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DEPARTMENT OF TREASURY
Office of the Comptroller of the Currency
12 CFR Part 3
[Docket ID OCC-2018-0030]
RIN 1557-AE93

FEDERAL RESERVE SYSTEM
12 CFR Part 217
[Docket R-1629]
RIN 7100-AF22

FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 324
RIN 3064-AF52

**Standardized Approach for Calculating the Exposure Amount of Derivative Contracts;
Correction**

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

ACTION: Final rule; correcting amendments.

SUMMARY: The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) are issuing this final rule to make technical corrections to certain provisions of the capital rule related to the standardized approach for counterparty credit risk, which is used for calculating the exposure amount of derivative contracts and was adopted in a final rule published on January 24, 2020.

DATES: This final rule is effective [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

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SUPPLEMENTARY INFORMATION: The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the “agencies”) are making technical corrections to certain provisions of the capital rule relating to the standardized approach for counterparty credit risk (SA-CCR), which is used for calculating the exposure amount of derivative contracts and was adopted in a final rule published on January 24, 2020 (the SA-

CCR final rule).¹ The amendatory text of the SA-CCR final rule did not accurately reflect the treatment described in the Supplementary Information section of the SA-CCR final rule for the items described below. This final rule corrects the agencies' capital rule consistent with the Supplementary Information section of the SA-CCR final rule. The agencies are also making corrections to certain cross-references within the capital rule that are no longer accurate as of the SA-CCR final rule's effective date.

Specifically, these technical corrections revise the capital rule for the following items:

- In §__.10(c)(4)(ii)(B)(1), related to the definition of total leverage exposure, two cross-references are being updated to reflect the renumbering of a provision in §__.34 in the SA-CCR final rule. The SA-CCR final rule modified the previous §__.34(b) to become §__.34(c), but the current capital rule erroneously continues to refer to §__.34(b).
- In §__.10(c)(4)(ii)(B)(2), related to the definition of total leverage exposure, the agencies are consolidating the text of paragraphs (i) and (ii) into a single new paragraph (i). Also, a new paragraph (ii) is being added to correspond to paragraphs (c)(4)(ii)(B)(1)(i) and (ii). As a result of these revisions, a banking organization that uses SA-CCR will be permitted to exclude the potential future exposure (PFE) of all credit derivatives or other similar instruments through which it provides credit protection from total leverage exposure, provided that it does so consistently over time. The option to exclude the PFE of certain credit derivatives is available to banking organizations that use the current exposure methodology

¹ Standardized Approach for Calculating the Exposure Amount of Derivative Contracts, 85 FR 4362 (January 24, 2020). The SA-CCR final rule took effect on April 1, 2020. The agencies also recently issued a notice stating that banking organizations could elect to adopt SA-CCR for the first quarter of 2020, on a best-efforts basis. 85 FR 17721 (March 31, 2020).

(CEM) and the technical correction provides such option to banking organizations that use SA-CCR. The agencies indicated in the Supplementary Information section of the SA-CCR final rule that they would adopt the same treatment under SA-CCR as under CEM.²

- In § __.10, each use of the term “U.S. GAAP” is being replaced with “GAAP” because “GAAP” is the appropriate defined term in § __.2. Under § __.2, “GAAP” is defined as generally accepted accounting principles as used in the United States.

- In § __.32(f)(1), related to the general risk weight for corporate exposures and the exceptions for certain exposures to a qualifying central counterparty (QCCP), the cross-reference is being updated to refer to both paragraph (f)(2) and paragraph (f)(3). The SA-CCR final rule added paragraph (f)(3), but the current capital rule refers only to paragraph (f)(2).

- In § __.37(c)(2)(i)(B), related to the calculation of exposure amount for collateralized transactions, cross-references to § __.34(a)(1)-(2) are being updated to reflect the renumbering of a provision in § __.34 in the SA-CCR final rule. The SA-CCR final rule modified the previous § __.34(a) to become § __.34(b).

- In § __.132(c)(8)(iii) and (iv), and § __.132(c)(9)(i), references to table 2 for applicable supervisory factor determination are being updated to reflect the renumbering of the table.

² See 85 FR 4362 at 4394-95. Specifically, the agencies stated that a banking organization subject to the supplementary leverage ratio may choose to exclude from the potential future exposures (PFE) component of the exposure amount calculation the portion of a written credit derivative that is not offset according to § __.10(c)(4)(ii)(D)(1)-(2) and for which the effective notional amount of the written credit derivative is included in total leverage exposure.

- In §__.132(c)(9)(ii)(A)(1), related to the adjusted notional amount for an interest rate derivative contract or a credit derivative contract, the formula for supervisory duration is being updated to correct a typographical error.

