

**FFIEC 051 Draft Reporting Form and Instructions for Call Report
Revisions Related to Deferred Tax Assets and
the Standardized Approach for Counterparty Credit Risk**

The following draft reporting form and draft instructions, both of which are subject to change, present the pages from the FFIEC 051 Call Report as they are proposed to be revised as of the December 31, 2021, report date. These proposed revisions are described in the federal banking agencies' initial 60-day Paperwork Reduction Act (PRA) *Federal Register* Notice published on July 22, 2021.

These proposed changes would revise the Call Report instructions to clarify the Glossary entry for "Income Taxes" to address treatment of temporary difference deferred tax items and operating loss and tax credit carryforward deferred tax assets to align it with the proposed rule on [Tax Allocation Agreements](#) published by the banking agencies on May 10, 2021. In addition, the banking agencies issued the [Standardized Approach on Counterparty Credit Risk](#) (SA-CCR) final rule on January 24, 2020. The proposed revisions include a new item that would be added to Schedule RC-R, Part I to identify institutions that have chosen to early adopt or voluntarily elect to use SA-CCR.

The initial PRA *Federal Register* notice is available on the FFIEC's webpage for the [FFIEC 051 Call Report](#).

Draft as of July 22, 2021

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Income Taxes: All banks, regardless of size, are required to report income taxes (federal, state, and local) in the Consolidated Reports of Condition and Income on an accrual basis. Note that, in almost all cases, applicable income taxes as reported on the Consolidated Report of Income will differ from amounts reported to taxing authorities. The applicable income tax expense or benefit that is reflected in the Consolidated Report of Income should include both taxes currently paid or payable (or receivable) and deferred income taxes. The following discussion of income taxes is based on ASC Topic 740, Income Taxes (formerly FASB Statement No. 109, "Accounting for Income Taxes," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes").

Applicable income taxes in the year-end Consolidated Report of Income shall be the sum of the following:

- (1) Taxes currently paid or payable (or receivable) for the year determined from the bank's federal, state, and local income tax returns for that year. Since the bank's tax returns will not normally be prepared until after the year-end Consolidated Reports of Condition and Income have been completed, the bank must estimate the amount of the current income tax liability (or receivable) that will ultimately be reported on its tax returns. Estimation of this liability (or receivable) may involve consultation with the bank's tax advisers, a review of the previous year's tax returns, the identification of significant expected differences between items of income and expense reflected on the Consolidated Report of Income and on the tax returns, and the identification of expected tax credits.)

and

- (2) Deferred income tax expense or benefit measured as the change in the net deferred tax assets or liabilities for the period reported. Deferred tax liabilities and assets represent the amount by which taxes payable (or receivable) are expected to increase or decrease in the future as a result of "temporary differences" and net operating loss or tax credit carryforwards that exist at the reporting date.

The actual tax liability (or receivable) calculated on the bank's tax returns may differ from the estimate reported as currently payable or receivable on the year-end Consolidated Report of Income. An amendment to the bank's year-end and subsequent Consolidated Reports of Condition and Income may be appropriate if the difference is significant. Minor differences should be handled as accrual adjustments to applicable income taxes in Consolidated Reports of Income during the year the differences are detected. The reporting of applicable income taxes in the Consolidated Report of Income for report dates other than year-end is discussed below under "interim period applicable income taxes."

When determining the current and deferred income tax assets and liabilities to be reported in any period, a bank's income tax calculation contains an inherent degree of uncertainty surrounding the realizability of the tax positions included in the calculation. The term "tax position" refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. For each tax position taken or expected to be taken in a tax return, a bank must evaluate whether the tax position is more likely than not, i.e., more than a 50 percent probability, to be sustained upon examination by the appropriate taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, a bank should presume that the taxing authority examining the position will have full knowledge of all relevant information. A bank's assessment of the technical merits of a tax position should reflect consideration of all relevant authoritative sources, e.g., tax legislation and statutes, legislative intent, regulations, rulings, and case law, and reflect the bank's determination of the applicability of these sources to the facts and circumstances of the tax position. A bank must evaluate each tax position without consideration of the possibility of an offset or aggregation with other

Income Taxes (cont.):

positions. No tax benefit can be recorded for a tax position that fails to meet the more-likely-than-not recognition threshold.

