *In column S*, report the risk-weighted asset amount (and not the fair value) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Part II and in §§.41 to 45 of the regulatory capital rules.

9.d **All other on-balance sheet securitization exposures.** Report in column A the amount of all on-balance sheet assets included in Schedule RC that qualify as securitization exposures and are not reported in Schedule RC-R, Part II, items 9.a, 9.b, or 9.c. Refer to the instructions for Schedule RC-R, Part II, items 1, 3, 4, 5, and 8, above for a summary of the reporting locations of other on-balance sheet securitization exposures. For a bank that has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a, include in this item any accrued but uncollected interest and fees associated with held-to-maturity, available-for-sale, and trading securitization exposures reported in Schedule RC, item 11, "Other assets."

Exposure amount to be used for purposes of risk weighting – bank that cannot or has not made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For other on-balance sheet securitization exposures where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the exposure's carrying value, which is the value of the exposure reported on the balance sheet of the bank determined in accordance with GAAP and in column A.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For other on-balance sheet securitization exposures where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the exposure's carrying value, less any net unrealized gains on the exposure plus any net realized loss on the exposure included in AOCI. *In column B*, report any difference between the carrying value and the exposure amount of those other on-balance sheet securitization exposures reported in column A of this item that will be risk weighted by applying the 1,250 percent risk weight.

- *In column B*, all banks should include the amount reported in column A of this item for those other on-balance sheet securitization exposures that will be risk-weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach.

- *In column Q*, report the exposure amount of those other on-balance sheet securitization exposures that are risk-weighted by applying the 1250 percent risk weight (i.e., those other on-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).

Part II. (cont.)

Item No. **Caption and Instructions**

9.d (cont.)

- *In column R,* report the risk-weighted asset amount (and not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Part II and in §.41 to 45 of the regulatory capital rules.

- *In column S,* report the risk-weighted asset amount (and not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Part II and in §.41 to 45 of the regulatory capital rules.

10 **Off-balance sheet securitization exposures.** Report in column A the amount of all off-balance sheet items reported in Schedule RC-L or Schedule RC-S that qualify as securitization exposures. Refer to the instructions for Schedule RC-R, Part II, items 12 through 21, for a summary of the reporting locations of off-balance sheet securitization exposures.

Exposure amount to be used for purposes of risk weighting
For an off-balance sheet securitization exposure that is not a repo-style transaction or eligible margin loan for which the bank calculates an exposure amount under §.37 of the regulatory capital rules, cleared transaction (other than a credit derivative), or over-the-counter (OTC) derivative contract (other than a credit derivative), the exposure amount is the notional amount of the exposure.

For an off-balance sheet securitization exposure to an asset-backed commercial paper (ABCP) program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that bank could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets).

The exposure amount of an eligible ABCP liquidity facility for which the Simplified Supervisory Formula Approach (SSFA) does not apply is equal to the notional amount of the exposure multiplied by a credit conversion factor (CCF) of 50 percent.

The exposure amount of an eligible ABCP liquidity facility for which the SSFA applies is equal to the notional amount of the exposure multiplied by a CCF of 100 percent.

For an off-balance sheet securitization exposure that is a repo-style transaction or eligible margin loan for which the bank calculates an exposure amount under §.37 a cleared transaction (other than a credit derivative), or a derivative contract (other than a credit derivative), the exposure amount is the amount calculated under §.34, §.35, or §.37, as applicable, of the regulatory capital rules.

- *In column B*, report the amount of those off-balance sheet securitization exposures reported in column A of this item for which the exposure amount (as described above) will be risk-weighted using either the SSFA or the Gross-Up Approach. Also include in column B the difference between the notional amount reported in column A of this and the exposure amount for those off-balance sheet items that qualify as securitization exposures and will be risk weighted by applying the 1,250 percent risk weight.

- *In column Q*, report the exposure amount of those off-balance sheet securitization exposures that are risk-weighted by applying the 1,250 percent risk weight (i.e., those off-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).

