# SCHEDULE SC-R – REGULATORY CAPITAL COMPONENTS AND RATIOS

## General Instructions

**Schedule SC-R is to be completed only by top-tier savings and loan holding companies (SLHCs) with less than $500 million in total consolidated assets that are not substantially engaged in insurance or commercial activities (small covered SLHCs). This schedule does not apply to small bank holding companies.**

The instructions for Schedule SC-R should be read in conjunction with the regulatory capital rules issued by the Federal Reserve Board on July 2, 2013.[1] See also the Glossary section in the *Consolidated Financial Statements for Holding Companies* (FR-Y9C) instructions for the applicable terms and definitions.

Starting on June 30, 2015, small covered SLHCs must complete Schedule SC-R using the instructions below for line items 1 through 48, including the mandatory transition provisions which are included in certain line items.

A top-tier SLHC is deemed to be substantially engaged in insurance activities (insurance SLHC) if (i) the top-tier SLHC is an insurance underwriting company;[2] or (ii) as of June 30 of the previous calendar year, it held 25 percent or more of its total consolidated assets in subsidiaries that are insurance underwriting companies (other than assets associated with insurance for credit risk). For purposes of determining the 25 percent threshold, the SLHC must calculate its total consolidated assets in accordance with generally accepted accounting principles (GAAP), or if the SLHC does not calculate its total consolidated assets under GAAP for any regulatory purpose (including compliance with applicable securities laws), the SLHC may estimate its total consolidated assets, subject to review and adjustment by the Board. Thus, insurance SLHCs are not required to complete Schedule HC-R, even if they complete other schedules of FR Y-9C.

A top-tier SLHC is deemed to be substantially engaged in commercial activities (commercial SLHC) if (i) the top-tier SLHC is a grandfathered unitary SLHC (as defined in section 10(c)(9)(A) of HOLA) and (ii) as of June 30 of the previous calendar year, it derived 50 percent or more of its total consolidated assets or 50 percent of its total revenues on an enterprise-wide basis (as calculated under GAAP) from activities that are not financial in nature under section 4(k) of the Bank Holding Company Act (12 U.S.C. 1842(k)).

## Rules of Consolidation

SLHCs are required to prepare and file Schedule SC-R in accordance with U.S. generally accepted accounting principles (GAAP) and these instructions. All reports shall be prepared in a consistent manner. The SLHC's financial records shall be maintained in such a manner and scope so as to ensure that Schedule SC-R can be prepared and filed in accordance with these instructions and reflect a fair presentation of the SLHC's regulatory capital.

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[1] See http://www.federalreserve.gov/bcreg20130702a.pdf for the revised regulatory capital rules.

[2] Insurance underwriting company means an insurance company as defined in section 201 of the Dodd-Frank Act (12 U.S.C. 5381) that engages in insurance underwriting activities.

For purposes of Schedule SC-R, the SLHC should consolidate its subsidiaries on the same basis as it does for its annual reports to the SEC or, for those SLHCs that do not file reports with the SEC, on the same basis as described in GAAP. Generally, under the rules for consolidation established by the SEC and by GAAP, SLHCs should consolidate any company in which it owns more than 50 percent of the outstanding voting stock.

For purposes of Schedule SC-R, all offices (i.e., branches, subsidiaries, variable interest entities (VIEs), and international banking facilities (IBFs)) that are within the scope of the consolidated SLHC as defined above are to be reported on a consolidated basis. Unless the instructions specifically state otherwise, this consolidation shall be on a line-by-line basis, according to the caption shown. As part of the consolidation process, the results of all transactions and all intercompany balances (e.g., outstanding asset/debt relationships) between offices, subsidiaries, and other entities included in the scope of the consolidated SLHC are to be eliminated in the consolidation and must be excluded from Schedule SC-R. (For example, eliminate in the consolidation (1) loans made by the SLHC to a consolidated subsidiary and the corresponding liability of the subsidiary to the SLHC, (2) a consolidated subsidiary's deposits in another SLHC consolidated subsidiary and the corresponding cash or interest-bearing asset balance of the subsidiary, and (3) the intercompany interest income and expense related to such loans and deposits of the SLHC and its consolidated subsidiary.)

## Common equity tier 1 capital

**Line item 1 Common stock plus related surplus, net of treasury stock and unearned employee stock ownership plan (ESOP) shares.**

Report the sum of:

(1) Common stock: report the aggregate par or stated value of common stock issued, provided it meets the criteria for common equity tier 1 capital based on the revised regulatory capital rules of the Federal Reserve.

(2) PLUS: related surplus: include the net amount formally transferred to the surplus account, including capital contributions and any amount received for common stock in excess of its par or stated value on or before the report date; exclude adjustments arising from treasury stock transactions.

(3) LESS: treasury stock, unearned ESOP shares, and any other contra-equity components, which is equal to the following: the carrying value of any treasury stock and of any unearned Employee Stock Ownership Plan (ESOP) shares, which under generally accepted accounting principles are reported in a contra-equity account on the balance sheet. For further information, see the Glossary entry for “treasury stock” and ASC Subtopic 718- 40, Compensation-Stock Compensation – Employee Stock Ownership Plans (formerly AICPA Statement of Position 93-6, *Employers’ Accounting for Employee Stock Ownership Plans*).

**Line item 2 Retained earnings.**

Report the amount of retained earnings (undivided profits) and capital reserves. The amount of the retained earnings and capital reserves should reflect transfers of net income, declarations of dividends, transfers to surplus, and any other appropriate entries.

Capital reserves are segregations of retained earnings and are not to be reported as liability accounts or as reductions of asset balances. Capital reserves may be established for such purposes as:

(1) Reserve for undeclared stock dividends – includes amounts set aside to provide for stock dividends (not cash dividends) not yet declared.

(2) Reserve for undeclared cash dividends – includes amounts set aside for cash dividends on common and preferred stock not yet declared. (Do not include cash dividends declared but not yet payable.)

(3) Retirement account (for limited-life preferred stock or subordinated notes and debentures) – includes amounts allocated under the plan for retirement of limited-life preferred stock or subordinated notes and debentures contained in the SLHC's articles of association or in the agreement under which such stock or notes and debentures were issued.

(4) Reserve for contingencies – includes amounts set aside for possible unforeseen or indeterminate liabilities not otherwise reflected on the SLHC's books and not covered by insurance. This reserve may include, for example, reserves set up to provide for possible losses which the SLHC may sustain because of lawsuits, the deductible amount under the SLHC's blanket bond, defaults on obligations for which the SLHC is contingently liable, or other claims against the SLHC. A reserve for contingencies represents a segregation of retained earnings. It should not include any element of known losses or of any probable incurred losses the amount of which can be estimated with reasonable accuracy (see the Glossary entry for "loss contingencies" for additional information).

Exclude from retained earnings:

(1) Any portion of the proceeds received from the sale of common stock in excess of its par or stated value.

(2) Any portion of the proceeds received from the sale of preferred stock in excess of its par or stated value.

(3) “Reserves” that reduce the related asset balances such as valuation allowances (e.g., the allowance for loan and lease losses), reserves for depreciation, and reserves for bond premiums.

**Line item 3   Accumulated other comprehensive income (AOCI).**

Report the amount of AOCI as reported under generally accepted accounting principles (GAAP) in the U.S, subject to the transition provisions described below in item 3(a), if applicable.

Report in this item the amount of other comprehensive income in conformity with the requirements of ASC Subtopic 220-10, Comprehensive Income – Overall (formerly FASB Statement No. 130, *Reporting Comprehensive Income*). Accumulated other comprehensive income includes net unrealized holding gains (losses) on available-for-sale securities, accumulated net gains (losses) on cash flow hedges, foreign currency translation adjustments, and minimum pension liability adjustments. Net unrealized holding gains (losses) on available-for sale securities is the difference between the amortized cost and fair value of the reporting bank holding company and its consolidated subsidiaries’ available-for-sale securities, net of tax effects, as of the report date. For most small SLHCs, all ‘‘securities,’’ as the term is defined in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), the portion of which that are designated as ‘‘available-for-sale’’ will be included in FR Y-9SP, Schedule SC, item 2. However, an SLHC may have certain assets that fall within the definition of ‘‘securities’’ in ASC Topic 320 (e.g., commercial paper, nonrated industrial development obligations) that the SLHC has designated as ‘‘available-for-sale’’ which are reported for purposes of the FR Y-9SP in a balance sheet category other than ‘‘securities’’ (e.g., ‘‘loans and lease financing receivables’’). These ‘‘available-for-sale’’ assets must be carried on the FR Y-9SP balance sheet at fair value rather than amortized cost and the difference between these two amounts, net of tax effects, must be included in this item.

Also include in this item the unamortized amount of the unrealized holding gain or loss at the date of transfer of any debt security transferred into the held-to-maturity category from the available-for-sale category. When a debt security is transferred from available-for-sale to held-to-maturity, the unrealized holding gain or loss at the date of transfer continues to be reported in this equity capital account, but must be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

Accumulated net gains (losses) on cash flow hedges[3] is the effective portion[4] of the accumulated change in fair value (gain or loss) on derivatives designated and qualifying as cash flow hedges in accordance with ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*).

Under ASC Topic 815, an SLHC that elects to apply hedge accounting must exclude from net income the effective portion of the change in fair value of a derivative designated as a cash flow hedge and record it on the balance sheet in a separate component of equity capital (referred to as ‘‘accumulated other comprehensive income’’ in the accounting standard). The ineffective portion of the cash flow hedge must be reported in earnings. The equity capital component (i.e., the accumulated other comprehensive income) associated with a hedged transaction should be adjusted each reporting period to a balance that reflects the lesser (in absolute amounts) of:

(1) the cumulative gain or loss on the derivative from inception of the hedge, less (a) amounts excluded consistent with the bank holding company's defined risk management strategy, and (b) the derivative's gains or losses previously reclassified from accumulated other comprehensive income into earnings to offset the hedged transaction, or

(2) The portion of the cumulative gain or loss on the derivative necessary to offset the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge less the derivative's gains or losses previously reclassified from accumulated other comprehensive income into earnings.