Each tax position that meets the more-likely-than-not recognition threshold should be measured to determine the amount of benefit to recognize in the Consolidated Reports of Condition and Income. The tax position is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. When measuring the tax benefit, a bank must consider the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date. A bank may not use the valuation allowance associated with any deferred tax asset as a substitute for measuring this tax benefit or as an offset to this amount.

If a bank's assessment of the merits of a tax position subsequently changes, the bank should adjust the amount of tax benefit it has recognized and accrue interest and penalties for any underpayment of taxes in accordance with the tax laws of each applicable jurisdiction. In this regard, a tax position that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent quarterly reporting period in which the threshold is met. A previously recognized tax position that no longer meets the more-likely-than-not recognition threshold should be derecognized in the first subsequent quarterly reporting period in which the threshold is no longer met.

Temporary differences result when events are recognized in one period on the bank's books but are recognized in another period on the bank's tax return. These differences result in amounts of income or expense being reported in the Consolidated Report of Income in one period but in another period in the tax returns. There are two types of temporary differences. Deductible temporary differences reduce taxable income in future periods. Taxable temporary differences result in additional taxable income in future periods.

For example, a bank's provision for loan and lease losses is expensed for financial reporting purposes in one period. However, for some banks, this amount may not be deducted for tax purposes until the loans are actually charged off in a subsequent period. This deductible temporary difference "originates" when the provision for loan and lease losses is recorded in the financial statements and "turns around" or "reverses" when the loans are subsequently charged off, creating tax deductions. Other deductible temporary differences include writedowns of other real estate owned, the recognition of loan origination fees, and other postemployment benefits expense.

Depreciation can result in a taxable temporary difference if a bank uses the straight-line method to determine the amount of depreciation expense to be reported in the Consolidated Report of Income but uses an accelerated method for tax purposes. In the early years, tax depreciation under the accelerated method will typically be larger than book depreciation under the straight-line method. During this period, a taxable temporary difference originates. Tax depreciation will be less than book depreciation in the later years when the temporary difference reverses. Therefore, in any given year, the depreciation reported in the Consolidated Report of Income will differ from that reported in the bank's tax returns. However, total depreciation taken over the useful life of the asset will be the same under either method. Other taxable temporary differences include the undistributed earnings of unconsolidated subsidiaries and associated companies and amounts funded to pension plans that exceed the recorded expense.

Some events do not have tax consequences and therefore do not give rise to temporary differences. Certain revenues are exempt from taxation and certain expenses are not deductible. These events were previously known as "permanent differences." Examples of such events (for federal income tax purposes) are interest received on certain obligations of states and political subdivisions in the U.S., premiums paid on officers' life insurance policies where the bank is the beneficiary, and 50 percent¹ of cash dividends received on the corporate stock of domestic U.S. corporations owned less than 20 percent.

¹ The percentage is 70 percent for tax years beginning before January 1, 2018.

Income Taxes (cont.):

Based on the description of deferred tax items in ASC paragraph 740-10-05-7 and the uncertainty over the actual amounts at which deferred tax items will be settled or realized in future periods, temporary difference deferred tax items should remain on the balance sheet as long as the associated assets or liabilities that give rise to those deferred tax items remain on the balance sheet. Accordingly, an institution's purchase, sale, or other transfer of deferred tax items arising from temporary differences is not acceptable under U.S. GAAP unless these items are transferred in connection with the transfer of the associated assets or liabilities. In the case of timing differences, it may be appropriate to transfer deferred tax assets or deferred tax liabilities resulting from a timing difference when the underlying asset or liability that created the future tax benefit or obligation is being purchased, sold, or transferred within the consolidated group. In addition, when the deferred tax asset or deferred tax liability can be realized or is absorbed by the consolidated group in the current period tax return, it would be appropriate to settle or recover the deferred tax asset or deferred tax liability, respectively.