Part II. (cont.)

Item No.	Caption and Instructions
10 (cont.)	• *In column R,* report the risk-weighted asset amount (and not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Part II and in §.41 to 45 of the regulatory capital rules. • *In column S,* report the risk-weighted asset amount (and not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Part II and in §§.41 to 45 of the regulatory capital rules.
11	**Total assets.** For columns A through Q, report the sum of items 1 through 9. The sum of columns B through Q must equal column A.

Part II. (cont.)

Derivatives and Off-Balance Sheet Items (Excluding Securitization Exposures)

Treatment of Liquidity Facilities for Asset-Backed Commercial Paper Programs – Banks that provide liquidity facilities to asset-backed commercial paper (ABCP) programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule RC-R (unless the bank is a sponsor and consolidates the sponsored ABCP program assets onto its balance sheet).[16] The full amount of the unused portion of an *eligible* liquidity facility with an original maturity exceeding one year to an ABCP facility should be reported in item 18.c, column A. The full amount of the unused portion of an *eligible* liquidity facility with an original maturity of one year or less to an ABCP facility should be reported in item 18.b, column A.

Treatment of Off-Balance Sheet Securitization Exposures – Any off-balance sheet items reported in Schedule RC-L or Schedule RC-S that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 10, column A, and excluded from Schedule RC-R, Part II, items 12 through 21 below.

Item No. Caption and Instructions

12 **Financial standby letters of credit.** For financial standby letters of credit reported in Schedule RC-L, item 2, that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules, but are credit enhancements for assets, report *in column A:*

(1) The amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit multiplied by 12.5.

(2) The full amount of the assets that are credit-enhanced by those letters of credit that are not multiplied by 12.5.

For all other financial standby letters of credit reported in Schedule RC-L, item 2, that do not meet the definition of a securitization exposure, report in column A the amount outstanding and unused of these letters of credit.

- *In column B,* report 100 percent of the amount reported in column A.
- *In column G–20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that has been conveyed to U.S. depository institutions.
- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.
- Financial standby letters of credit that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to*

[16] For further guidance on eligible and ineligible liquidity facilities, banks should refer to the "Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment" issued August 4, 2005 (FDIC Financial Institution Letter 74-2005, Federal Reserve Supervision and Regulation Letter 05-13, and OCC Bulletin 2005-26).

Part II. (cont.)

Item No. **Caption and Instructions**

12 (cont.)

risk weight categories based on the CRC methodology described above in the General Instructions for Part II. Include:

- The credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that has been conveyed to foreign depository institutions.

13 **Performance standby letters of credit and transaction-related contingent items.** Report in column A transaction-related contingent items, which includes the face amount of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules.

- *In column B*, report 50 percent of the face amount reported in column A.

- *In column G–20% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule RC-L, item 3, that have been conveyed to U.S. depository institutions.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

- Performance standby letters of credit and transaction-related contingent items that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - The credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule RC-L, item 3, that have been conveyed to foreign depository institutions.

14 **Commercial and similar letters of credit with an original maturity of one year or less.** Report in column A the face amount of those commercial and similar letters of credit, including self-liquidating trade-related contingent items that arise from the movement of goods, reported in Schedule RC-L, item 4, with an original maturity of one year or less that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules. Report those commercial letters of credit with an original maturity exceeding one year that do not meet the definition of a securitization exposure in Schedule RC-R, Part II, item 18.c.

- *In column B*, report 20 percent of the face amount reported in column A.

- *In column G–20% risk weight*, include the credit equivalent amount of the portion of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less, reported in Schedule RC-L, item 4, that have been conveyed to U.S. depository institutions.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

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14 (cont.)

- Commercial and similar letters of credit that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - The credit equivalent amount of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less, reported in Schedule RC-L, item 4, that have been conveyed to foreign depository institutions.

15 **Retained recourse on small business obligations sold with recourse.** Report in column A the amount of retained recourse on small business obligations reported in Schedule RC-S, Memorandum item 1.b, that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules.

