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# Regulatory Update

## Reporting of BOLI as a Risk-Weighted Asset

March 2015

The Federal Financial Institutions Examination Council (FFIEC) has approved revisions to the reporting of risk-weighted assets in Part II of Schedule RC-R, Regulatory Capital (Schedule RC-R), of the Consolidated Reports of Condition and Income (Call Report). Subject to approval by the U.S. Office of Management and Budget, these Call Report changes will take effect March 31, 2015. The revisions will affect the reporting of our clients' Bank-Owned Life Insurance ("BOLI").

Draft instructions for the Call Report provide that BOLI that is solely a general account insurance product should be reported in column I of the revised Schedule RC-R with a 100 percent risk weight.

The draft instructions call for reporting the carrying value of a bank's investments in separate account life insurance products, including hybrid separate account products, in column R of Schedule RC-R. In column S the risk-weighted asset amount of these insurance products is to be reported.

When a bank has a separate account policy, the portion of the carrying value that represents general account claims on the insurer should be risk weighted at the 100 percent risk weight as claims on the insurer. The remaining portion of the investment in separate account life insurance products is to be reported an equity exposure to an investment fund that should be measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach, all three of which require a minimum risk weight of 20 percent.

The three look-through approaches are summarized in the following table.

*(Continued on next page)*

## Summary of the Look-through Approaches

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|---|---|
| **FULL LOOK-THROUGH** | Banks calculate the aggregate risk-weighted asset amounts of the carrying value of the exposures held by the fund as if they were held directly by the bank multiplied by the bank's proportional ownership share of the fund. |
| **SIMPLE MODIFIED LOOK-THROUGH** | Risk-weighted assets for an equity exposure is equal to the exposure's adjusted carrying value multiplied by the highest risk weight that applies to any exposure the fund is permitted to hold under the prospectus, partnership agreement, or similar agreement that defines the funds permissible investments. |
| **ALTERNATIVE MODIFIED LOOK-THROUGH** | Banks may assign the adjusted carrying value on a pro rata basis to different risk-weight categories based on the limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments. |

Each bank must determine which approach it will use to report the risk-weighting for its exposure to investment funds, including separate and hybrid separate account BOLI.

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