- In §__.132(c)(9)(iv)(A)(3), related to the maturity factor, the revision provides that the higher margin period of risk set forth in that section must be used if there have been “more than two” outstanding margin disputes in the netting set during the prior two quarters. The Supplementary Information section of the SA-CCR final rule indicated that the agencies intended to align the criteria for applying the higher margin period of risk in SA-CCR with that in the internal models methodology, which applies only if more than two margin disputes in a netting set have occurred over the two previous quarters.³ In other sections of the capital rule, the SA-CCR final rule included language referencing “more than two” margin disputes. However, in this section, the phrase “two or more” was used instead. The revised language thus implements the intended treatment as provided in the Supplementary Information section of the SA-CCR final rule.

- In §__.133(d)(4), which defines the capital requirement for default fund contributions to a QCCP, the definition for the term DF_{CCPCM}^{pref} is being updated to correct a typographical error.

- In §__.133(d)(5) and (6), related to the exposure of a clearing member banking organization to a QCCP arising from a default fund contribution, the revision corrects the calculation of the hypothetical capital requirement of a QCCP (K_{CCP}) and adds appropriate subscripts. The term EAD_i is amended to equal the exposure of the QCCP to each clearing

³ See 85 FR 4362 at 4387.

member of the QCCP. While the Supplementary Information section of the SA-CCR final rule had discussed this treatment, the amendatory text referred to the exposure of each clearing member to the QCCP. The agencies also are making conforming corrections to the calculation of EAD for repo-style transactions in §__.133(d)(6)(iii). In addition, references to “CCP” in these paragraphs are being replaced by “QCCP” for clarity, as the paragraphs already only apply in the context of a QCCP.

Administrative Law

A. Administrative Procedure Act

The agencies are issuing this final rule without prior notice and the opportunity for public comment and the 30-day delayed effective date ordinarily prescribed by the Administrative Procedure Act (APA).⁴ Pursuant to section 553(b)(B) of the APA, general notice and the opportunity for public comment are not required with respect to a rulemaking when an “agency for good cause finds (and incorporates the finding and a brief statement of reasons therefor in the rules issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.”⁵

The agencies believe that the public interest is best served by implementing the final rule as soon as possible. Public comment is unnecessary, as the SA-CCR final rule was previously issued for comment, and the technical edits discussed here merely correct errors in the SA-CCR final rule.

The technical corrections made by this final rule will reduce ambiguity and ensure that banking organizations implement the SA-CCR provisions of the capital rule in a

⁴ 5 U.S.C. 553.

⁵ 5 U.S.C. 553(b)(B).

consistent manner and as described in the Supplementary Information section of the SA-CCR final rule. This will facilitate the ability of banking organizations to make the changes necessary to implement the SA-CCR final rule.

The APA also requires a 30-day delayed effective date, except for (1) substantive rules which grant or recognize an exemption or relieve a restriction; (2) interpretative rules and statements of policy; or (3) as otherwise provided by the agency for good cause.⁶ The agencies find good cause to publish the final rule correction with an immediate effective date for the same reasons set forth above under the discussion of section 553(b)(B) of the APA.

B. Congressional Review Act

For purposes of Congressional Review Act, the OMB makes a determination as to whether a final rule constitutes a “major” rule.⁷ If a rule is deemed a “major rule” by the Office of Management and Budget (OMB), the Congressional Review Act generally provides that the rule may not take effect until at least 60 days following its publication.⁸

In the event that the final rule is deemed a “major” rule for purposes of the Congressional Review Act, the agencies are adopting the final rule without the delayed effective date generally prescribed under the Congressional Review Act. The delayed effective date required by the Congressional Review Act does not apply to any rule for which an agency for good cause finds (and incorporates the finding and a brief statement of reasons therefor in the rule issued) that notice and public procedure thereon are impracticable,

⁶ 5 U.S.C. 553(d).

⁷ 5 U.S.C. 801 et seq.

⁸ 5 U.S.C. 801(a)(3).

unnecessary, or contrary to the public interest.⁹ As described above, the agencies believe that delaying the effective date of this final rule would be contrary to the public interest.

As required by the Congressional Review Act, the agencies will submit the final rule and other appropriate reports to Congress and the Government Accountability Office for review.

C. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521) (PRA) states that no agency may conduct or sponsor, nor is the respondent required to respond to, an information collection unless it displays a currently valid OMB control number. This final rule does not contain any information collection requirements and therefore, no submissions will be made by the agencies to OMB in connection with this final rule.

D. Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA)¹⁰ requires an agency to consider whether the rules it proposes will have a significant economic impact on a substantial number of small entities.¹¹ The RFA applies only to rules for which an agency publishes a general notice of proposed rulemaking pursuant to 5 U.S.C. 553(b). As discussed previously, consistent with section 553(b)(B) of the APA, the agencies have determined for good cause that general notice and opportunity for public comment is unnecessary and contrary to the public's interest, and therefore the agencies are not issuing a notice of proposed rulemaking.