For retained recourse on small business obligations sold with recourse that qualify as securitization exposures, please see §.42(h) of the regulatory capital rule for purposes of risk-weighting and report these exposures in Schedule RC-R, Part II, 10.

Under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, a "qualifying institution" that transfers small business loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution establishes a recourse liability account that is sufficient under GAAP. Only loans and leases to businesses that meet the criteria for a small business concern established by the Small Business Administration under Section 3(c) of the Small Business Act (12 U.S.C. 631) are eligible for this favorable risk-based capital treatment.

In general, a "qualifying institution" is one that is well capitalized without regard to the Section 208 provisions. If a bank ceases to be a qualifying institution or exceeds the retained recourse limit set forth in banking agency regulations implementing Section 208, all new transfers of small business obligations with recourse would not be treated as sales. However, the reporting and risk-based capital treatment described above will continue to apply to any transfers of small business obligations with recourse that were consummated during the time the bank was a "qualifying institution" and did not exceed the limit.

- *In column B*, report 100 percent of the amount reported in column A.

- *In column I-100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

16 **Repo-style transactions (excluding reverse repos).** Report in column A the amount of repo-style transactions, which is composed of the sum of the amount of securities lent reported in Schedule RC-L, item 6.a; the amount of securities borrowed reported in Schedule RC-L, item 6.b; and the amount of securities sold under agreements to repurchase reported in Schedule RC, item 14.b,[17] that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules. Exclude the amount of securities

[17] Although securities sold under agreements to repurchase are reported on the balance sheet (Schedule RC) as liabilities, they are treated as off-balance sheet items under the regulatory capital rules.

Part II. (cont.)

Item No.	Caption and Instructions

16 (cont.) purchased under agreements to resell (i.e., reverse repos) reported in Schedule RC, item 3.b.

- *In column B*, report 100 percent of the face amount reported in column A.

- *In column C–0% risk weight,* include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the zero percent risk weight under the regulatory capital rules (refer to §.37 of the regulatory capital rules.)

- *In column D–2% risk weight,* include the credit equivalent amount of centrally cleared repo-style transactions with Qualified Central Counterparties (QCCPs), as defined in §.2 and described in §.35 of the regulatory capital rules.

- *In column E–4% risk weight,* include the credit equivalent amount of centrally cleared repo-style transactions with QCCPs in all other cases that do not meet the criteria of qualification for a 2 percent risk weight, as described in §.35 of the regulatory capital rules.

- *In column G–20% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 20 percent risk weight under the regulatory capital rules. Also include the credit equivalent amount of repo-style transactions that represents exposures on U.S. depository institutions.

- *In column I-100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

- *In column J–150% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 150 percent risk weight under the regulatory capital rules.

- Repo-style transactions that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight; column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - The credit equivalent amount of repo-style transactions that represents exposures to foreign central banks and foreign depository institutions.

17 **All other off-balance sheet liabilities.** Report in column A:

- The notional amount of all other off-balance sheet liabilities reported in Schedule RC-L, item 9, that are covered by the regulatory capital rules,
- The face amount of risk participations in bankers acceptances that have been acquired by the reporting institution and are outstanding,
- The full amount of loans sold with credit-enhancing representations and warranties that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules,
- The notional amount of written option contracts that act as financial guarantees that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules,

Part II. (cont.)

Item No. Caption and Instructions

17 (cont.)

- The notional amount of all forward agreements, which are defined as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts, and
- The amount of those credit derivatives reported in Schedule RC-L, item 7, that – under the supervisory guidance issued by the bank's primary federal supervisory authority – are covered by the regulatory capital rules, but have not been included in any of the preceding items in the Derivatives and Off-Balance Sheet Items section of Schedule RC-R.