Accordingly, the amount reported in this item should reflect the sum of the adjusted balance (as described above) of the cumulative gain or loss for each derivative designated and qualifying as a cash flow hedge. These amounts will be reclassified into earnings in the same period or periods during which the hedged transaction affects earnings (for example, when a hedged variable rate interest receipt on a loan is accrued or when a forecasted sale occurs).

Include in this item the sum of the SLHC's foreign currency translation adjustments accumulated in accordance with ASC Topic 830, Foreign Currency Matters, (formerly FASB Statement No.

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[3] Generally, the objective of a cash flow hedge is to link a derivative to an existing recognized asset or liability or a forecasted transaction with exposure to variability in expected future cash flows, e.g., the future interest payments (receipts) on a variable-rate liability (asset) or a forecasted purchase (sale). The changes in cash flows of the derivative are expected to offset changes in cash flows of the hedged item or transaction. To achieve the matching of cash flows, ASC Topic 815 requires that changes in fair value of properly designated and qualifying derivatives initially be reported in a separate component of equity (accumulated other comprehensive income) and reclassified into earnings in the same period that the hedged transaction affects earnings.

[4] The effective portion of a cash flow hedge can be described as a change in fair value of the derivative that offsets the change in expected future cash flows being hedged. Refer to ASC Topic 815, for further information.

52, *Foreign Currency Translation*). A net debit balance should be reported as a reduction of the total amount reported in this item.

Report any minimum pension liability adjustment recognized in accordance with ASC Topic 715, Compensation-Retirement Benefits (formerly FASB Statement No. 87, *Employers' Accounting for Pensions*). Under ASC Topic 715, an employer must report in a separate component of equity capital, net of any applicable tax benefits, the excess of additional pension liability over unrecognized prior service cost.

**Line item 3(a) AOCI opt-out election.**

***(i) All SLHCs:***

An SLHC may make a one-time election to become subject to the AOCI-related adjustments in Schedule SC-R, items 9(a) through 9(e). That is, such an SLHC may opt-out of the requirement to include most components of AOCI in common equity tier 1 capital (with the exception of accumulated net gains and losses on cash flow hedges related to items that are not recognized at fair value on the balance sheet). An SLHC that makes an AOCI opt-out election must enter "1" for "Yes" in item 3(a). There are no transition provisions applicable to reporting Schedule SC-R, item 3, if an SLHC makes an AOCI opt-out election.

An SLHC must make its AOCI opt-out election on the SLHC's June 30, 2015 FR Y-9SP report. For an SLHC that comes into existence after June 30, 2015, the AOCI opt-out election must be made on the SLHC's first FR Y-9SP report. Each of the SLHC's subsidiaries subject to the revised regulatory capital rules must elect the same option as the SLHC. With prior notice to the Federal Reserve, an SLHC resulting from a merger, acquisition, or purchase transaction may make a new AOCI opt-out election, as described in section 22(b)(2) of the revised regulatory capital rules.

***(ii) SLHCs that do not make an AOCI opt-out election:***

An SLHC that does not make an AOCI opt-out election and enters "0" for "No" in item 3(a) is subject to the AOCI-related adjustment in Schedule SC-R, item 9(f). In addition, these SLHCs must report Schedule SC-R, item 3, subject to the following transition provisions:

***Transition provisions*****:** report AOCI adjusted for the transition AOCI adjustment amount in Schedule RC-R, item 3, as follows:

(i) Determine the aggregate amount of the following items:
- (1) Unrealized gains on available-for-sale equity securities, plus
- (2) Net unrealized gains (losses) on available-for-sale debt securities plus
- (3) Any amounts recorded in AOCI attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans (excluding, at the SLHC's option, the portion relating to pension assets deducted in Schedule SC-R, item 10(b)), plus
- (4) Accumulated net gains (losses) on cash flow hedges included in AOCI related to items that are reported on the balance sheet at fair value, plus

(5) Net unrealized gains (losses) on held-to-maturity securities that are included in AOCI.

(ii) Multiply the amount calculated in step (i) by the appropriate percentage in Table 1 below. This amount is the calendar-year transition AOCI adjustment amount.

(iii) Report in Schedule SC-R, item 3, the amount of AOCI (according to the instructions outlined in item 3), minus the calendar-year transition AOCI adjustment calculated in step (ii).

**Table 1—Percentage of the transition AOCI adjustment amount**

| Calendar year | Percentage of the transition AOCI adjustment amount to be applied to common equity tier 1 capital |
|---|---|
| 2015 | 60 |
| 2016 | 40 |
| 2017 | 20 |
| 2018 and thereafter | 0 |

**Line item 4 Common equity tier 1 minority interest includable in common equity tier 1 capital.**

Report the aggregate amount of common equity tier 1 minority interest, calculated as described below, consistent with section 21 of the revised regulatory capital rules. Common equity tier 1 minority interest means the common equity tier 1 capital of a depository institution or foreign bank that is a consolidated subsidiary of the SLHC and that is not owned by the SLHC. In addition, the capital instruments issued by the subsidiary must meet all of the criteria for common equity tier 1 capital (qualifying common equity tier 1 capital).

The minority interest limitations apply only to the consolidated subsidiaries that have common equity tier 1 capital in excess of capital necessary to meet the minimum capital requirements plus the capital conservation buffer. For example, a subsidiary with a common equity tier 1 capital ratio of 8 percent that needs to maintain a common equity tier 1 capital ratio of more than 7 percent to avoid limitations on capital distributions and discretionary bonus payments is considered to have "surplus" common equity tier 1 capital. Thus, at the consolidated level, the holding company may not include the portion of such surplus common equity tier 1 capital and is required to phase out this surplus minority interest in accordance with Table 2, as described below in this item 4.

In addition, an SLHC is required to phase-out regulatory capital instruments issued by the subsidiaries that no longer qualify for inclusion in regulatory capital in accordance with Table 2, as described below in this Schedule SC-R, item 4.

The following example and a worksheet is intended to assist holding companies in determining the amount of common equity tier 1 minority interest includable in common equity tier 1 capital.

***Example***: calculate the minority interest includable at the SLHC level as follows:
*Assumptions*:

- Risk-weighted assets of the consolidated subsidiary are the same as the risk-weighted assets of the SLHC that relate to the subsidiary ($1,000);

- The subsidiary's qualifying common equity tier 1 capital is $80;
- The subsidiary's qualifying common equity tier 1 minority interest (that is, owned by minority shareholders) is $24.

| | | |
|---|---|---|
| (1) | Determine the risk-weighted assets of the subsidiary using the risk-based capital framework applicable to that subsidiary.[5] | *$1,000* |
| (2) | Determine the risk-weighted assets of the SLHC that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation. | *$1,000* |
| (3) | Determine the lower of (1) or (2), and multiply that amount by 7.0%.[6] | *$1,000 x 7% = $70* |
| (4) | Determine the dollar amount of the subsidiary's qualifying common equity tier 1 capital. If this amount is less than step (3), include this amount in Schedule SC-R, item 4, as part of the common equity tier 1 minority interest includable at the SLHC level. Otherwise, continue to step (5). | *$80* |
| (5) | Subtract the amount in step (3) from the amount in step (4). This is the "surplus common equity tier 1 minority capital of the subsidiary." | *$80 - $70 = $10* |
| (6) | Determine the percent of the subsidiary's qualifying common equity tier 1 interest owned by third parties (the minority shareholders). | *$24/$80 = 30%* |
| (7) | Multiply the percentage in step (6) by the dollar amount in step (5). This is the "surplus common equity tier 1 minority interest of the subsidiary." | *30% x $10 = $3.30, which rounds to $3* |
| (8) | Subtract the amount in step (7) from the subsidiary's qualifying common equity tier 1 minority interest. | *$24 - $3 = $21* |
| (9) | This is the "common equity tier 1 minority interest includable at the SLHC level" to be included in Schedule SC-R, item 4, for this subsidiary. | *$21* |

***Transition provisions for surplus minority interest and non-qualifying minority interest:***

**a. Surplus minority interest:**

An SLHC may include in common equity tier 1 capital, tier 1 capital, or total capital the percentage of the common equity tier 1 minority interest, tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that exceeds any common equity tier 1

[5] For purposes of the minority interest calculations, if the consolidated subsidiary issuing the capital is not subject to capital adequacy standards similar to those of the SLHC, the holding company must assume that the capital adequacy standards of the SLHC apply to the subsidiary.
[6] The percentage multiplier in step (3) is the capital ratio necessary for the subsidiary to avoid restrictions on distributions and discretionary bonus payments.

minority interest, tier 1 minority interest or total capital minority interest includable under section 21 of the revised regulatory capital rules (surplus minority interest) as follows:

(i) Determine the amounts of outstanding surplus minority interest (for the case of common equity tier 1, tier 1, and total capital).
(ii) Multiply the amounts in (i) by the appropriate percentage in Table 2 below.
(iii) Include the amounts in (ii) in the corresponding line items (that is, Schedule SC-R, item 4, item 22, or item 29).

In the example above, if an SLHC has $10 of surplus common equity tier 1 minority interest as of January 1, 2015, it may include $6 (that is, $10 multiplied by 60%) in Schedule SC-R, item 4, during calendar year 2015; $4 during calendar year 2016; $2 during calendar year 2017; and $0 starting on January 1, 2018.