⁹ 5 U.S.C. 808.

¹⁰ 5 U.S.C. 601 *et seq.*

¹¹ Under regulations issued by the Small Business Administration, a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$600 million or less and trust companies with average annual receipts of \$41.5 million or less. *See* 13 CFR 121.201.

Accordingly, the Agencies have concluded that the RFA's requirements relating to an initial and final regulatory flexibility analysis do not apply.

E. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act (RCDRIA),¹² in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions (IDIs), each Federal banking agency must consider, consistent with the principle of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of RCDRIA requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on IDIs generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form, with certain exceptions, including for good cause.¹³ For the reasons described above, the agencies find good cause exists under section 302 of RCDRIA to publish this final rule with an immediate effective date.

F. Plain Language

Section 722 of the Gramm-Leach-Bliley Act¹⁴ requires the Federal banking agencies to use "plain language" in all proposed and final rules published after January 1, 2000. In

¹² 12 U.S.C. 4802(a).

¹³ 12 U.S.C. 4802.

¹⁴ 12 U.S.C. 4809.

light of this requirement, the agencies have sought to present the final rule in a simple and straightforward manner.

G. OCC Unfunded Mandates Reform Act of 1995 Determination

As a general matter, the Unfunded Mandates Act of 1995 (UMRA), 2 U.S.C. 1531 et seq., requires the preparation of a budgetary impact statement before promulgating a rule that includes a Federal mandate that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more in any one year. However, the UMRA does not apply to final rules for which a general notice of proposed rulemaking was not published. See 2 U.S.C. 1532(a). Therefore, because the OCC has found good cause to dispense with notice and comment for this final rule, the OCC has not prepared an economic analysis of the rule under the UMRA.

List of Subjects

12 CFR Part 3

Administrative practice and procedure, Capital, National banks, Risk.

12 CFR Part 217

Administrative practice and procedure, Banks, Banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

12 CFR Part 324

Administrative practice and procedure, Banks, Reporting and recordkeeping requirements, Savings associations, State non-member banks.

Office of the Comptroller of the Currency

12 CFR Chapter I

Authority and Issuance

For the reasons set forth in the preamble, the OCC amends 12 CFR part 3 as follows:

PART 3—CAPITAL ADEQUACY STANDARDS

1. The authority citation for part 3 continues to read as follows:

AUTHORITY: 12 U.S.C. 93a, 161, 1462, 1462a, 1463, 1464, 1818, 1828(n), 1828 note, 1831n note, 1835, 3907, 3909, 5412(b)(2)(B), and Pub. L. 116-136, 134 Stat. 281.

2. Amend § 3.10 by:

a. Removing, in paragraphs (c)(4)(ii)(A), (c)(4)(ii)(B)(*I*) introductory text, (c)(4)(ii)(C)(2)(*i*), and (c)(4)(ii)(H), the phrase “U.S. GAAP” and by adding in its place the phrase “GAAP”;

b. Removing, in paragraphs (c)(4)(ii)(B)(*I*) introductory text and (c)(4)(ii)(B)(*I*)(*i*), the phrase “without regard to §3.34(b)” and by adding in its place the phrase “without regard to §3.34(c)”;

c. Revising paragraphs (c)(4)(ii)(B)(2)(*i*) and (*ii*).

The revisions read as follows:

§3.10 Minimum capital requirements.

* * * * *

(c) * * *

(4) * * *

(ii) * * *

(B) * * *

(2)(*i*) For a national bank or Federal savings association that uses the standardized approach for counterparty credit risk under section §3.132(c) for its standardized risk-weighted assets, the PFE for each netting set to which the national bank or Federal savings

association is a counterparty (including cleared transactions except as provided in paragraph (c)(4)(ii)(I) of this section and, at the discretion of the national bank or Federal savings association, excluding a forward agreement treated as a derivative contract that is part of a repurchase or reverse repurchase or a securities borrowing or lending transaction that qualifies for sales treatment under GAAP), as determined under §3.132(c)(7), in which the term C in §3.132(c)(7)(i) equals zero, and, for any counterparty that is not a commercial end-user, multiplied by 1.4. For purposes of this paragraph (c)(4)(ii)(B)(2)(i), a national bank or Federal savings association may set the value of the term C in §3.132(c)(7)(i) equal to the amount of collateral posted by a clearing member client of the national bank or Federal savings association in connection with the client-facing derivative transactions within the netting set; and

(ii) A national bank or Federal savings association may choose to exclude the PFE of all credit derivatives or other similar instruments through which it provides credit protection when calculating the PFE under §3.132(c), provided that it does so consistently over time for the calculation of the PFE for all such instruments;

* * * * *

3. Section 3.32 is amended by revising paragraph (f)(1) to read as follows:

§3.32 General risk weights.