However, exclude from column A:

- The amount of credit derivatives classified as trading assets that are subject to the market risk capital rules (report in Schedule RC-R, Part II, items 20 and 21, as appropriate),
- Credit derivatives purchased by the bank that are recognized as guarantees of an asset or off-balance sheet exposure under the regulatory capital rules, i.e., credit derivatives on which the bank is the beneficiary (report the guaranteed asset or exposure in Schedule RC-R, Part II, in the appropriate balance sheet or off balance sheet category – e.g., item 5, "Loans and leases, net of unearned income" – and in the risk-weight category applicable to the derivative counterparty – e.g., column G–20% risk weight – rather than the risk-weight category applicable to the obligor of the guaranteed asset).

- *In column B*, report 100 percent of the face amount, notional amount, or other amount reported in column A.

- *In column C–0% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column G–20% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column H–50% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

- *In column J–150% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

Part II. (cont.)

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17

- All other off-balance sheet liabilities that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
    - The credit equivalent amount of those other off-balance sheet liabilities described above in the instructions for Column A of this item that represent exposures to foreign central banks and foreign depository institutions.

18 **Unused commitments.** Report in items 18.a through 18.c the amounts of unused commitments, excluding those that are unconditionally cancelable, which are to be reported in Schedule RC-R, Part II, item 19. Where a bank provides a commitment structured as a syndication or participation, the bank is only required to calculate the exposure amount for its pro rata share of the commitment.

Exclude from items 18.a through 18.c any unused commitments that qualify as securitization exposures, as defined in §.2 of the regulatory capital rules. Unused commitments that are securitization exposures must be reported in Schedule RC-R, Part II, item 10, column A.

18.a **Original maturity of one year or less, excluding asset-backed commercial paper (ABCP) conduits.** Report in column A the unused portion of those unused commitments reported in Schedule RC-L, item 1, with an original maturity of one year or less, excluding unused commitments to asset-backed commercial paper (ABCP) conduits, that are subject to the regulatory capital rules.

The unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the bank have a zero percent credit conversion factor. The unused portion of such commitments should be excluded from this item and items 18.b and 18.c, but should be reported in Schedule RC-R, Part II, item 19.

"Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment.

- *In column B*, report 20 percent of the amount of unused commitments reported in column A.

- *In column C–0% risk weight*, include the credit equivalent amount of unused eligible liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column G–20% risk weight*, include the credit equivalent amount of unused eligible liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

Part II. (cont.)

Item No.	**Caption and Instructions**

18.a

- *In column H–50% risk weight*, include the credit equivalent amount of unused eligible liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H or J.

- *In column J–150% risk weight,* include the credit equivalent amount of unused eligible liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- Unused commitments with an original maturity of one year or less, excluding ABCP conduits, that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
    - The credit equivalent amount of those unused commitments described above in the instructions for Column A of this item that represent exposures to foreign depository institutions.

18.b **Original maturity of one year or less to ABCP conduits.** Report in column A the unused portion of those eligible asset-backed commercial paper (ABCP) liquidity facilities with an original maturity of one year or less reported in Schedule RC-L, item 1, that are subject to the regulatory capital rules.

Under the regulatory capital rules, the unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the bank have a zero percent credit conversion factor. The unused portion of such commitments should be excluded from this item and reported in Schedule RC-R, Part II, item 19.

- *In column B*, report 20 percent of the amount of unused commitments reported in column A.

- *In column C–0% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column G–20% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

<u>Part II. (cont.)</u>

Item No. **Caption and Instructions**

18.b

- *In column H–50% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

- *In column J–150% risk weight,* include the credit equivalent amount of eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- Unused commitments with an original maturity of one year or less to ABCP conduits that must be risk-weighted according to the Country Exposure Risk (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instruction for Part II.* Include:
  - The credit equivalent amount of those eligible liquidity facilities described above in the instructions for Column A of this item that represent exposures to foreign depository institutions.