**b. Non-qualifying minority interest:**

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

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

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

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

| Calendar year | Percentage of the amount of surplus or non-qualifying minority interest that can be included in regulatory capital during the transition period |
|---|---|
| 2015 | 60 |
| 2016 | 40 |
| 2017 | 20 |
| 2018 and thereafter | 0 |

**Line item 5 Common equity tier 1 capital before adjustments and deductions**.

Report the sum of Schedule SC-R, items 1, 2, 3, and 4.

## Common equity tier 1 capital: adjustments and deductions

*Note*: as described in section 22 of the revised regulatory capital rules, netting of deferred tax liabilities (DTLs) against assets that are subject to deduction is permitted if the following conditions are met:

(i) The DTL is associated with the asset;
(ii) The DTL would be extinguished if the associated asset becomes impaired or is derecognized under GAAP; and
(iii) A DTL can only be netted against a single asset.

The amount of deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowances, may be offset by DTLs (that have not been netted against assets subject to deduction) if the following conditions are met:

(i) Only the DTAs and DTLs that relate to taxes levied by the same taxation authority and that are eligible for offsetting by that authority may be offset for purposes of this deduction.
(ii) The amount of DTLs that the SLHC nets against DTAs that arise from operating loss and tax credit carryforwards, net of any related valuation allowances, and against DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowances, must be allocated in proportion to the amount of DTAs that arise from net operating loss and tax credit carryforwards (net of any related valuation allowances, but before any offsetting of DTLs) and of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks (net of any related valuation allowances, but before any offsetting of DTLs), respectively.

An SLHC may offset DTLs embedded in the carrying value of a leveraged lease portfolio acquired in a business combination that are not recognized under GAAP against DTAs that are subject to section 22(b) of the revised regulatory capital rules in accordance with section 22(e).

SLHCs must net DTLs against assets subject to deduction in a consistent manner from reporting period to reporting period. SLHCs may change their DTL netting preference only after obtaining the prior written approval of the agency.

**Line item 6 LESS: Goodwill net of associated deferred tax liabilities (DTLs).**

Report the amount (book value) of the goodwill associated with the acquisition of savings association subsidiary(ies), nonbank subsidiary(ies), and subsidiary SLHC(s) that have not been ‘‘pushed down’’ to the books of the subsidiary(ies) for financial reporting purposes. The amount of the goodwill associated with investment in the subsidiary(ies) should generally be equivalent to the difference between the original cost of the shares of the subsidiary(ies) and the book value of the SLHC's proportionate share of the equity capital accounts of the subsidiary(ies) on the date of acquisition.

For purposes of this item, any goodwill that has not been pushed down to the books of the subsidiary(ies), and is included in the investment in subsidiary account on the parent's books, should be reported in this item. Any goodwill that has been pushed down to the books of the subsidiary(ies) should not be reported separately in this item.

However, if the SLHC has a DTL that is specifically related to goodwill acquired in a taxable purchase business combination that it chooses to net against the goodwill, the amount of disallowed goodwill to be reported in this item should be reduced by the amount of the associated DTL.

If an SLHC has significant investments in the capital of unconsolidated financial institutions in the form of common stock, the SLHC should report in this item goodwill embedded in the valuation of a significant investment in the capital of an unconsolidated financial institution in the form of common stock (embedded goodwill). Such deduction of embedded goodwill would apply to investments accounted for under the equity method. Under GAAP, if there is a difference between the initial cost basis of the investment and the amount of underlying equity in the net assets of the investee, the resulting difference should be accounted for as if the investee were a consolidated subsidiary (which may include imputed goodwill).

There are no transition provisions for this item.

**Line item 7 LESS: Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs.**

Report all intangible assets (other than goodwill and MSAs) net of associated DTLs that do not qualify for inclusion in common equity tier 1 capital under the regulatory capital rules. Generally, all purchased credit card relationships (PCCRs) and non-mortgage servicing rights and all other identifiable intangibles do not qualify for inclusion in common equity tier 1 capital and should be included in this item.

Report the sum of:

(i) Purchased credit card relationships (PCCRs): PCCRs represent the right to conduct ongoing credit card business dealings with the cardholders. In general, PCCRs are an amount paid in excess of the value of the purchased credit card receivables. Such relationships arise when the reporting SLHC purchases existing credit card receivables and also has the right to provide credit card services to those customers. PCCRs may also be acquired when the reporting SLHC purchases an entire depository institution. PCCRs shall be carried at amortized cost. Management of the institution shall review the carrying amount at least quarterly, adequately document this review, and adjust the carrying amount as necessary. This review should determine whether unanticipated acceleration or deceleration of cardholder payments, account attrition, changes in fees or finance charges, or other events or changes in circumstances indicate that the carrying amount of the purchased credit card relationships may not be recoverable. If this review indicates that the carrying amount may not be recoverable, the intangible asset should be tested for recoverability, and any impairment loss should be recognized, as described in the instruction below.

*Instruction for testing for recoverability and recognition of impairment loss*: Intangible assets primarily result from business combinations accounted for under the acquisition method in accordance with ASC Topic 805, Business Combinations (formerly FASB Statement No. 141(R), *Business Combinations*), from acquisitions of portions or segments of another institution's business such as mortgage servicing portfolios and credit card portfolios, and from the sale or securitization of financial assets with servicing retained.

An intangible asset with a finite life (other than a servicing asset) should be amortized over its estimated useful life and should be reviewed at least quarterly to determine whether events or changes in circumstances indicate that its carrying amount may not be recoverable. If this review indicates that the carrying amount may not be recoverable, the intangible asset should be tested for recoverability (impairment) in accordance with ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). An impairment loss shall be recognized if the carrying amount of the intangible asset is not recoverable and this amount exceeds the asset’s fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted expected future cash flows from the intangible asset. An impairment loss is recognized by writing the intangible asset down to its fair value (which becomes the new accounting basis of the intangible asset), with a corresponding charge to expense. Subsequent reversal of a previously recognized impairment loss is prohibited.

An intangible asset with an indefinite useful life should not be amortized, but should be tested for impairment at least annually in accordance with ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, *Goodwill and Other Intangible Assets*).

(ii) Nonmortgage servicing rights: Nonmortgage servicing assets are contracts to service financial assets, other than loans secured by real estate (as defined below) under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A nonmortgage servicing contract is either (a) undertaken in conjunction with selling or securitizing the nonmortgage financial assets being service or (b) purchased or assumed separately. For nonmortgage servicing assets accounted for under the amortization method, the carrying amount is the unamortized cost of acquiring the nonmortgage servicing contracts, net of any related valuation allowances. For nonmortgage servicing assets accounted for under the fair value method, the carrying amount is the fair value of the nonmortgage servicing contracts. For further information, see the discussion regarding “servicing assets and liabilities” in the instructions for Schedule SC-R, item 14.

*Loans secured by real estate:*

Loans (other than those to states and political subdivisions in the U.S.), regardless of purpose and regardless of whether originated by the SLHC or purchased from others, that are secured by real estate at origination as evidenced by mortgages, deeds of trust, land contracts, or other instruments, whether first or junior liens (e.g., equity loans, second mortgages) on real estate.

These include:
(1) Loans secured by residential properties that are guaranteed by the Farmers Home Administration (FmHA) and extended, collected, and serviced by a party other than the FmHA.
(2) Loans secured by properties and guaranteed by governmental entities in foreign countries.
(3) Participations in pools of Federal Housing Administration Title I home improvement loans that are secured by liens (generally, junior liens) on residential properties.

These do not include:
(1) Obligations (other than securities and leases) of states and political subdivisions in the U.S. that are secured by real estate.
(2) All loans and sales contracts indirectly representing other real estate.
(3) Loans to real estate companies, real estate investment trusts, mortgage lenders, and foreign non-governmental entities that specialize in mortgage loan originations and that service mortgages for other lending institutions when the real estate mortgages or similar liens on real estate are not sold to the SLHC but are merely pledged as collateral.
(4) Bonds issued by the Federal National Mortgage Association or by the Federal Home Loan Mortgage Corporation that are collateralized by residential mortgages.
(5) Pooled residential mortgages for which participation certificates have been issued or guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation. However, if the reporting SLHC is the seller-servicer of the residential mortgages backing such securities and, as a result of a change in circumstances, it must rebook any of these mortgages because one or more of the conditions for sale accounting in ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended by FASB Statement No. 166, *Accounting for Transfers of Financial Assets*), are no longer met, the rebooked mortgages should be included in as loans secured by real estate.

(iii) All other identifiable intangibles: Report the carrying amount of all other specifically identifiable intangible assets such as core deposit intangibles and favorable leasehold rights. Exclude goodwill, which should be reported in Schedule SC-R, item 6.

Further, if the SLHC has a DTL that is specifically related to an intangible asset (other than servicing assets and PCCRs) acquired in a nontaxable purchase business combination that it chooses to net against the intangible asset for regulatory capital purposes, the amount of disallowed intangibles to be reported in this item should be reduced by the amount of the associated DTL. However, a DTL that the SLHC chooses to net against the related intangible reported in this item may not also be netted against DTAs when the SLHC determines the amount of DTAs that are dependent upon future taxable income and calculates the maximum allowable amount of such DTAs for regulatory capital purposes.

If the amount reported for all other identifiable intangible assets (in above item (iii)) includes intangible assets that were recorded on the reporting SLHC's balance sheet on or before February 19, 1992, the remaining book value as of the report date of these intangible assets may be excluded from this item.

***Transition provisions*:**

(i) Calculate the amount as described in the instructions for this item, SC-R, item 7.
(ii) Multiply the amount in (i) by the appropriate percentage in accordance with Table 3 below. Report the product in this item 7.
(iii) Subtract (ii) from (i) to calculate the balance amount which must be risk-weighted during the transition period.
(iv) Multiply the amount in (iii) by 100 percent and report the risk-weighted assets as part of "other assets" in Schedule SC-R, Part II (see line item 40 of these instructions for more details about Schedule SC-R, Part II).