* * * * *

(f) * * * (1) A national bank or Federal savings association must assign a 100 percent risk weight to all its corporate exposures, except as provided in paragraphs (f)(2) and (f)(3) of this section.

* * * * *

§3.37 [Amended]

4. Section 3.37 is amended by, in paragraph (c)(2)(i)(B), removing “§3.34(a)(1) or (2)” and adding in its place “§3.34(b)(1) or (2).”

5. Amend §3.132 by:

a. In paragraphs (c)(8)(iii) and (iv), and (c)(9)(i), removing “Table 2” and adding in its place “Table 3”; and

b. Revising paragraphs (c)(9)(ii)(A)(1) and (c)(9)(iv)(A)(3).

The revisions read as follows:

§3.132 Counterparty credit risk of repo-style transactions, eligible margin loans, and OTC derivative contracts.

* * * * *

(c) * * *

(9) * * *

(ii) * * *

(A)(1) For an interest rate derivative contract or a credit derivative contract, the adjusted notional amount equals the product of the notional amount of the derivative contract, as measured in U.S. dollars using the exchange rate on the date of the calculation, and the supervisory duration, as calculated by the following formula:

$$\text{Supervisory duration} = \max\left\{\frac{e^{-0.05 * \left(\frac{S}{250}\right)} - e^{-0.05 * \left(\frac{E}{250}\right)}}{0.05}, 0.04\right\}$$

Where:

S is the number of business days from the present day until the start date of the derivative contract, or zero if the start date has already passed; and

E is the number of business days from the present day until the end date of the derivative contract.

* * * * *

(iv) * * *

(A) * * *

(3) Notwithstanding paragraphs (c)(9)(iv)(A)(1) and (2) of this section, for a netting set subject to more than two outstanding disputes over margin that lasted longer than the MPOR over the previous two quarters, the applicable floor is twice the amount provided in paragraphs (c)(9)(iv)(A)(1) and (2) of this section.

* * * * *

6. Section 3.133 is amended by revising paragraphs (d)(4) and (5), (d)(6) paragraph introductory text, and paragraphs (d)(6)(i) through (iii) to read as follows:

§3.133 Cleared transactions.

* * * * *

(d) * * *

(4) *Capital requirement for default fund contributions to a QCCP.* A clearing member national bank's or Federal savings association's capital requirement for its default fund contribution to a QCCP (K_{CM}) is equal to:

$$K_{CM} = \max \left\{ K_{CCP} * \left(\frac{DF^{pref}}{DF_{CCP} + DF_{CCP}^{pref}} \right); 0.16 \text{ percent} * DF^{pref} \right\}$$

Where:

K_{CCP} is the hypothetical capital requirement of the QCCP, as determined under paragraph (d)(5) of this section;

DF^{pref} is the prefunded default fund contribution of the clearing member national bank or Federal savings association to the QCCP;

DF_{CCP} is the QCCP's own prefunded amount that are contributed to the default waterfall and are junior or pari passu with prefunded default fund contributions of clearing members of the QCCP; and

DF_{CCPCM}^{pref} is the total prefunded default fund contributions from clearing members of the QCCP to the QCCP.

(5) *Hypothetical capital requirement of a QCCP.* Where a QCCP has provided its K_{CCP} , a national bank or Federal savings association must rely on such disclosed figure instead of calculating K_{CCP} under this paragraph (d)(5), unless the national bank or Federal savings association determines that a more conservative figure is appropriate based on the nature, structure, or characteristics of the QCCP. The hypothetical capital requirement of a QCCP (K_{CCP}), as determined by the national bank or Federal savings association, is equal to:

$$K_{CCP} = \sum_{CM_i} EAD_i * 1.6 \text{ percent}$$

Where:

CM_i is each clearing member of the QCCP; and

EAD_i is the exposure amount of the QCCP to each clearing member of the QCCP, as determined under paragraph (d)(6) of this section.

(6) *EAD of a QCCP to a clearing member.* (i) The EAD of a QCCP to a clearing member is equal to the sum of the EAD for derivative contracts determined under paragraph (d)(6)(ii) of this section and the EAD for repo-style transactions determined under paragraph (d)(6)(iii) of this section.

(ii) With respect to any derivative contracts between the QCCP and the clearing member that are cleared transactions and any guarantees that the clearing member has provided to the QCCP with respect to performance of a clearing member client on a derivative contract, the EAD is equal to the exposure amount of the QCCP to the clearing member for all such derivative contracts and guarantees of derivative contracts calculated under SA-CCR in §3.132(c) (or, with respect to a QCCP located outside the United States, under a substantially identical methodology in effect in the jurisdiction) using a value of 10 business days for purposes of §3.132(c)(9)(iv); less the value of all collateral held by the QCCP posted by the clearing member or a client of the clearing member in connection with a derivative contract for which the clearing member has provided a guarantee to the QCCP and the amount of the prefunded default fund contribution of the clearing member to the QCCP.