18.c **<u>Original maturity exceeding one year.</u>** Report in column A the unused portion of those commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions reported in Schedule RC-L, item 1, that have an original maturity exceeding one year and are subject to the regulatory capital rules. Also report in column A the face amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that do not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules. Under the regulatory capital rules, the unused portion of commitments (facilities) which are unconditionally cancelable (without cause) at any time by the bank (to the extent permitted under applicable law) have a zero percent credit conversion factor. The unused portion of such commitments should be excluded from this item and reported in Schedule RC-R, Part II, item 19.

Also include in column A all revolving underwriting facilities and note issuance facilities, regardless of maturity.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and excluded from this item 18.c if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the bank is obligated to advance at any time during the life of

Part II. (cont.)

Item No. **Caption and Instructions**

18.c (cont.) the commitment. This includes seasonal commitments where the dollar amount of the commitment increases during the customer's peak business period. In addition, this risk-based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting bank must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

- *In column B*, report 50 percent of the amount of unused commitments and the face amount of commercial and similar letters of credit reported in column A. Note that unused commitments that qualify as securitization exposures as defined in §.2 of the regulatory capital rules should be reported as securitization exposures in Schedule RC-R, Part II, item 10.

- *In column C–0% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column G–20% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Include the credit equivalent amount of commitments that have been conveyed to U.S. depository institutions. Include the credit equivalent amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that have been conveyed to U.S. depository institutions.

- *In column H–50% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

- *In column J–150% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- Unused commitments and commercial and similar letters of credit with an original maturity exceeding one year that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:

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18.c (cont.)

- The credit equivalent amount of those unused commitments described above in the instructions for Column A of this item that represent exposures to foreign depository institutions.
- The credit equivalent amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that have been conveyed to foreign depository institutions.

19 **Unconditionally cancelable commitments.** Report in column A the unused portion of those unconditionally cancelable commitments reported in Schedule RC-L, item 1, that are subject to the regulatory capital rules.

The unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the bank (to the extent permitted by applicable law) have a zero percent credit conversion factor. The unused portion of such commitments should be reported in this item in column A.

20 **Over-the-counter derivatives.** Report in column B the credit equivalent amount of over-the-counter derivative contracts covered by the regulatory capital rules. Include over-the-counter credit derivative contracts held for trading purposes and subject to the market risk capital rules. Do not include centrally cleared derivative contracts. Do not include over-the-counter derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

The credit equivalent amount of an over-the-counter derivative contract to be reported in Column B is the sum of its current credit exposure (as reported in Schedule RC-R, Part II, Memorandum item 1) plus the potential future exposure over the remaining life of the derivative contract (regardless of its current credit exposure, if any), as described in §.34 of the regulatory capital rules. The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor from the following chart. The notional principal amounts of the reporting bank's over-the-counter derivatives that are subject to the risk-based capital requirements are reported by remaining maturity in Schedule RC-R, Part II, Memorandum items 2.a through 2.g.

Remaining Maturity	Interest Rate	Foreign exchange rate and gold	Credit (investment grade reference assets)	Credit (non-investment grade reference assets)	Equity	Precious metals (except gold)	Other
One year or less	0.0%	1.0%	5.0%	10.0%	6.0%	7.0%	10.0%
Greater than one year & less than or equal to five years	0.5%	5.0%	5.0%	10.0%	8.0%	7.0%	12.0%
Greater than five years	1.5%	7.5%	5.0%	10.0%	10.0%	8.0%	15.0%

Under the banking agencies' regulatory capital rules and for purposes of Schedule RC-R, Part II, the existence of a legally enforceable bilateral netting agreement between the reporting bank and a counterparty may be taken into consideration when determining both

Part II. (cont.)

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20 (cont.) the current credit exposure and the potential future exposure of derivative contracts. For further information on the treatment of bilateral netting agreements covering derivative contracts, refer to the instructions for Schedule RC-R, Part II, Memorandum item 1, and §.34 of the regulatory capital rules issued by the reporting bank's primary federal supervisory authority.

When assigning to OTC derivative exposures to risk weight categories, banks can recognize the risk-mitigating effects of financial collateral by using either the simple approach or the collateral haircut approach, as described in §.37 of the regulatory capital rules.