**Table 3—Deduction of intangibles other than goodwill and MSAs during transition period**

| Calendar year | Percentage of the deductions from common equity tier 1 capital |
|---|---|
| 2015 | 40 |
| 2016 | 60 |
| 2017 | 80 |
| 2018 and thereafter | 100 |

For example, in calendar year 2015, an SLHC will deduct 40 percent of intangible assets (other than goodwill and MSAs), net of associated DTLs, from common equity tier 1 capital. The SLHC must apply a 100 percent risk weight to the remaining 60 percent of the intangible assets that are not deducted.

**Line item 8 LESS: Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs.**

Report the amount of DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs.

***Transition provisions*:**

(i) Determine the amount as described in the instructions for this line item 8.
(ii) Multiply the amount in (i) by the appropriate percent in column A of Table 4 below. Report this product in this line item 8.
(iii) Multiply the amount in (i) by the appropriate percentage in column B of Table 4 below. Include this amount in Schedule SC-R, item 24, "Additional tier 1 capital deductions."

**Table 4—Deduction of DTAs, gain-on-sale, defined benefit pension fund assets, changes in fair value of liabilities, and expected credit losses during the transition period**

| Calendar year | Column A: Percentage of the adjustments applied to common equity tier 1 capital | Column B: Percentage of the adjustments applied to tier 1 capital |
|---|---|---|
| 2015 | 40 | 60 |
| 2016 | 60 | 40 |
| 2017 | 80 | 20 |
| 2018 and thereafter | 100 | 0 |

**Line item 9   AOCI-related adjustments.**

SLHCs that entered "1" for "Yes" in Schedule SC-R, item 3(a), must complete Schedule SC-R, items 9(a) through 9(e), only.  SLHCs that entered "0" for "No" in Schedule SC-R, item 3(a), must complete Schedule SC-R, item 9(f), only.

**Line item 9(a)  LESS: Net unrealized gains (losses) on available-for-sale securities**.

Report the amount of net unrealized holding gains (losses) on available-for-sale securities, net of applicable taxes, that is included in Schedule SC-R, item 3, "Accumulated other comprehensive income.  If the amount is a net gain, report it as a positive value in this item.  If the amount is a net loss, report it as a negative value in this item.

**Line item 9(b)  LESS: Net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.**

Report as a positive value net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that is included in Schedule SC-R, item 3, "Accumulated other comprehensive income.

**Line item 9(c)  LESS: Accumulated net gains (losses) on cash flow hedges**.

Report the amount of accumulated net gains (losses) on cash flow hedges that is included in Schedule SC-R, item 3, "Accumulated other comprehensive income.  If the amount is a net gain, report it as a positive value in this item.  If the amount is a net loss, report it as a negative value in this item.

**Line item 9(d)  LESS: Amounts recorded in AOCI attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans.**

Report the amount amounts recorded in AOCI and included in Schedule SC-R, item 3, "Accumulated other comprehensive income,"  resulting from the initial and subsequent application of ASC Subtopic 715-20 (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other postretirement Plans") to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans. A holding company may exclude the portion related to pension assets deducted in Schedule HC-R, item 10(b). If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

**Line item 9(e) LESS: Net unrealized gains (losses) on held-to-maturity securities that are included in AOCI.**

Report the amount of net unrealized gains (losses) that are not credit-related on held-to-maturity securities that are included in AOCI as reported in Schedule SC-R, item 3, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value.

Include (i) the unamortized balance of the unrealized holding gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available-for-sale category and (ii) the unaccreted portion of other-than-temporary impairment losses on available-for-sale and held-to-maturity debt securities that was not recognized in earnings in accordance with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities").

**Line item 9(f)— to be completed only by SLHCs that entered "0" for "No" in Schedule SC-R, item 3(a):**

**LESS: Accumulated net gain (loss) on cashflow hedges included in AOCI, net of applicable tax effects, that relate to the hedging of items that are not recognized at fair value on the balance sheet.**

Report the amount accumulated net gain (loss) on cash flow hedges included in AOCI, net of applicable tax effects that relate to the hedging of items not recognized at fair value on the balance sheet. If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

**Line item 10 Other deductions from (additions to) common equity tier 1 capital before threshold-based deductions:**

**Line item 10(a) LESS: Unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in own credit risk.**

Report the amount of unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in the SLHC's own credit risk. If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 8.

**Line item 10(b) LESS: All other deductions from (additions to) common equity tier 1 capital before threshold-based deductions.**

Report the amount of all other deductions from (additions to) common equity tier 1 capital, that are not included in Schedule SC-R, items 1 through 9, as described below.

**(1) After-tax gain-on-sale in connection with a securitization exposure**.

Include any after-tax gain-on-sale in connection with a securitization exposure. Gain-on-sale means an increase in the equity capital of an SLHC resulting from a securitization (other than an increase in equity capital resulting from the SLHC's receipt of cash in connection with the securitization or reporting of a mortgage servicing asset).

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 8.

**(2) Defined benefit pension fund assets, net of associated DTLs.**

An SLHC must deduct defined benefit pension fund assets, net of associated DTLs, held by an SLHC. With the prior approval of the Federal Reserve, this deduction is not required for any defined benefit pension fund net asset to the extent the SLHC has unrestricted and unfettered access to the assets in that fund. For an insured depository institution, no deduction is required.

An SLHC must risk weight any portion of the defined benefit pension fund asset that is not deducted as if the SLHC directly holds a proportional ownership share of each exposure in the defined benefit pension fund.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 8.

**(3) Investments in the SLHC's own shares to the extent not excluded as part of treasury stock.**

Include the SLHC's investments in (including any contractual obligation to purchase) its own common stock instruments, including direct, indirect, and synthetic exposures to such instruments (as defined in the revised regulatory capital rules), to the extent such instruments are not excluded as part of treasury stock, reported in Schedule SC-R, line item 1.

If an SLHC already deducts its investment in its own shares (for example, treasury stock) from its common equity tier 1 capital elements, it does not need to make such deduction twice.

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

The SLHC must look through any holdings of index securities to deduct investments in its own capital instruments.

In addition:

(i) Gross long positions in investments in an SLHC's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same underlying index;

(ii) Short positions in index securities that are hedging long cash or synthetic positions may be decomposed to recognize the hedge; and

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

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**(4) Reciprocal cross-holdings in the capital of financial institutions in the form of common stock.**

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

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**(5) Equity investments in financial subsidiaries.**

An SLHC must deduct the aggregate amount of its outstanding equity investment, including retained earnings, in its financial subsidiaries (as defined in 12 CFR 208.77) and may not consolidate the assets and liabilities of a financial subsidiary with those of the parent institution. No other deduction is required for these investments in the capital instruments of financial subsidiaries.

**Line item 11 LESS: Non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that exceed the 10 percent threshold for non-significant investments.**

An SLHC has a non-significant investment in the capital of an unconsolidated financial institution (as defined in section 2 of the revised regulatory capital rules) -if it owns 10 percent or less of the issued and outstanding common shares of that institution.

Report the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that, in the aggregate, exceed the 10 percent threshold for non-significant investments, calculated as described below. The SLHC may apply associated DTLs to this deduction.

***Example***:
*Assumptions*:

- An SLHC has a total of $200 in non-significant investments in the capital of unconsolidated financial institutions, of which $100 is in common shares. For this example, all of the $100 in common shares is in the common stock of a publicly traded financial institution.

- The SLHC reported $1,000 in Schedule SC-R, item 5 (common equity tier 1 capital before adjustments and deductions).
- Assume the amounts reported in Schedule SC-R, items 6 through 9(e), are all $0.

| | | |
|---|---|---|
| (1) | Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions (including in the form of common stock, additional tier 1, and tier 2 capital). | *$200* |
| (2) | Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock. | *$100* |
| (3) | Subtract from Schedule SC-R, item 5, the amounts in Schedule SC-R, items 6, 7, 8, 9, and 10. | *$1,000 - $0 = $1,000* |
| (4) | Multiply the amount in step (3) by 10%. This is "the ten percent threshold for non-significant investments." | *$1,000 x 10% = $100* |
| (5) | If (1) is greater than (4), subtract (4) from (1) and multiply the result by the ratio of (2) divided by (1). Report this amount in this item 11.<br>If (1) is less than (4), enter zero in Schedule SC-R, item 11. | *Line (1) is greater than line (4); therefore $200 - $100 = $100. Then ($100 x 100/200) = $50. Report $50 in this line item 11.* |
| (6) | Assign the applicable risk weight to the amount of non-significant investments in the capital of unconsolidated financial institutions that does not exceed the 10 percent threshold for non-significant investments. | *Of the $100 in common shares, $50 are deducted in this line item 11. Include the remaining $50 in risk-weighted assets in Schedule SC-R Part II. (to be proposed in the future)*[7] |

***Transition provisions for investments in capital instruments***:

(i) Calculate the amount as described in the instructions for this line item 11.

(ii) Multiply the amount in (i) by the appropriate percentage in Table 5 below. Report this product as this line item 11.

(iii) Subtract (ii) from (i); assign it the applicable risk weight; and report it as part of risk-weighted assets in Schedule SC-R, Part II.

**Table 5—Deductions related to investments in capital instruments**

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

[7] In this case, $50 x 300% risk weight for publicly traded common shares = $150 in risk-weighted assets for the portion of common shares in an unconsolidated financial institution that are not deducted.

**Line item 12 Subtotal.**

Report the amount in Schedule SC-R, item 5, less the amounts in Schedule SC-R, items 6 through 11.

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

- Significant investments in the capital of unconsolidated financial institutions in the form of common stock,
- Mortgage servicing assets (MSAs) net of associated DTLs; and
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks).