(iii) With respect to any repo-style transactions between the QCCP and a clearing member that are cleared transactions, EAD is equal to:

$$EAD_i = \max \{EBRM_i - IM_i - DF_i; 0\}$$

Where:

$EBRM_i$ is the exposure amount of the QCCP to each clearing member for all repo-style transactions between the QCCP and the clearing member, as determined under §3.132(b)(2) and without recognition of the initial margin collateral posted by the clearing member to the QCCP with respect to the repo-style transactions or the prefunded default fund contribution of the clearing member institution to the QCCP;

IM_i is the initial margin collateral posted by each clearing member to the QCCP with respect to the repo-style transactions; and

DF_i is the prefunded default fund contribution of each clearing member to the QCCP that is not already deducted in paragraph (d)(6)(ii) of this section.

* * * * *

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

12 CFR Chapter II

Authority and Issuance

For the reasons set forth in the preamble, chapter II of title 12 of the Code of Federal Regulations is amended as follows:

PART 217—CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS

(REGULATION Q)

7. The authority citation for part 217 continues to read as follows:

AUTHORITY: 12 U.S.C. 248(a), 321-338a, 481-486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p-1, 1831w, 1835, 1844(b), 1851, 3904, 3906-3909, 4808, 5365, 5368, 5371, and 5371 note; Pub. L. 116–136, 134 Stat. 281.

8. Amend § 217.10 by:

a. Removing, in paragraphs (c)(4)(ii)(A), (c)(4)(ii)(B)(I), (c)(4)(ii)(B)(2)(i), and (c)(4)(ii)(H), the phrase “U.S. GAAP” and by adding in its place the phrase “GAAP”;

b. Removing, in paragraphs (c)(4)(ii)(B)(I) introductory text and (c)(4)(ii)(B)(I)(i), the phrase “without regard to §217.34(b)” and by adding in its place the phrase “without regard to §217.34(c)”; and

c. Revising paragraphs (c)(4)(ii)(B)(2)(i) and (ii).

The revisions read as follows:

§217.10 Minimum capital requirements.

* * * * *

(c) * * *

(4) * * *

(ii) * * *

(B) * * *

(2)(i) For a Board-regulated institution that uses the standardized approach for counterparty credit risk under section §217.132(c) for its standardized risk-weighted assets, the PFE for each netting set to which the Board-regulated institution is a counterparty (including cleared transactions except as provided in paragraph (c)(4)(ii)(I) of this section and, at the discretion of the Board-regulated institution, excluding a forward agreement treated as a derivative contract that is part of a repurchase or reverse repurchase or a securities borrowing or lending transaction that qualifies for sales treatment under GAAP), as determined under §217.132(c)(7), in which the term C in §217.132(c)(7)(i) equals zero, and, for any counterparty that is not a commercial end-user, multiplied by 1.4. For purposes of this paragraph (c)(4)(ii)(B)(2)(i), a Board-regulated institution may set the value of the term C in §217.132(c)(7)(i) equal to the amount of collateral posted by a clearing member client of the Board-regulated institution in connection with the client-facing derivative transactions within the netting set; and

(ii) A Board-regulated institution may choose to exclude the PFE of all credit derivatives or other similar instruments through which it provides credit protection when calculating the PFE under §217.132(c), provided that it does so consistently over time for the calculation of the PFE for all such instruments;

* * * * *

9. Section 217.32 is amended by revising paragraph (f)(1) to read as follows:

§217.32 General risk weights.

* * * * *

(f) * * * (1) A Board-regulated institution must assign a 100 percent risk weight to all its corporate exposures, except as provided in paragraphs (f)(2) and (f)(3) of this section.

* * * * *

§217.37 [Amended]

10. Section 217.37 is amended by, in paragraph (c)(2)(i)(B), removing “§217.34(a)(1) or (2)” and adding in its place “§217.34(b)(1) or (2).”

11. Amend §217.132 by:

a. In paragraphs (c)(8)(iii) and (iv), and (c)(9)(i), removing the words “Table 2” and adding in its place “Table 3”; and

b. Revising paragraphs (c)(9)(ii)(A)(I) and (c)(9)(iv)(A)(3).

The revisions read as follows:

§217.132 Counterparty credit risk of repo-style transactions, eligible margin loans, and OTC derivative contracts.