- *In column C–0% risk weight,* include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column G–20% risk weight,* include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column H–50% risk weight,* include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight,* include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

- *In column J–150% risk weight,* include the credit equivalent amount of over-the-counter derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

21 **Centrally cleared derivatives.** Report in column B the credit equivalent amount of centrally cleared derivative contracts covered by the regulatory capital rules. Include centrally cleared credit derivative contracts held for trading purposes and subject to the market risk capital rules. Do not include over-the-counter derivative contracts. Do not include centrally cleared derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

The credit equivalent amount of a centrally cleared derivative contract is the sum of its current credit exposure (as reported in Schedule RC-R, Memorandum item 1), plus the potential future exposure over the remaining life of the derivative contract, plus the fair value of collateral posted by the clearing member client bank and held by the central counterparty

Part II. (cont.)

Item No. **Caption and Instructions**

21 (cont.) or a clearing member in a manner that is not bankruptcy remote. The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor from the following chart. The notional principal amounts of the reporting bank's centrally cleared derivatives that are subject to the risk-based capital requirements are reported by remaining maturity in Schedule RC-R, Part II, Memorandum items 3.a through 3.g.

Remaining Maturity	Interest Rate	Foreign exchange rate and gold	Credit (investment grade reference assets)	Credit (non-investment grade reference assets)	Equity	Precious metals (except gold)	Other
One year or less	0.0%	1.0%	5.0%	10.0%	6.0%	7.0%	10.0%
Greater than one year & less than or equal to five years	0.5%	5.0%	5.0%	10.0%	8.0%	7.0%	12.0%
Greater than five years	1.5%	7.5%	5.0%	10.0%	10.0%	8.0%	15.0%

- *In column C–0% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with central counterparties (CCPs) and counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column D–2% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with Qualified Central Counterparties (QCCPs) where the collateral posted by the bank to the QCCP or clearing member is subject to an arrangement that prevents any losses to the clearing member client due to the joint default or a concurrent insolvency, liquidation, or receivership proceeding of the clearing member and any other clearing member clients of the clearing member; and the clearing member client bank has conducted sufficient legal review to conclude with a well-founded basis (and maintains sufficient written documentation of that legal review) that in the event of a legal challenge (including one resulting from default or from liquidation, insolvency, or receivership proceeding) the relevant court and administrative authorities would find the arrangements to be legal, valid, binding and enforceable under the law of the relevant jurisdictions. See the definition of QCCP in §.2 of the regulatory capital rules.

- *In column E–4% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with QCCPs in all other cases that do not meet the criteria of qualification for a 2 percent risk weight, as described in §.2 of the regulatory capital rules.

- *In column G–20% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

Part II. (cont.)

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21 (cont.)

- *In column H–50% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J.

- *In column J–150% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

Part II. (cont.)

Item No. Caption and Instructions

Totals

22 **Total assets, derivatives, and off-balance sheet items by risk weight category.** For each of columns C through Q, report the sum of items 10 through 21.

23 **Risk weight factor.**

24 **Risk-weighted assets by risk weight category.** For each of columns C through Q, multiply the amount in item 22 by the risk weight factor specified for that column in item 23.

25 **Risk-weighted assets for purposes of calculating the allowance for loan and lease losses 1.25 percent threshold.** Report the sum of:

- Schedule RC-R, Part II:
  - Items 9.a, 9.b, 9.c, 9.d, and 10, columns R and S, and
  - Item 24, columns C through Q
- Schedule RC-R, Part I:
  - The portion of item 10.b composed of "Investments in the institution's own shares to the extent not excluded as part of treasury stock,"
  - The portion of item 10.b composed of "Reciprocal cross-holdings in the capital of financial institutions in the form of common stock," and
  - Items 11, 13 through 17, 24, and 33
- LESS: Schedule RC-R, Part I:
  - Items 6 through 8,
  - The portion of item 10.b composed of "After-tax gain-on-sale in connection with a securitization exposure," and
  - The portion of item 10.b composed of "Equity investments in financial subsidiaries."