**Line item 13 LESS: Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.**

An SLHC has a significant investment in the capital of an unconsolidated financial institution when it owns more than 10 percent of the issued and outstanding common shares of that institution.

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

(1) Determine the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock.

(2) If the amount in (1) is greater than 10 percent of Schedule SC-R, item 12, report the difference in this line 13.

(3) If the amount in (2) is less than 10 percent of Schedule SC-R, item 12, report zero.

If the SLHC included embedded goodwill in Schedule SC-R, item 6, to avoid double counting, the SLHC may net such embedded goodwill already deducted against the exposure amount of the significant investment. For example, if an SLHC has deducted $10 of goodwill embedded in a $100 significant investment in the capital of an unconsolidated financial institution in the form of common stock, the SLHC is allowed to net such embedded goodwill against the exposure amount of such significant investment (that is, the value of the investment is $90 for purposes of the calculation of the amount that is subject to deduction).

***Transition provisions for items subject to the threshold deductions:***

(i) Calculate the amount as described in the instructions for this line item 13.

(ii) Multiply the amount in (i) by the appropriate percent in Table 6 below. Report this product as this item amount. In addition:

(iii) *From January 1, 2015, until January 1, 2018*: Subtract the amount in (ii) from the amount in (i); assign it a 100 percent risk weight; and report it in Schedule SC-R, Part II, risk-weighted assets.
(iv) *Starting on January 1, 2018*: Subtract the amount in (ii) from the amount in (i); assign it a 250 percent risk weight; and report it in Schedule SC-R, Part II, risk-weighted assets.

**Table 6—Transition provisions for items subject to the threshold deductions**

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

**Line item 14 LESS: MSAs, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold**.

Report the amount of MSAs (as described below), net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold as follows:
(1) Take the amount of MSAs (as described below) net of associated DTLs.
(2) If the amount in (1) is higher than 10 percent of the amount of Schedule SC-R, item 12, report the difference as this item 14.
(3) If the amount in (1) is lower than 10 percent of the amount of Schedule SC-R, item 12, enter zero.

*Mortgage Servicing Assets (MSAs):*
Report the carrying amount of MSAs, i.e., contracts to service loans secured by real estate (as defined above in the instructions for Schedule SC-R, item 7) under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A mortgage servicing contract is either (a) undertaken in conjunction with selling or securitizing the mortgages being serviced or (b) purchased or assumed separately. For MSAs accounted for under the amortization method, the carrying amount is the unamortized cost of acquiring the mortgage servicing contracts, net of any related valuation allowances. For MSAs accounted for under the fair value method, the carrying amount is the fair value of the mortgage servicing contracts. Exclude servicing assets resulting from contracts to service financial assets other than loans secured by real estate (i.e. nonmortgage servicing assets used in the calculation of Schedule SC-R, item 7). For further information, see the below discussion on “servicing assets and liabilities.”

*Servicing Assets and Liabilities:*
The accounting and reporting standards for servicing assets and liabilities are set forth in ASC Subtopic 860-50, Transfers and Servicing – Servicing Assets and Liabilities (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended by FASB Statement No. 156, *Accounting for Servicing of Financial Assets*, and FASB Statement No. 166, ), and ASC Topic 948, Financial Services-Mortgage Banking (formerly FASB Statement No. 65, *Accounting for Certain*

*Mortgage Banking Activities*, as amended by Statement No. 140). A summary of the relevant sections of these accounting standards follows. For further information, see ASC Subtopic 860-50 and ASC Topic 948.

Servicing of mortgage loans, credit card receivables, or other financial assets includes, but is not limited to, collecting principal, interest, and escrow payments from borrowers; paying taxes and insurance from escrowed funds; monitoring delinquencies; executing foreclosure if necessary; temporarily investing funds pending distribution; remitting fees to guarantors, trustees, and others providing services; and accounting for and remitting principal and interest payments to the holders of beneficial interests in the financial assets. Servicers typically receive certain benefits from the servicing contract and incur the costs of servicing the assets.

Servicing is inherent in all financial assets; it becomes a distinct asset or liability for accounting purposes only in certain circumstances as discussed below. Servicing assets result from contracts to service financial assets under which the benefits of servicing (estimated future revenues from contractually specified servicing fees, late charges, and other ancillary sources) are expected to more than adequately compensate the servicer for performing the servicing. Servicing liabilities result from contracts to service financial assets under which the benefits of servicing are not expected to adequately compensate the servicer for performing the servicing. Contractually specified servicing fees are all amounts that, per contract, are due to the servicer in exchange for servicing the financial asset and would no longer be received by a servicer if the beneficial owners of the serviced assets or their trustees or agents were to exercise their actual or potential authority under the contract to shift the servicing to another servicer. Adequate compensation is the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required including the profit that would be demanded by a substitute servicer in the marketplace.

An SLHC must recognize and initially measure at fair value a servicing asset or a servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in either of the following situations:

(1) The SLHC’s transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset that meets the requirements for sale accounting; or

(2) An acquisition or assumption of a servicing obligation that does not relate to financial assets of the SLHC or its consolidated affiliates included in the Reports of Condition and Income being presented.

If an SLHC sells a participating interest in an entire financial asset, it only recognizes servicing asset or servicing liability related to the participating interest sold. An SLHC that transfers its financial assets to an unconsolidated entity in a transfer that qualifies as a sale in which the SLHC obtains the resulting securities and classifies them as debt securities held-to-maturity in accordance with ASC Topic 320, Investments–Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), may either separately recognize its servicing assets or servicing liabilities or report those servicing assets or servicing liabilities together with the assets being serviced.

An SLHC should account for its servicing contract that qualifies for separate recognition as a servicing asset or servicing liability initially measured at fair value regardless of whether explicit consideration was exchanged. An SLHC that transfers or securitizes financial assets in a transaction that does not meet the requirements for sale accounting under ASC Topic 860 and is accounted for as a secured borrowing with the underlying assets remaining on the SLHC's balance sheet must not recognize a servicing asset or a servicing liability.

After initially measuring a servicing asset or servicing liability at fair value, an SLHC should subsequently measure each class of servicing assets and servicing liabilities using either the amortization method or the fair value measurement method. The election of the subsequent measurement method should be made separately for each class of servicing assets and servicing liabilities. An SLHC must apply the same subsequent measurement method to each servicing asset and servicing liability in a class. Each SLHC should identify its classes of servicing assets and servicing liabilities based on (a) the availability of market inputs used in determining the fair value of servicing assets and servicing liabilities, (b) the SLHC's method for managing the risks of its servicing assets or servicing liabilities, or (c) both. Different elections can be made for different classes of servicing. For a class of servicing assets and servicing liabilities that is subsequently measured using the amortization method, an SLHC may change the subsequent measurement method for that class of servicing by making an irrevocable decision to elect the fair value measurement method for that class at the beginning of any fiscal year. Once an SLHC elects the fair value measurement method for a class of servicing, that election must not be reversed.

Under the amortization method, all servicing assets or servicing liabilities in the class should be amortized in proportion to, and over the period of, estimated net servicing income for assets (servicing revenues in excess of servicing costs) or net servicing loss for liabilities (servicing costs in excess of servicing revenues). The servicing assets or servicing liabilities should be assessed for impairment or increased obligation based on fair value at each quarter-end report date. The servicing assets within a class should be stratified into groups based on one or more of the predominant risk characteristics of the underlying financial assets. If the carrying amount of a stratum of servicing assets exceeds its fair value, the SLHC should separately recognize impairment for that stratum by reducing the carrying amount to fair value through a valuation allowance for that stratum. The valuation allowance should be adjusted to reflect changes in the measurement of impairment subsequent to the initial measurement of impairment. For the servicing liabilities within a class, if subsequent events have increased the fair value of the liability above the carrying amount of the servicing liabilities, the SLHC should recognize the increased obligation as a loss in current earnings.

Under the fair value measurement method, all servicing assets or servicing liabilities in a class should be measured at fair value at each quarter-end report date. Changes in the fair value of these servicing assets and servicing liabilities should be reported in earnings in the period in which the changes occur.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 13.

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

(1) Report the amount of DTAs arising from temporary differences that the SLHC could not realize through net operating loss carrybacks net of any related valuation allowances and net of associated DTLs (for example, DTAs resulting from the SLHC's allowance for loan and lease losses).
(2) If the amount in (1) is higher than 10 percent of the amount of Schedule SC-R, item 12, report the difference as this line item.
(3) If the amount in (1) is lower than 10 percent of the amount of Schedule SC-R, item 12, enter zero.

DTAs arising from temporary differences that could be realized through net operating loss carrybacks are not subject to deduction, and instead must be assigned a 100 percent risk-weight.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 13.

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

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

***Transition provisions:***
*a. From January 1, 2015 until January 1, 2018*, calculate this item 16 as follows:
(i) Calculate the aggregate amount of the threshold items before deductions:
- Significant investments in the capital of unconsolidated financial institutions in the form of common stock (Schedule SC-R, item 13, step 1);
- MSAs (Schedule SC-R, item 14, step 1); and
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowance and net of DTLs (Schedule SC-R, item 15, step 1).

(ii) Multiply the amount in Schedule SC-R, item 12 by 15 percent. This is *the 15 percent common equity deduction threshold for transition purposes*.
(iii) Sum the amounts reported in Schedule SC-R, items 13, 14, and 15.
(iv) Deduct (iii) from (i).

(v) Deduct (ii) from (iv)
(vi) Multiply the amount in (iv) by the appropriate percentage in Table 6, Schedule SC-R, item 13. Report the resulting amount in this line item 16.