* * * * *

(c) * * *

(9) * * *

(ii) * * *

(A)(I) For an interest rate derivative contract or a credit derivative contract, the adjusted notional amount equals the product of the notional amount of the derivative

contract, as measured in U.S. dollars using the exchange rate on the date of the calculation, and the supervisory duration, as calculated by the following formula:

$$\text{Supervisory duration} = \max\left\{\frac{e^{-0.05 * \left(\frac{S}{250}\right)} - e^{-0.05 * \left(\frac{E}{250}\right)}}{0.05}, 0.04\right\}$$

Where:

S is the number of business days from the present day until the start date of the derivative contract, or zero if the start date has already passed; and

E is the number of business days from the present day until the end date of the derivative contract.

* * * * *

(iv) * * *

(A) * * *

(3) Notwithstanding paragraphs (c)(9)(iv)(A)(1) and (2) of this section, for a netting set subject to more than two outstanding disputes over margin that lasted longer than the MPOR over the previous two quarters, the applicable floor is twice the amount provided in paragraphs (c)(9)(iv)(A)(1) and (2) of this section.

* * * * *

12. Section 217.133 is amended by revising paragraphs (d)(4) and (5), (d)(6) introductory text, and paragraphs (d)(6)(i) through (iii) to read as follows:

§217.133 Cleared transactions.

* * * * *

(d) * * *

(4) *Capital requirement for default fund contributions to a QCCP.* A clearing member Board-regulated institution's capital requirement for its default fund contribution to a QCCP (K_{CM}) is equal to:

$$K_{CM} = \max \left\{ K_{CCP} * \left(\frac{DF^{pref}}{DF_{CCP} + DF_{CCPCM}^{pref}} \right); 0.16 \text{ percent} * DF^{pref} \right\}$$

Where:

K_{CCP} is the hypothetical capital requirement of the QCCP, as determined under paragraph (d)(5) of this section;

DF^{pref} is the prefunded default fund contribution of the clearing member Board-regulated institution to the QCCP;

DF_{CCP} is the QCCP's own prefunded amount that are contributed to the default waterfall and are junior or pari passu with prefunded default fund contributions of clearing members of the QCCP; and

DF_{CCPCM}^{pref} is the total prefunded default fund contributions from clearing members of the QCCP to the QCCP.

(5) *Hypothetical capital requirement of a QCCP.* Where a QCCP has provided its K_{CCP} , a Board-regulated institution must rely on such disclosed figure instead of calculating K_{CCP} under this paragraph (d)(5), unless the Board-regulated institution determines that a more conservative figure is appropriate based on the nature, structure, or characteristics of the QCCP. The hypothetical capital requirement of a QCCP (K_{CCP}), as determined by the Board-regulated institution, is equal to:

$$K_{CCP} = \sum_{CM_i} EAD_i * 1.6 \text{ percent}$$

Where:

CM_i is each clearing member of the QCCP; and

EAD_i is the exposure amount of the QCCP to each clearing member of the QCCP, as determined under paragraph (d)(6) of this section.

(6) *EAD of a QCCP to a clearing member.* (i) The EAD of a QCCP to a clearing member is equal to the sum of the EAD for derivative contracts determined under paragraph (d)(6)(ii) of this section and the EAD for repo-style transactions determined under paragraph (d)(6)(iii) of this section.

(ii) With respect to any derivative contracts between the QCCP and the clearing member that are cleared transactions and any guarantees that the clearing member has provided to the QCCP with respect to performance of a clearing member client on a derivative contract, the EAD is equal to the exposure amount of the QCCP to the clearing member for all such derivative contracts and guarantees of derivative contracts calculated under SA-CCR in §217.132(c) (or, with respect to a QCCP located outside the United States, under a substantially identical methodology in effect in the jurisdiction) using a value of 10 business days for purposes of §217.132(c)(9)(iv); less the value of all collateral held by the QCCP posted by the clearing member or a client of the clearing member in connection with a derivative contract for which the clearing member has provided a guarantee to the QCCP and the amount of the prefunded default fund contribution of the clearing member to the QCCP.

(iii) With respect to any repo-style transactions between the QCCP and a clearing member that are cleared transactions, EAD is equal to:

$$EAD_i = \max \{EBRM_i - IM_i - DF_i; 0\}$$

Where:

$EBRM_i$ is the exposure amount of the QCCP to each clearing member for all repo-style transactions between the QCCP and the clearing member, as determined under §217.132(b)(2) and without recognition of the initial margin collateral posted by the clearing member to the QCCP with respect to the repo-style transactions or the prefunded default fund contribution of the clearing member institution to the QCCP;

IM_i is the initial margin collateral posted by each clearing member to the QCCP with respect to the repo-style transactions; and

DF_i is the prefunded default fund contribution of each clearing member to the QCCP that is not already deducted in paragraph (d)(6)(ii) of this section.