NOTE: Item 26 is applicable only to banks that are subject to the market risk capital rules.

26 **Standardized market risk-weighted assets.** Report the amount of the bank's standardized market risk-weighted assets. This item is applicable only to those banks covered by Subpart F of the regulatory capital rules (i.e., the market risk capital rules), as provided in §.201 of the regulatory capital rules.

A bank's measure for market risk for its covered positions is the sum of its value-at-risk (VaR)-based, stressed VaR-based, incremental risk, and comprehensive risk capital requirements plus its specific risk add-ons and any capital requirement for de minimis exposures. A bank's market risk-weighted assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio).

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC–D, that is held for any of the following reasons:

(1) For the purpose of short-term resale;
(2) With the intent of benefiting from actual or expected short-term price movements;
(3) To lock in arbitrage profits; or
(4) To hedge another covered position.

Part II. (cont.)

Item No.	Caption and Instructions
26 (cont.)	Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank must be able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions). A covered position does not include: (1) An intangible asset (including any servicing asset); (2) A hedge of a trading position that is outside the scope of the bank's hedging strategy; (3) Any position that, in form or substance, acts as a liquidity facility that provides support to asset-backed commercial paper; (4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the regulatory capital rules for credit risk; (5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity); (6) A position held with the intent to securitize; or (7) A direct real estate holding.
27	**Risk-weighted assets before deductions for excess allowance for loan and lease losses and allocated transfer risk reserve.** Report the sum of items 9.a, 9.b, 9.c, 9.d, and 10, columns R and S; item 24, columns C through Q; and, if applicable, item 26. (Item 26 is applicable only to banks that are subject to the market risk capital rules.)
28	**LESS: Excess allowance for loan and lease losses.** Report the amount, if any, by which the bank's allowance for loan and lease losses exceeds 1.25 percent of the bank's ***gross*** risk-weighted assets. The amount to be reported in this item 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," less Schedule RC-R, Part I, item 30.a, "Allowance for loan and lease losses includable in tier 2 capital."
29	**LESS: Allocated transfer risk reserve.** Report the entire amount of any allocated transfer risk reserve (ATRR) the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and 12 CFR Part 28, Subpart C (OCC)), and in any guidelines, letters, or instructions issued by the agencies. The entire amount of the ATRR equals the ATRR related to loans and leases held for investment (which is reported in Schedule RI-B, part II, Memorandum item 1) plus the ATRR for assets other than loans and leases held for investment.
30	**Total risk-weighted assets.** Report the amount derived by subtracting items 28 and 29 from item 27.

Part II. (cont.)

Memoranda

Item No.	Caption and Instructions
1	**Current credit exposure across all derivative contracts covered by the regulatory capital rules.** Report the total current credit exposure amount for all interest rate, foreign exchange rate, gold, credit (investment grade reference assets), credit (non-investment grade reference assets), equity, precious metals (except gold), and other derivative contracts covered by the regulatory capital rules after considering applicable legally enforceable bilateral netting agreements. Banks that are subject to Subpart F of the regulatory capital rules should exclude all covered positions subject to these guidelines, except for foreign exchange derivatives that are outside of the trading account. Foreign exchange derivatives that are outside of the trading account and all over-the-counter (OTC) derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount for these derivatives should be reported in this item.

Include the current credit exposure arising from credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and not recognized as a guarantee for regulatory capital purposes.

Purchased options held by the reporting bank that are traded on an exchange are covered by the regulatory capital rules unless such options are subject to a daily variation margin. Variation margin is defined as the gain or loss on open positions, calculated by marking to market at the end of each trading day. Such gain or loss is credited or debited by the clearing house to each clearing member's account, and by members to their customers' accounts.

If a written option contract acts as a financial guarantee that does not meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules, then for risk-based capital purposes the notional amount of the option should be included in Schedule RC-R, Part II, item 17, column A, as part of "All other off-balance sheet liabilities." An example of such a contract occurs when the reporting bank writes a put option to a second bank that has a loan to a third party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second bank, the reporting bank would be required by the second bank to take the loan onto its books.