*b. Prior to January 1, 2018*, calculate this item 16 as follows
***Example:***
*Assume the following balance sheet amounts prior to deduction of these items*:

- Common equity tier 1 capital subtotal amount reported in Schedule SC-R item 12 = $100.
- :
- Significant investments in the common shares of unconsolidated financial institutions = $15.
- MSAs = $7
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowance and net of DTLs = $60.
- Amounts of each item that exceed the 10% limit
  - Significant investments in the common shares of unconsolidated financial institutions: $5 (reported in Schedule SC-R, item 13)
  - MSAs = $0 (reported in Schedule SC-R, item 14)
  - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs = $0 (reported in Schedule SC-R, item 15).

*Calculation steps:*

- (i) Sum of the significant investments in the common shares of unconsolidated financial institutions, MSAs, and DTAs before deductions: $15 + $7 + $6 = $28
- (ii) 15% of the amount from Schedule SC-R, item 12: 15% x $100 = $15
- (iii) Sum of the amounts reported in Schedule SC-R, items 13, 14, and 15: $5
- (iv) $28 - $5 = $23 (which is the amount of these three items that remains after the 10% deductions are taken)
- (v) $23 - $15 = $8
- (vi) $8 x 40% (amount that applies in calendar year 2015) = $3.20
- Report $3.20 in this item 16.

*c. Starting on January 1, 2018*, calculate this item 16 using the following example:
***Example:***
*Assumptions:*

- The amount reported in Schedule SC-R, item 12 is $130 (This amount is common equity tier 1 after all deductions and adjustments, except for deduction of the threshold items).
- Assume the following balance sheet amounts prior to deduction of these items:
  - Significant investments in the common shares of unconsolidated financial institutions = $10.
  - MSAs = $20

- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowance and net of DTLs = $30.

| | | |
|---|---|---|
| (1) | **Aggregate amount of threshold items before deductions**<br>Enter the sum of: | |
| | a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock (Schedule SC-R, item 13, step 1); | *$10* |
| | b. MSAs (Schedule SC-R, item 14, step 1); and | *$20* |
| | c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs (Schedule SC-R, item 15, step 1). | *$30* |
| | d. Total of a, b, and c: | *$60* |
| (2) | **Sum of threshold items not deducted as a result of the 10 percent common equity tier 1 capital deduction threshold**<br>Enter the sum of: | |
| | a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted (that is, the difference between the amount in step (1)(a) of this table and the amount deducted in Schedule HC-R, item 13) | *$0 from item 13, step 1.*<br>*(because $10 is less than $13, that is, 10% of $130)* |
| | b. MSAs that are not deducted (that is, the difference between the amount in step (1)(b) of this table and the amount deducted in Schedule SC-R, item 14) | *$20 - $13 = $7* |
| | c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs that are not deducted (that is, the difference between the amount in step (1)(c) of this table and the amount deducted in Schedule SC-R, item 15 | *$30 - $13 = $17* |
| | d. Total of a, b, and c | *$0 + $7 + $17 = $24* |
| (3) | **The 15 percent common equity tier 1 capital deduction threshold**<br>Calculate as follows: | |
| | a. Subtract the amount calculated in step (1)(d) of this table from Schedule SC-R, item 12<br>b. Multiply the resulting amount by 17.65% | *($130 - $60) x 17.65% =$12.36*<br>*Rounds to $12* |
| (4) | **Amount of threshold items that exceed the 15 percent common equity tier 1 capital deduction threshold**<br>Report as follows: | |

| | | |
|---|---|---|
| | a. If the amount in step (2)(d) is greater than the amount in step (3), then subtract (3) from (2)(d) and report this number in this line item 16. (In addition, the bank must risk-weight the items that are not deducted at 250 percent in the risk-weighted asset section of this form.)<br>b. If the amount in step (2) is less than the amount in step (3), report zero in this line item16 | *The amount in step 2(d) ($24) is greater than the amount in step 3 ($12). Therefore:*<br>*$24 - $12 = $12* |
| (5) | **If the amount in step (4) is above zero, then pro-rate the threshold items as follows**: | |
| | a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock: multiply (4)(a) by the ratio of (1)(a) over (1)(d).<br>b. MSAs net of associated DTAs: multiply (4)(a) by the ratio of (1)(b) over (1)(d).<br>c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks: multiply (4)(a) by the ratio of (1)(c) over (1)(d). | *a. $12 x (10/60) = $2*<br>*b. $12 x (20/60) = $4*<br>*c. $12 x (30/60) = $6.* |

**Line item 17 LESS: Deductions applied to common equity tier 1 capital due to insufficient amount of additional tier 1 capital and tier 2 capital to cover deductions.**

Report the total amount of deductions related to reciprocal cross holdings, non-significant investments in the capital of unconsolidated financial institutions, and non-common stock significant investments in the capital of unconsolidated financial institutions if the SLHC does not have a sufficient amount of additional tier 1 capital and tier 2 capital to cover these deductions in Schedule SC-R, items 24 and 33.

**Line item 18 Total adjustments and deductions for common equity tier 1 capital.**

Report the sum of Schedule SC-R, items 13 through 17.

**Line item 19 Common equity tier 1 capital.**

Report Schedule SC-R item 12 minus item 18. The amount reported in this item is the numerator of the SLHC's common equity tier 1 risk-based capital ratio.

## Additional tier 1 capital

**Line item 20 Additional tier 1 capital instruments plus related surplus.**

Report the portion of noncumulative perpetual preferred stock and related surplus that satisfy all the criteria for additional tier 1 capital in the capital rules of the Federal Reserve.

Include instruments that were (i) issued under the Small Business Job's Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) includable in the tier 1 capital under the Federal Reserve's general risk-based capital rules (12 CFR part 225, appendix A, and, if applicable, appendix E) (for example, tier 1 instruments issued under the TARP program that are grandfathered permanently). Also include additional tier 1 capital instruments issued as part of an ESOP, provided that the repurchase of such instruments is required solely by virtue of ERISA for a banking organization that is not publicly-traded.

Under the revised regulatory capital rules, depository institution holding companies[8] with total consolidated assets of less than $15 billion as of December 31, 2009 may include non-qualifying capital instruments (e.g., TruPS and cumulative perpetual preferred stock) issued prior to May 19, 2010 in additional tier 1 or tier 2 capital if the instrument was included in tier 1 or tier 2 capital, respectively, as of January 1, 2014.  Such non-qualifying capital instruments includable tier 1 capital are subject to a limit of 25 percent of tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments applied to tier 1 capital.

**Line item 21   Non-qualifying capital instruments subject to phase out from additional tier 1 capital.**

Report the total amount of non-qualifying capital instruments that were included in tier 1 capital and outstanding as of January 1, 2014.

This line item is generally not applicable to non-qualifying capital instruments issued by SLHCs with total consolidated assets of less than $15 billion prior to May 19, 2010 because these institutions may include non-qualifying regulatory capital instruments in additional tier 1 capital as described in Schedule SC-R, item 20.

If SLHCs have non-qualifying regulatory capital instruments in excess of 25 percent of tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments applied to tier 1 capital, such instruments must be phased out in accordance with Table 7 below.  In addition, the amount of non-qualifying capital instruments that are excluded from additional tier 1 capital in accordance with Table 7 may be included in tier 2 capital.

***Transition provisions for non-qualifying capital instruments includable in additional tier 1 or tier 2 capital:***

Table 7 applies separately to additional tier 1 and tier 2 non-qualifying capital instruments. For example, an SLHC may include up to 25 percent of non-qualifying capital instruments in

[8] Depository institution holding company means a bank holding company or savings and loan holding company.

additional tier 1 capital and up to 25 percent of non-qualifying capital instruments in tier 2 capital for reporting periods during the calendar year 2015.

**Table 7—Percentage of non-qualifying capital instruments included in additional tier 1 or tier 2 capital for depository institution holding companies**

| Calendar year | Percentage of non-qualifying capital instruments includable in additional tier 1 or tier 2 capital for depository institution holding companies |
|---|---|
| 2015 | 25 |
| 2016 and thereafter | 0 |

**Line item 22 Tier 1 minority interest not included in common equity tier 1 capital.**

Report the amount of tier 1 minority interest that is includable at the consolidated level, as described below.

For each consolidated subsidiary, perform the calculations in steps (1) through (10) of the worksheet below. Sum up the results from step 10 for each consolidated subsidiary and report the aggregate number in this line item 22.

For tier 1 minority interest, there is no requirement that the subsidiary be a depository institution or a foreign bank. However, the instrument that gives rise to tier 1 minority interest must meet all the criteria for either common equity tier 1 capital or additional tier 1 capital instrument.