* * * * *

Federal Deposit Insurance Corporation

12 CFR Chapter III

Authority and Issuance

For the reasons set forth in the preamble, chapter III of title 12 of the Code of Federal Regulations is amended as follows:

PART 324—CAPITAL ADEQUACY OF FDIC-SUPERVISED INSTITUTIONS

13. The authority citation for part 324 continues to read as follows:

Authority: 12 U.S.C. 1815(a), 1815(b), 1816, 1818(a), 1818(b), 1818(c), 1818(t), 1819(Tenth), 1828(c), 1828(d), 1828(i), 1828(n), 1828(o), 1831o, 1835, 3907, 3909, 4808; 5371; 5412; Pub. L. 102–233, 105 Stat. 1761, 1789, 1790 (12 U.S.C. 1831n note); Pub. L. 102–242, 105 Stat. 2236, 2355, as amended by Pub. L. 103–325, 108 Stat. 2160, 2233 (12 U.S.C. 1828 note); Pub. L. 102–242, 105 Stat. 2236, 2386, as amended by Pub. L. 102–550,

106 Stat. 3672, 4089 (12 U.S.C. 1828 note); Pub. L. 111–203, 124 Stat. 1376, 1887 (15 U.S.C. 78o–7 note); Pub. L. No. 115–174; Pub. L. No. 116-136, 134 Stat. 281.

14. Amend § 324.10 by:

a. Removing, in paragraphs (c)(4)(ii)(A), (c)(4)(ii)(B)(I), (c)(4)(ii)(B)(2)(i), and (c)(4)(ii)(H), the phrase “U.S. GAAP” and by adding in its place the phrase “GAAP”;

b. Removing, in paragraphs (c)(4)(ii)(B)(I) introductory text and (c)(4)(ii)(B)(I)(i), the phrase “without regard to §324.34(b)” and by adding in its place the phrase “without regard to §324.34(c)”; and

c. Revising paragraphs (c)(4)(ii)(B)(2)(i) and (ii).

The revisions read as follows:

§324.10 Minimum capital requirements.

* * * * *
(c) * * *
(4) * * *
(ii) * * *
(B) * * *

(2)(i) For an FDIC-supervised institution that uses the standardized approach for counterparty credit risk under section §324.132(c) for its standardized risk-weighted assets, the PFE for each netting set to which the FDIC-supervised institution is a counterparty (including cleared transactions except as provided in paragraph (c)(4)(ii)(I) of this section and, at the discretion of the FDIC-supervised institution, excluding a forward agreement treated as a derivative contract that is part of a repurchase or reverse repurchase or a securities borrowing or lending transaction that qualifies for sales treatment under GAAP), as

determined under §324.132(c)(7), in which the term C in §324.132(c)(7)(i) equals zero, and, for any counterparty that is not a commercial end-user, multiplied by 1.4. For purposes of this paragraph (c)(4)(ii)(B)(2)(i), an FDIC-supervised institution may set the value of the term C in §324.132(c)(7)(i) equal to the amount of collateral posted by a clearing member client of the FDIC-supervised institution in connection with the client-facing derivative transactions within the netting set; and

(ii) An FDIC-supervised institution may choose to exclude the PFE of all credit derivatives or other similar instruments through which it provides credit protection when calculating the PFE under §324.132(c), provided that it does so consistently over time for the calculation of the PFE for all such instruments;

* * * * *

15. Section 324.32 is amended by revising paragraph (f)(1) to read as follows:

§324.32 General risk weights.

* * * * *

(f) * * * (1) An FDIC-supervised institution must assign a 100 percent risk weight to all its corporate exposures, except as provided in paragraphs (f)(2) and (f)(3) of this section.

* * * * *

§324.37 [Amended]

16. Section 324.37 is amended by, in paragraph (c)(2)(i)(B), removing “§324.34(a)(1) or (2)” and adding in its place “§324.34(b)(1) or (2).”

17. Amend §324.132 by:

a. In paragraphs (c)(8)(iii) and (iv), and (c)(9)(i), removing “Table 2” and adding in its place “Table 3”; and

b. Revising paragraphs (c)(9)(ii)(A)(1) and (c)(9)(iv)(A)(3).

The revisions read as follows:

§324.132 Counterparty credit risk of repo-style transactions, eligible margin loans, and OTC derivative contracts.

* * * * *

(c) * * *

(9) * * *

(ii) * * *

(A)(1) For an interest rate derivative contract or a credit derivative contract, the adjusted notional amount equals the product of the notional amount of the derivative contract, as measured in U.S. dollars using the exchange rate on the date of the calculation, and the supervisory duration, as calculated by the following formula:

$$\text{Supervisory duration} = \max\left\{\frac{e^{-0.05 * \left(\frac{S}{250}\right)} - e^{-0.05 * \left(\frac{E}{250}\right)}}{0.05}, 0.04\right\}$$

Where:

S is the number of business days from the present day until the start date of the derivative contract, or zero if the start date has already passed; and

E is the number of business days from the present day until the end date of the derivative contract.