Deferred tax assets shall be calculated at the report date by applying the "applicable tax rate" (defined below) to the bank's total deductible temporary differences and operating loss carryforwards. A deferred tax asset shall also be recorded for the amount of tax credit carryforwards available to the bank. Based on the estimated realizability of the deferred tax asset, a valuation allowance should be established to reduce the recorded deferred tax asset to the amount that is considered "more likely than not" (i.e., greater than 50 percent chance) to be realized.

Deferred tax liabilities should be calculated by applying the "applicable tax rate" to total taxable temporary differences at the report date.

Net operating loss carrybacks and carryforwards and tax credit carryforwards – When a bank's deductions exceed its income for income tax purposes, it has sustained a net operating loss. To the extent permitted under a taxing authority's laws and regulations, a net operating loss that occurs in a year following periods when the bank had taxable income may be carried back to recover income taxes previously paid. The tax effects of any loss carrybacks that are realizable through a refund of taxes previously paid is recognized in the year the loss occurs. In this situation, the applicable income taxes on the Consolidated Report of Income will reflect a credit rather than an expense. For tax years beginning before January 1, 2018, a bank may carry back net operating losses for two years for federal income tax purposes. However, in general, for tax years beginning on or after January 1, 2018, a bank may no longer carry back operating losses to recover taxes paid in prior tax years.

Generally, a net operating loss that occurs when loss carrybacks are not available becomes a net operating loss carryforward. For tax years beginning before January 1, 2018, a bank may carry operating losses forward 20 years for federal income tax purposes. For tax years beginning on or after January 1, 2018, net operating losses can be carried forward indefinitely for federal income tax purposes; however, for net operating losses arising in such tax years, the amount of loss that can be carried forward and deducted in a particular year is limited to 80 percent of a bank's taxable income in that year.

Tax credit carryforwards are tax credits which cannot be used for tax purposes in the current year, but which can be carried forward to reduce taxes payable in a future period.

Deferred tax assets are recognized for net operating loss and tax credit carryforwards just as they are for deductible temporary differences. As a result, a bank can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the bank determines that a valuation allowance is not considered necessary (i.e., if the realization of the benefit is more likely than not).

An institution must not derecognize deferred tax assets for net operating loss or tax credit carryforwards on its separate-entity regulatory reports prior to the time when such carryforwards are absorbed by the consolidated group.

Applicable tax rate – The income tax rate to be used in determining deferred tax assets and liabilities is the rate under current tax law that is expected to apply to taxable income in the periods in which the

Schedule RC-R—Continued

Part I—Continued

Leverage Ratio*

31. Tier 1 leverage ratio (item 26 divided by item 30).....
- | | |
|------|------------|
| RCOA | Percentage |
| 7204 | |
- 31.
- a. Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date? (enter "1" for Yes; enter "0" for No)
- | | |
|-------|------|
| 0=No | RCOA |
| 1=Yes | LE74 |
- 31.a.

If your institution entered "1" for Yes in item 31.a:

- Complete items 32 through 37 and, if applicable, items 38.a through 38.c,
- Do not complete items 39 through 54 and
- Do not complete Part II of Schedule RC-R.

If your institution entered "0" for No in item 31.a:

- Skip (do not complete) items 32 through 38.c,
- Complete items 39 through 54, as applicable, and
- Complete Part II of Schedule RC-R.

Insert A →

Qualifying Criteria and Other Information for CBLR Institutions*

Dollar Amounts in Thousands		(Column A)		(Column B)		
		RCOA	Amount	RCOA	Percentage	
32. Total assets ¹²		2170				32.
33. Trading assets and trading liabilities (Schedule RC, sum of items 5 and 15). Report as a dollar amount in column A and as a percentage of total assets (5% limit) in column B		KX77		KX78		33.
34. Off-balance sheet exposures:						
a. Unused portion of conditionally cancellable commitments		KX79				34.a.
b. Securities lent and borrowed (Schedule RC-L, sum of items 6.a and 6.b)		KX80				34.b.
c. Other off-balance sheet exposures		KX81				34.c.
d. Total off-balance sheet exposures (sum of items 34.a through 34.c). Report as a dollar amount in column A and as a percentage of total assets (25% limit) in column B		KX82		KX83		34.d.
Dollar Amounts in Thousands		RCOA		Amount		
35. Unconditionally cancellable commitments		S540				35.
36. Investments in the tier 2 capital of unconsolidated financial institutions		LB61				36.
37. Allocated transfer risk reserve		3128				37.
38. Amount of allowances for credit losses on purchased credit-deteriorated assets: ²³						
a. Loans and leases held for investment		JJ30				38.a.
b. Held-to-maturity debt securities		JJ31				38.b.
c. Other financial assets measured at amortized cost		JJ32				38.c.