***Example***: calculate additional tier 1 minority interest includable at holding company level as follows:
*Assumptions*:

- This is a continuation of the example used for common equity tier 1 minority interest from Schedule SC-R, item 4. Given the following:
- For this example, assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the SLHC that relate to the subsidiary: $1,000 in each case
- Subsidiary's qualifying tier 1 capital: $110, which is composed of subsidiary's qualifying common equity tier 1 capital $80 and qualifying additional tier 1 capital of $30.
- Subsidiary's qualifying common equity tier 1 owned by minority shareholders: $24.
- Subsidiary's qualifying additional tier 1 capital owned by minority shareholders: $15.
- Other relevant numbers are from the example in Schedule SC-R, item 4.

| | | |
|---|---|---|
| (1) | Determine the risk-weighted assets of the subsidiary. | *$1,000* |
| (2) | Determine the risk-weighted assets of the SLHC that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation. | *$1,000* |

| | | |
|---|---|---|
| (3) | Determine the lower of (1) or (2), and multiply that amount by 8.5%.[9] | *$1,000 x 8.5% = $85* |
| (4) | Determine the dollar amount of qualifying tier 1 capital for the subsidiary. If this amount is less than step (3), go directly to step (9). Otherwise continue on to step (5). | *$110* |
| (5) | Subtract the amount in step (3) from the amount in step (4). This is the "surplus tier 1 capital of the subsidiary." | *$110 - $85 = $25* |
| (6) | Determine the percent of the subsidiary's qualifying capital instruments that are owned by third parties (the minority shareholders). | *$24 + 15 = $39. Then $39/$110 = 35.45%* |
| (7) | Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus tier 1 minority interest of the subsidiary." | *35.45% x $25 = $8.86* |
| (8) | Determine the total amount of tier 1 minority interest of the subsidiary. Then subtract the surplus tier 1 minority interest of the subsidiary (step 7) from this amount. | *$24 + $15 = $39. Then $39 - $8.86 = $30.14* |
| (9) | The "tier 1 minority interest includable at bank level" is the amount from step (8) or step (4) where there is no surplus tier 1 minority interest of the subsidiary. | *$30.14 (Report the lower of $30.14 or $39; therefore report $30.14)* |
| (10) | Subtract any minority interest that is included in common equity tier 1 capital (from line item 4). The result is the minority interest included in additional tier 1 capital. | *$30.14 - $21 (from example in item 4) = $9.14.* |

*Note*: As indicated, this example built onto the example under the instructions for item 4, where the subsidiary was a depository institution, and where its common equity tier 1 minority interest was includable in common equity tier 1 capital. However, if this were a subsidiary other than a depository institution, none of its minority interest arising from common equity tier 1 is includable in common equity tier 1 capital. If the example were not for a depository institution, the full calculated amount ($30.14) is includable in additional tier 1 capital because none of it is includable in common equity tier 1 capital.

***Transition provisions:*** for surplus minority interest and non-qualifying minority interest, follow the transition provision instructions in Schedule SC-R, item 4.

**Line item 23 Additional tier 1 capital before deductions.**

Report the sum of Schedule SC-R, items 20, 21, and 22.

**Line item 24 LESS: Additional tier 1 capital deductions.**

[9] The percentage multiplier in step (3) is the capital ratio needed for the subsidiary to avoid restrictions on distributions and discretionary bonus payments.

Report additional tier 1 capital deductions as the sum of the following elements:

Note that if an institution does not have a sufficient amount of additional tier 1 capital to reflect these deductions, then the institution must deduct the shortfall from common equity tier 1 capital (Schedule SC-R, item 17).

**a. Investments in own additional tier 1 capital instruments**:

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

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

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

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

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**b. Reciprocal cross-holdings in the capital of financial institutions.**

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

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

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**c. Non-significant investments in additional tier 1 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments**.

An institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution.

Calculate this amount as follows (similar to the calculation in Schedule SC-R, item 11):

(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.

(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.

(3) If the amount in (1) is greater than the 10 percent threshold for non-significant investments (Schedule SC-R, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this line item

(4) If the amount in (1) is less than the 10 percent threshold for non-significant investments, report zero.

For example, assume an SLHC has a total of $200 in non-significant investments (step 1), including $60 in the form of additional tier 1 capital (step 2), and its 10 percent threshold for non-significant investments is $100 (as calculated in step 4 of Schedule SC-R, item 11). Since the aggregate amount of non-significant investments exceeds the 10 percent threshold for non-significant investments by $100 ($200-$100), the SLHC must multiply $100 by the ratio of 60/200 (step 3). Thus, the SLHC must deduct $30 from its additional tier 1 capital.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**d. Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from additional tier 1 capital:**

Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**e. Other adjustments and deductions:**

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

Also include adjustments and deductions related to the calculation of DTAs, gain-on-sale, defined benefit pension fund assets, changes in fair value of liabilities due to changes in own credit risk, and expected credit losses during the transition period as described in Schedule SC-R, item 8.

**Line item 25 Additional tier 1 capital.**

Report the greater of Schedule SC-R item 23 minus item 24 or zero.

## Tier 1 capital

**Line item 26 Tier 1 capital.**

Report the sum of Schedule SC-R items 19 and 25.

## Tier 2 capital

**Line item 27 Tier 2 capital instruments plus related surplus.**

Report tier 2 capital instruments that satisfy all eligibility criteria in the revised regulatory capital rules and related surplus.

Include instruments that were (i) issued under the Small Business Job's Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) were included in the tier 2 capital under the Federal Reserve's general risked-based capital rules.

In addition, an SLHC may include in tier 2 capital non-qualifying capital instruments (e.g., TruPS and cumulative perpetual preferred) that have been phased-out of tier 1 capital in accordance with Table 7 in Schedule SC-R, item 21.

**Line item 28 Non-qualifying capital instruments subject to phase out from tier 2 capital.**

Report the total amount of non-qualifying capital instruments that were included in tier 2 capital and outstanding as of January 1, 2014, as described below.

This line item is generally not applicable to SLHCs with total consolidated assets of less than $15 billion that issued and included non-qualifying capital instruments prior to May 19, 2010, because these institutions may include such instruments in additional tier 1 and tier 2 capital as described in Schedule SC-R, item 20 and 27, respectively.

**Line item 29 Total capital minority interest that is not included in tier 1 capital.**

Report the amount of total capital minority interest that is includable at the consolidated level, as described below. For each consolidated subsidiary, perform the calculations in steps (1) through (10) below. Sum up the results for each consolidated subsidiary and report the aggregate number in this line item 29.

***Example***: calculate additional tier 1 minority interest includable at the holding company level as follows:

*Assumptions*:

- This is a continuation of the example used in the instructions for Schedule SC-R, items 4 and 22. Given the following:
- For this example, assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the SLHC that relate to the subsidiary: $1,000 in each case
- Subsidiary's qualifying total capital: $130, which is composed of subsidiary's qualifying common equity tier 1 capital $80, and qualifying additional tier 1 capital of $30, and tier 2 capital of $20.
- Subsidiary's qualifying common equity tier 1 capital owned by minority shareholders: $24.
- Subsidiary's qualifying additional tier 1 capital owned by minority shareholders: $15
- Subsidiary's qualifying total capital instruments owned by minority shareholders: $15

| | | |
|---|---|---|
| (1) | Determine the risk-weighted assets of the subsidiary. | *$1,000* |
| (2) | Determine the risk-weighted assets of the bank that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation. | *$1,000* |
| (3) | Determine the lower of (1) or (2), and multiply that amount by 10.5%.[10] | *$1,000 x 10.5% = $105* |
| (4) | Determine the dollar amount of qualifying total capital for the subsidiary. If this amount is less than step (3), go directly to step (9). Otherwise continue on to step (5). | *$130* |
| (5) | Subtract the amount in step (3) from the amount in step (4). This is the "surplus total capital of the subsidiary." | *$130 -$105 = $25* |
| (6) | Determine the percent of the subsidiary's qualifying total capital instruments that are owned by third parties (the minority shareholders). (This amount includes instruments that qualify for common equity tier 1 or tier 1 capital.) | *$24 + $15 + $15 = $54. Then, $54/$130 = 41.54%* |
| (7) | Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus total capital minority interest of the subsidiary" | *41.54% x $25 = $10.39* |
| (8) | Determine the total amount of total capital minority interest of the subsidiary. Then subtract the surplus total capital minority interest of the subsidiary (step 7) from this amount. | *$24 + $15 + $15 = $54. Then $54 - $10.39 = $43.62.* |
| (9) | The "total capital minority interest includable at bank level" is the amount from step (8) or step (4) where there is no surplus total capital minority interest of the subsidiary. | *$43.62 (Report the lesser of $43.62 or $54; therefore $43.62).* |

[10] The percentage multiplier in step (3) is the capital ratio necessary for a subsidiary depository institution to avoid restrictions on distributions and discretionary bonus payments.

| | | |
|---|---|---|
| (10) | Subtract from (9) any minority interest that is included in common equity tier 1 in Schedule SC-R, item 4, and additional tier 1 capital in Schedule SC-R, item 22, for this subsidiary. The result is the total capital minority interest includable in total capital minority interest in this line item 29. | *$43.62 – ($21 + $9.14) = $13.48.* |

***Transition provisions***: for surplus minority interest and non-qualifying minority interest, follow the transition provision instructions in Schedule SC-R, item 4.

**Line item 30 Allowance for loan and lease losses includable in tier 2 capital**.

Report the portion of the SLHC's allowance for loan and lease losses that are includable in tier 2 capital. None of the SLHC's allocated transfer risk reserve, if any, is includable in tier 2 capital.

The amount reported in this item cannot exceed 1.25 percent of the SLHC's risk-weighted assets, reported in Schedule SC-R, not including the allowance for loan and lease losses. The allowance for loan and lease losses equals:

**a. Allowance for loan and lease losses.**
The amount reported should reflect an evaluation by the management of a bank holding company of the collectability of the loan and lease financing receivable portfolios, including any accrued and unpaid interest. The amount of the allowance should be adequate to absorb anticipated losses.

**b. LESS: Allocated transfer risk reserve.**
Report the amount of any allocated transfer risk reserve related to loans and leases held for investment that the reporting bank is required to establish and maintain that the bank has included in the end-of-period balance of the allowance for loan and lease losses.

**c. PLUS: Allowance for credit losses on off-balance sheet credit exposures.**
Report the amount of any allowance for credit losses on off-balance sheet exposures established in accordance with generally accepted accounting principles.

**Line item 31 Unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in Tier 2 capital.**

***(i) SLHCs that entered "1" for "Yes" in Schedule SC-R, item 3(a)***:

Report the pretax net unrealized holding gain (i.e., the excess of fair value over historical cost), if any, on available-for-sale preferred stock classified as an equity security under GAAP and available- for-sale equity exposures includable in tier 2 capital, subject to the limits specified in the revised regulatory capital rules. The amount reported in this item cannot exceed 45 percent of the SLHC's pretax net unrealized holding gain on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.

***(ii) SLHCs that entered "0" for "No" in Schedule SC-R, item 3(a):***

***Transition provisions for phasing out unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures:***

(i) Determine the amount of unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that an institution currently includes in tier 2 capital.