Do <u>not</u> include derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a derivative contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a qualifying master netting agreement, as defined in §.2 of the regulatory capital rules, is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the netting agreement are netted to a single amount.

Next, for all other contracts covered by the regulatory capital rules that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to qualifying master netting agreements and (ii) the total positive fair values of all other contracts covered by the

Part II. (cont.)

Memoranda

Item No.	Caption and Instructions
1 (cont.)	regulatory capital rules for both over-the-counter and centrally cleared contracts. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule RC-R, items 20 or 21, column B, depending on whether the contracts are centrally cleared.
2	**Notional principal amounts of over-the-counter derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all over-the-counter derivative contracts, including credit derivatives, that are subject to the regulatory capital rules. Such contracts include swaps, forwards, and purchased options. Do not include over-the-counter derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C. The notional amount or par value to be reported for an off-balance sheet derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5 percent and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.) The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity. For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of "credit derivative contracts," refer to the instructions for Schedule RC-L, item 7.
3	**Notional principal amounts of centrally cleared derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all centrally cleared derivative contracts, including credit derivatives, that are subject to the regulatory capital rules. Such contracts include swaps, forwards, and purchased options. Do not include centrally cleared derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C. The notional amount or par value to be reported for a centrally cleared derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5 percent. and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.)

Part II. (cont.)

Memoranda

Item No.	Caption and Instructions
3 (cont.)	The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity. For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of “credit derivative contracts,” refer to the instructions for Schedule RC-L, item 7.
2.a and 3.a	**Interest rate.** Report the remaining maturities of interest rate contracts that are subject to the regulatory capital rules.
2.b and 3.b	**Foreign exchange rate and gold.** Report the remaining maturities of foreign exchange contracts and the remaining maturities of gold contracts that are subject to the regulatory capital rules.
2.c and 3.c	**Credit (investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity meets the definition of investment grade as described in §.2 of the regulatory capital rules.
2.d and 3.d	**Credit (non-investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity does not meet the definition of investment grade as described in §.2 of the regulatory capital rules.
2.e and 3.e	**Equity.** Report the remaining maturities of equity derivative contracts that are subject to the regulatory capital rules.
2.f and 3.f	**Precious metals (except gold).** Report the remaining maturities of other precious metals contracts that are subject to the regulatory capital rules. Report all silver, platinum, and palladium contracts.
2.g and 3.g	**Other.** Report the remaining maturities of other derivative contracts that are subject to the regulatory capital rules. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.

SCHEDULE RC-L – DERIVATIVES AND OFF-BALANCE SHEET ITEMS

Item No. **Caption and Instructions**

6 **Securities lent and borrowed:**

6.a **Securities lent.** Report the appropriate amount of all securities lent against collateral or on an uncollateralized basis. Report the book value of bank-owned securities that have been lent. In addition, for customers who have been indemnified against any losses by the reporting bank or its consolidated subsidiaries, report the market value as of the report date of such customers' securities, including customers' securities held in the reporting bank's trust department, that have been lent. If the reporting bank or its consolidated subsidiaries have indemnified their customers against any losses on their securities that have been lent by the bank or its subsidiaries, the commitment to indemnify – either through a standby letter of credit or other means – should not be reported in any other item on Schedule RC-L.

6.b **Securities borrowed.** Report the appropriate amount of all securities borrowed against collateral (other than cash), or on an uncollateralized basis, for such purposes as a pledge against deposit liabilities or delivery against short sales. Report borrowed securities that are fully collateralized by similar securities of equivalent value at market value at the time they were borrowed. For other borrowed securities, report their market value as of the report date.

NOTE: The instructions for Schedule RC-L, item 9, "All other off-balance sheet liabilities," will be revised by removing the portion of the instructions stating that such liabilities include securities borrowed.