If your institution entered "0" for No in item 31.a, complete items 39 through 54, as applicable, and Part II of Schedule RC-R. If your institution entered "1" for Yes in item 31.a, do not complete items 39 through 54 or Part II of Schedule RC-R.

Dollar Amounts in Thousands		RCOA	Amount	
Tier 2 Capital³⁴				
39. Tier 2 capital instruments plus related surplus		P866		39.
40. Non-qualifying capital instruments subject to phase-out from tier 2 capital		P867		40.

1. For the December 31, 2021, report date only, advanced approaches institutions that adopt SA-CCR prior to the mandatory compliance date should enter "1" in item 31.b.

* Report each ratio as a percentage, rounded to four decimal places, e.g., 12.3456.

2. For report dates through December 31, 2021, report the lesser of total assets reported in Schedule RC, item 12, as of December 31, 2019, or the current report date, which must be less than \$10 billion.

3. Items 38.a through 38.c should be completed only by institutions that have adopted ASU 2016-13.

4. An institution that has a CBLR framework election in effect as of the quarter-end report date is neither required to calculate tier 2 capital nor make any deductions that would have been taken from tier 2 capital as of the report date.

Insert A

Item 31.b is to be completed only by non-advanced approaches institutions that elect to use the Standardized Approach for Counterparty Credit Risk (SA-CCR) for purposes of the standardized approach and supplementary leverage ratio.¹

b. Standardized Approach for Counterparty Credit Risk opt-in election
(enter “1” for Yes; leave blank for No.)

	RCOA	
1=Yes	XXXX	

31.b

DRAFT

Part I. (cont.)**Item No. Caption and Instructions**

NOTE: Item 31.b is to be completed by non-advanced approaches institutions that elect to use the Standardized Approach for Counterparty Credit Risk (SA-CCR) for purposes of the standardized approach and supplementary leverage ratio (as applicable) and advanced approaches institutions that adopt SA-CCR prior to the mandatory compliance date. Other institutions should leave this item blank.

31.b Standardized Approach for Counterparty Credit Risk opt-in election: A non-advanced approaches institution may continue to use CEM or elect to use Standardized Approach for Counterparty Credit Risk (SA-CCR) for purposes of the standardized approach and supplementary leverage ratio (as applicable). Where a banking institution has the option to choose among the approaches applicable to such institution under the capital rule, it must use the same approach for all purposes. For advanced approaches institutions, adoption of the SA-CCR methodology is mandatory beginning January 1, 2022 and voluntary prior to that date. The SA-CCR rule provides advanced and non-advanced approaches institutions the option to adopt SA-CCR for purposes of standardized total risk-weighted assets and, if applicable, the supplementary leverage ratio, beginning the first quarter of 2020.¹

Non-advanced approaches institutions that elect to use SA-CCR and advanced approaches institutions that adopt SA-CCR prior to the mandatory compliance date must notify their appropriate federal supervisor. These institutions would complete this item as prescribed below:

An advanced approaches institution that elects to early adopt SA-CCR prior to the mandatory compliance date would enter “1” for “Yes” in this item 31.b. An advanced approaches institution that does not early adopt SA-CCR should leave item 31.b blank.

A non-advanced approaches institution that adopts SA-CCR would enter “1” for “Yes” in item 31.b. A non-advanced approaches institution that does not make a SA-CCR opt-in election should leave item 31.b blank. A non-advanced approaches institution must use the same methodology to calculate the exposure amount for all its derivative contracts and, if a banking institution has elected to use SA-CCR, a banking institution may change its election only with prior approval of its appropriate federal supervisor.

¹ See 12 CFR 3 (OCC); 12 CFR 217 (Board); 12 CFR 324 (FDIC).