

DEPARTMENT OF TREASURY
Office of the Comptroller of the Currency
12 CFR Part 3
[Docket ID OCC-2018-0030; RIN 1557-AE44]

FEDERAL RESERVE SYSTEM
12 CFR Part 217
Regulation Q
[Docket No. R-1629; RIN 7100-AF22]

FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 324
RIN 3064-AF43

Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

AGENCIES: Office of the Comptroller of the Currency, Treasury; the Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation.

ACTION: Notice.

SUMMARY: In light of recent economic disruptions caused by the COVID-19 virus and recent volatility in U.S. financial markets, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are issuing a notice to allow depository institutions and depository institution holding companies to implement the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (SA-CCR rule) for the first quarter of 2020, on a best efforts basis.

DATES: This notice is effective [INSERT DATE OF FEDERAL REGISTER PUBLICATION].

FOR FURTHER INFORMATION CONTACT:

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Board: Constance M. Horsley, Deputy Associate Director, (202) 452-5239; Teresa A. Scott, Manager, (202) 475-6316; Eusebius Luk, Senior Financial Institution Policy Analyst I, (202) 452-2874; Division of Supervision and Regulation; or Benjamin W. McDonough, Assistant General Counsel, (202) 452-2036; Mark Buresh, Senior Counsel, (202) 452-5270; Jonah Kind, Senior Attorney, (202) 452-2045; Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551. For the hearing impaired only, Telecommunication Device for the Deaf, (202) 263-4869.

FDIC: Bobby R. Bean, Associate Director, bbean@fdic.gov; Irina Leonova, Acting Chief, Capital Strategies Section, ileonova@fdic.gov; Peter Yen, Senior Policy Analyst, pyen@fdic.gov, Capital Markets Branch, Division of Risk Management Supervision, (202) 898-6888; or Michael Phillips, Counsel, mphilips@fdic.gov; Catherine Wood, Counsel, cawood@fdic.gov; Supervision Branch, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

SUPPLEMENTARY INFORMATION: The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) recently adopted the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (SA-CCR rule).¹ The SA-CCR rule implements a new approach—the standardized approach for counterparty credit risk (SA-CCR methodology)—for calculating the exposure amount of derivative contracts under the agencies’ regulatory capital rule (capital rule). The SA-CCR rule also revises other aspects

¹ See 85 FR 4362 (January 24, 2020).

of the capital rule related to total leverage exposure (the denominator of the supplementary leverage ratio) and the cleared transactions framework.

The agencies are permitting a banking organization the flexibility to implement the SA-CCR rule, including the SA-CCR methodology and the other amendments described in the SA-CCR rule, one quarter early and on a best efforts basis if the banking organization chooses to do so.²

Recent events have suddenly and significantly impacted financial markets. The spread of the COVID-19 virus has disrupted economic activity in many countries. In addition, financial markets have experienced significant volatility. The magnitude and persistence of the overall effects on the economy remain highly uncertain. The notice should help to mitigate the impact of recent dislocations in the U.S. economy as a result of COVID-19. By allowing early adoption of the SA-CCR rule, the notice allows banking organizations to implement the SA-CCR methodology's more risk-sensitive measurement of the exposure amounts of derivative contracts one quarter earlier than the SA-CCR rule provided. For purposes of any early adoption of the SA-CCR rule, the agencies understand that banking organizations are in the process of refining their systems to implement the SA-CCR rule and, therefore, for purposes of the first quarter, early adoption would be on a best efforts basis.

The SA-CCR rule was issued with an effective date of April 1, 2020. The SA-CCR rule provides banking organizations the option to adopt the SA-CCR methodology for derivative contracts beginning on April 1, 2020. For advanced approaches banking organizations, adoption of the SA-CCR methodology is mandatory beginning January 1, 2022. As a result, by no later

² The SA-CCR rule had an original effective date of April 1, 2020, the first day of the calendar quarter following publication in the Federal Register, pursuant to 12 U.S.C. 4802(b)(1). Banking organizations may elect to comply before the effective date pursuant to 12 U.S.C. 4802(b)(2).

than January 1, 2022, advanced approaches banking organizations must use the SA-CCR methodology for purposes of standardized total risk-weighted assets and the supplementary leverage ratio, and must use either the SA-CCR methodology or the internal models methodology for purposes of advanced approaches total risk-weighted assets. The SA-CCR rule provides non-advanced approaches banking organization the option to adopt the SA-CCR methodology for purposes of standardized total risk-weighted assets and, if applicable, the supplementary leverage ratio, beginning April 1, 2020. As a result, banking organizations could adopt the SA-CCR methodology as early as April 1, 2020, and advanced approaches banking organizations are required to adopt the SA-CCR methodology beginning January 1, 2022.

The SA-CCR rule also included several other amendments to the capital rule that are effective as of April 1, 2020. These amendments include, among others: (1) a 2 percent or a 4 percent risk-weight for cash collateral posted to a qualifying central counterparty (QCCP) subject to certain requirements; (2) the ability of a clearing member banking organization to recognize client collateral posted to a central counterparty (CCP) under certain circumstances; (3) a zero percent risk-weight for the CCP-facing portion of a transaction where a clearing member banking organization does not guarantee the performance of the CCP to the clearing member's client; and (4) the ability of a clearing member banking organization to apply a 5-day holding period for collateral associated with client-facing derivatives for purposes of the collateral haircut approach.

The agencies are allowing banking organizations to implement the SA-CCR rule, including the SA-CCR methodology and the other amendments, on a best efforts basis immediately. A banking organization that elects to adopt the SA-CCR methodology must adopt the SA-CCR methodology for all derivative contracts; it cannot implement the SA-CCR

methodology for a subset of its derivative contracts. However, a banking organization may adopt some of the other amendments described in the SA-CCR rule regardless of whether it chooses to early adopt the SA-CCR methodology.³

The agencies expect to make related amendments to the Call Report, FFIEC 101, and FR Y-9C, as applicable, filed as of March 31, 2020, to reflect this notice. These amendments will be addressed in a separate Federal Register notice or notices. Adopting the SA-CCR rule on a best efforts basis for the first quarter of 2020 is optional for all banking organizations subject to the capital rule. The SA-CCR rule effective date will remain April 1, 2020, and the mandatory compliance date will remain January 1, 2022.

Morris R. Morgan
First Deputy Comptroller
Office of the Comptroller of the Currency

By order of the Board of Governors of the Federal Reserve System.

Ann Misback,
Secretary of the Board.

Federal Deposit Insurance Corporation.
By order of the Board of Directors.
Dated at Washington, DC, on or about March 26, 2020.

Robert E. Feldman,
Executive Secretary.

³ Certain of the other amendments, such as the ability of a banking organization to use SA-CCR for the calculation of exposure under the OCC's lending limits rule, are dependent on the banking organization adopting the SA-CCR methodology.