(ii) Multiply (i) by the percentage in Table 8 and include this amount in tier 2 capital.

**Table 8—Percentage of unrealized gains on available–for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that may be included in tier 2 capital**

| Calendar year | Percentage of unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that may be included in tier 2 capital |
|---|---|
| 2015 | 27 |
| 2016 | 18 |
| 2017 | 9 |
| 2018 and thereafter | 0 |

For example, during calendar year 2015, include up to 27 percent of unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures in tier 2 capital. During calendar years 2016, 2017, and 2018 (and thereafter) these percentages go down 18, 9, and zero, respectively.

**Line item 32 Tier 2 capital before deductions.**

Report the sum of Schedule SC-R, items 27 through 31.

**Line item 33 LESS: Tier 2 capital deductions.**

Report total tier 2 capital deductions as the sum of the following elements:

If an SLHC does not have a sufficient amount of tier 2 capital to reflect these deductions, then the SLHC must deduct from additional tier 1 capital (Schedule SC-R, item 24) or, if there is not enough additional tier 1 capital, from common equity tier 1 capital (Schedule SC-R, item 17).

For example, if tier 2 capital is $98.00, and the SLHC must make $110 in tier 2 deductions, it would report $98.00 on this line item 33 and would take the additional $12 deduction in Schedule SC-R, item 24 (and in Schedule SC-R, item 17, in the case of the insufficient additional tier 1 capital to make the deduction in Schedule SC-R, item 24).

**a. Investments in own additional tier 2 capital instruments**.

Report the SLHC's investments in (including any contractual obligation to purchase) its own tier 2 instruments, whether held directly or indirectly.

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

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

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**b. Reciprocal cross-holdings in the capital of financial institutions**.

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

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

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

Calculate this amount as follows (similar to Schedule SC-R, item 11):
(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.
(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.
(3) If (1) is greater than the 10 percent threshold for non-significant investments (Schedules SC-R, item 11, step (4)), then, multiply the difference by the ratio of (2) over (1). Report this product in this line item.
(4) If (1) is less than the 10 percent threshold for non-significant investments, enter zero.

For example, if an SLHC has a total of $200 in non-significant investments (step 1), including $40 in the form of tier 2 capital (step 2), and its 10 percent threshold for non-significant investments is $100 (as calculated in Schedule SC-R, item 11, step 4). Since the aggregate amount of non-significant investments exceed the 10 percent threshold for non-significant investments by $100 ($200-$100), the SLHC would multiply $100 by the ratio of 40/200 (step 3). Thus, the SLHC would need to deduct $20 from its tier 2 capital.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**d. Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from tier 2 capital.**

Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.

***Transition provisions***: follow the transition provisions in Schedule SC-R, item 11.

**e. Other adjustments and deductions.**

Include any other applicable adjustments and deductions applied to tier 2 capital in accordance with the revised regulatory capital rules.

**Line item 34 Tier 2 capital.**

Report the greater of Schedule SC-R, item 32 minus item 33, or zero.

## Total capital

**Line item 35 Total capital.**

Report the sum of Schedule SC-R, items 26 and 34

## Total assets for the leverage ratio

**Line item 36 Average total consolidated assets.**

Report the amount of average total consolidated assets in this line item. Reflect all debt securities (not held for trading) at amortized cost, available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost. In addition, to the extent that net deferred tax assets included in the bank holding company's total assets, if any, include the deferred tax effects of any unrealized holding gains and losses on available-for-sale debt securities, these deferred tax effects may be excluded from the determination of the average for total consolidated assets. If these deferred tax effects are excluded, this treatment must be followed consistently over time.

For this item, report the average of the balances as of the close of business for each day for the reporting period or an average of the balances as of the close of business on each Wednesday during the reporting period. For days that the bank holding company (or any of its consolidated subsidiaries or branches) is closed (e.g., Saturdays, Sundays, or holidays), use the amount outstanding from the previous business day. An office is considered closed if there are no transactions posted to the general ledger as of that date.

**Line item 37 LESS: Deductions from common equity tier 1 capital and additional tier 1**.

Report the sum of Schedule SC-R, items 6, 7, 8, and 10(b).

**Line item 38 LESS: Other deductions from (additions to) assets for the leverage ratio purposes.**

Based on the revised regulatory capital rules, report the amount of any deductions from (additions to) total assets for leverage capital purposes that are not included in Schedule SC-R, item 36, as applicable. If the amount is a net deduction, report it as a positive value in this item. If the amount is a net addition, report it as a negative value in this item.

***SLHCs that do not make an AOCI opt-out election:***

Because available-for-sale debt securities and available-for-sale equity securities are reflected at amortized cost and at the lower of cost or fair value, respectively, when calculating average total consolidated assets for Schedule SC-R, item 36, include in this item as a deduction from (addition to) assets for leverage ratio purposes the amount needed to adjust available-for-sale debt securities from amortized cost to fair value and available-for-sale equity securities from the lower of cost or fair value to fair value. If the deferred tax effects of any net unrealized gains (losses) on available-for-sale debt securities were excluded from the determination of average total consolidated assets for Schedule SC-R, item 36, also include in this item as a deduction from (addition to) assets for leverage ratio purposes the amount necessary to reverse the effect of this exclusion on net deferred tax assets.

***Transition provisions for SLHCs that do not make an AOCI opt-out election:*** Include in this item 38 the amount of deductions from (additions to) assets for leverage ratio purposes for available-for-sale securities and deferred tax effects as determined above reduced by the appropriate percentage in Table 1 in Schedule RC-R, item 3(a). For example, in 2015, if the amount of these deductions (additions) is a $10,000 deduction, include $4,000 in this item 38 [$10,000 – ($10,000 x 60%) = $4,000].

**Line item 39 Total assets for the leverage ratio**.

Report Schedule SC-R, item 36 minus items 37 and 38.

## Total risk-weighted assets

**Line item 40 Total risk-weighted assets.**

Starting in calendar year 2015, report total risk-weighted assets calculated under the standardized approach in SC-R, Part II.

*Note: an additional form (SC-R, Part II) and corresponding instructions for reporting risk-weighted assets under the standardized approach will be proposed in the future.*

## Capital ratios

**Line item 41 Common equity tier 1 capital ratio.**

Report the institution's common equity tier 1 risk-based capital ratio as a percentage, rounded to two decimal places.

Divide Schedule SC-R, item 19 by item 40.

**Line item 42 Tier 1 capital ratio.**

Report the institution's tier 1 risk-based capital ratio as a percentage, rounded to two decimal places.

Divide Schedule SC -R, item 26 by item 40.

**Line item 43 Total capital ratio.**

Report the institution's total risk-based capital ratio as a percentage, rounded to two decimal places.

Divide Schedule SC-R, item 35 by item 40.

**Line item 44 Tier 1 leverage ratio.**

Report the institution's tier 1 leverage ratio as a percentage, rounded to two decimal places.

Divide Schedule SC-R, item 26 by item 39.

**Line item 45 NOT APPLICABLE.**

Do not complete this line item.

## Capital buffer

**Line item 46 Institution-specific capital buffer necessary to avoid limitations on distributions and discretionary bonus payments.**

Report institution-specific capital buffer necessary to avoid limitations on capital distributions and discretionary bonus payments.

**Line item 46(a) Capital conservation buffer.**

Report capital conservation buffer which is equal to the lowest of the following ratios: (i) Schedule SC-R, item 41, less the applicable percentage in the column titled “Common equity tier 1 capital ratio” in Table 9; (ii) Schedule SC-R, item 42, less the applicable percentage in the column titled “Tier 1 capital ratio” in Table 9; and (iii) Schedule SC-R, item 43, less 8 percent.

***Transition provisions***: common equity tier 1 and tier 1 minimum capital requirements are:

**Table 10—Transition provisions for regulatory capital ratios**

| Transition Period | Common equity tier 1 capital ratio percentage | Tier 1 capital ratio percentage |
|---|---|---|
| Calendar year 2015 and thereafter | 4.5 | 6.0 |

***Transition provisions for the capital conservation buffer:*** In order to avoid limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers, an SLHC must hold a capital conservation buffer above its minimum risk-based capital requirements.

The amount reported in Schedule SC-R, item 46(a) must be greater than the following phased-in capital conservation buffer, otherwise the holding company will face limitations on distributions and certain discretionary bonus payments and will be required to complete Schedule SC-R, items 47 and 48.

**Table 11 - Transition provisions for capital conservation buffer**

| Transition Period | Capital conservation buffer percentage above which SLHCs avoid limitations on distributions and certain discretionary bonuses |
|---|---|
| Calendar year 2016 | 0.625 |
| Calendar year 2017 | 1.25 |
| Calendar year 2018 | 1.875 |
| Calendar year 2019 and thereafter | 2.5 |

**Note: SLHCs must complete items 47 and 48 if item Schedule SC-R, item 46(a) is less than or equal to the minimum applicable capital conservation buffer:**

Institutions must complete Schedule HC-R, items 47 and 48, if the amount reported in Schedule RC-R, 46(a) is less than or equal to the applicable capital conservation buffer described above in Table 11 of Schedule HC-R, item 46.

**Line item 47 Eligible retained income**.

Report the amount of eligible retained income as the net income attributable to the SLHC for the four calendar quarters preceding the current reporting period, based on the SLHC's most recent regulatory report or reports, as appropriate, net of any distributions and associated tax effects not already reflected in net income.

For example, the amount of eligible retained income to be reported in this line item 47 for the June 30 report date would be based on the net income attributable to the SLHC for the four calendar quarters ending on the preceding March 31.

**Line item 48 Distributions and discretionary bonus payments during the quarter.**

Report the amount of distributions and discretionary bonus payments during the last reporting period.