* * * * *

(iv) * * *

(A) * * *

(3) Notwithstanding paragraphs (c)(9)(iv)(A)(1) and (2) of this section, for a netting set subject to more than two outstanding disputes over margin that lasted longer than the MPOR over the previous two quarters, the applicable floor is twice the amount provided in paragraphs (c)(9)(iv)(A)(1) and (2) of this section.

* * * * *

18. Section 324.133 is amended by revising paragraphs (d)(4) and (5), (d)(6) introductory text, and (d)(6)(i) through (iii) to read as follows:

§324.133 Cleared transactions.

* * * * *

(d) * * *

(4) *Capital requirement for default fund contributions to a QCCP.* A clearing member FDIC-supervised institution's capital requirement for its default fund contribution to a QCCP (K_{CM}) is equal to:

$$K_{CM} = \max \left\{ K_{CCP} * \left(\frac{DF^{pref}}{DF_{CCP} + DF_{CCP_{CM}}^{pref}} \right); 0.16 \text{ percent} * DF^{pref} \right\}$$

Where:

K_{CCP} is the hypothetical capital requirement of the QCCP, as determined under paragraph (d)(5) of this section;

DF^{pref} is the prefunded default fund contribution of the clearing member FDIC-supervised institution to the QCCP;

DF_{CCP} is the QCCP's own prefunded amount that are contributed to the default waterfall and are junior or pari passu with prefunded default fund contributions of clearing members of the QCCP; and

DF_{CCPCM}^{pref} is the total prefunded default fund contributions from clearing members of the QCCP to the QCCP.

(5) *Hypothetical capital requirement of a QCCP.* Where a QCCP has provided its K_{CCP} , an FDIC-supervised institution must rely on such disclosed figure instead of calculating K_{CCP} under this paragraph (d)(5), unless the FDIC-supervised institution determines that a more conservative figure is appropriate based on the nature, structure, or characteristics of the QCCP. The hypothetical capital requirement of a QCCP (K_{CCP}), as determined by the FDIC-supervised institution, is equal to:

$$K_{CCP} = \sum_{CM_i} EAD_i * 1.6 \text{ percent}$$

Where:

CM_i is each clearing member of the QCCP; and

EAD_i is the exposure amount of the QCCP to each clearing member of the QCCP, as determined under paragraph (d)(6) of this section.

(6) *EAD of a QCCP to a clearing member.* (i) The EAD of a QCCP to a clearing member is equal to the sum of the EAD for derivative contracts determined under paragraph (d)(6)(ii) of this section and the EAD for repo-style transactions determined under paragraph (d)(6)(iii) of this section.

(ii) With respect to any derivative contracts between the QCCP and the clearing member that are cleared transactions and any guarantees that the clearing member has provided to the QCCP with respect to performance of a clearing member client on a

derivative contract, the EAD is equal to the exposure amount of the QCCP to the clearing member for all such derivative contracts and guarantees of derivative contracts calculated under SA-CCR in §324.132(c) (or, with respect to a QCCP located outside the United States, under a substantially identical methodology in effect in the jurisdiction) using a value of 10 business days for purposes of §324.132(c)(9)(iv); less the value of all collateral held by the QCCP posted by the clearing member or a client of the clearing member in connection with a derivative contract for which the clearing member has provided a guarantee to the QCCP and the amount of the prefunded default fund contribution of the clearing member to the QCCP.

(iii) With respect to any repo-style transactions between the QCCP and a clearing member that are cleared transactions, EAD is equal to:

$$EAD_i = \max \{EBRM_i - IM_i - DF_i; 0\}$$

Where:

$EBRM_i$ is the exposure amount of the QCCP to each clearing member for all repo-style transactions between the QCCP and the clearing member, as determined under §324.132(b)(2) and without recognition of the initial margin collateral posted by the clearing member to the QCCP with respect to the repo-style transactions or the prefunded default fund contribution of the clearing member institution to the QCCP;

IM_i is the initial margin collateral posted by each clearing member to the QCCP with respect to the repo-style transactions; and

DF_i is the prefunded default fund contribution of each clearing member to the QCCP that is not already deducted in paragraph (d)(6)(ii) of this section.

* * * * *

Brian P. Brooks,
Acting Comptroller of the Currency

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

Margaret McCloskey Shanks,
Deputy Secretary of the Board.

Federal Deposit Insurance Corporation.
Dated at Washington, DC, on or about July 31, 2020.
James P. Sheesley,
Acting Assistant Secretary.

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