

# Board of Governors of the Federal Reserve System

## Supplemental Instructions

June 2019

### Reporting High Volatility Commercial Real Estate (HVCRE) Exposures

Section 214 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which was enacted on May 24, 2018, adds a new Section 51 to the Federal Deposit Insurance Act (FDI Act) governing the risk-based capital requirements for certain acquisition, development, or construction (ADC) loans. EGRRCPA provides that, effective upon enactment, the banking agencies may only require a depository institution to assign a heightened risk weight to an HVCRE exposure if such exposure is an “HVCRE ADC Loan,” as defined in this new law. Accordingly, an institution is permitted to risk weight at 150 percent only those commercial real estate exposures it believes meet the statutory definition of an “HVCRE ADC Loan.” When reporting HVCRE exposures in the Call Report regulatory capital schedule (Schedule RC-R) as of June 30, 2018, and subsequent report dates, institutions may use available information to reasonably estimate and report only “HVCRE ADC Loans” held for sale and held for investment in Schedule RC-R, Part II, items 4.b and 5.b, respectively. Any “HVCRE ADC Loans” held for trading would be reported in Schedule RC-R, Part II, item 7. The portion of any “HVCRE ADC Loan” that is secured by collateral or has a guarantee that qualifies for a risk weight lower than 150 percent may continue to be assigned a lower risk weight when completing Schedule RC-R, Part II. Institutions may refine their estimates of “HVCRE ADC Loans” in good faith as they obtain additional information, but they will not be required to amend Call Reports previously filed for report dates on or after June 30, 2018, as these estimates are adjusted.

Alternatively, institutions may continue to report and risk weight HVCRE exposures in a manner consistent with the current Call Report instructions for Schedule RC-R, Part II, until the agencies take further action.

To avoid the regulatory burden associated with applying different definitions for HVCRE exposures within a single organization, the Federal Reserve will not take action to require a BHC, savings and loan holding company, or intermediate holding company of a foreign bank to estimate and report HVCRE on Schedule HC-R, Part II, items 4.b, 5.b, and 7 of the FR Y-9C consistent with the existing regulatory requirements and reporting form instructions if the holding company reports HVCRE in a manner consistent with its subsidiary depository institution(s) on the Call Report. A holding company may also continue to report and risk-weight HVCRE exposures in a manner consistent with the current instructions to Schedule HC-R, Part II of the FR Y-9C. For more detail see the agencies’ [proposal to amend their regulatory capital rules](#) to revise the definition of an HVCRE exposure to conform to the statutory definition of an “HVCRE ADC loan” which was published on September 28, 2018.

Section 214 of EGRRCPA, which includes the definition of “HVCRE ADC Loan,” is provided in the Appendix to these Supplemental Instructions for your reference.

## Goodwill Impairment Testing

In January 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-04, “Simplifying the Test for Goodwill Impairment,” to address concerns over the cost and complexity of the two-step goodwill impairment test in Accounting Standards Codification (ASC) Subtopic 350-20, Intangibles—Goodwill and Other – Goodwill, that applies to an entity that has not elected the private company alternative for goodwill (which is discussed in the Glossary entry for “Goodwill” in the FR Y-9C instructions). Thus, the ASU simplifies the subsequent measurement of goodwill by eliminating the second step from the test, which involves the computation of the implied fair value of a reporting unit’s goodwill. Instead, under the ASU, when an entity tests goodwill for impairment, which must take place at least annually, the entity should compare the fair value of a reporting unit with its carrying amount. In general, the entity should recognize an impairment charge for the amount, if any, by which the reporting unit’s carrying amount exceeds its fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This one-step approach to assessing goodwill impairment applies to all reporting units, including those with a zero or negative carrying amount. An entity retains the option to perform the qualitative assessment for a reporting unit described in ASC Subtopic 350-20 to determine whether it is necessary to perform the quantitative goodwill impairment test.

For an institution that is a public business entity and is also a U.S. Securities and Exchange Commission (SEC) filer, as both terms are defined in U.S. generally accepted accounting principles (GAAP), the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019. For a public business entity that is not an SEC filer, the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2020. For all other institutions, the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. For FR Y-9C purposes, an institution should apply the provisions of ASU 2017-04 to goodwill impairment tests on a prospective basis in accordance with the applicable effective date of the ASU. An institution that early adopts ASU 2017-04 for U.S. GAAP financial reporting purposes should early adopt the ASU in the same period for FR Y-9C purposes.

For additional information, institutions should refer to ASU 2017-04, which is available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176168778106&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168778106&acceptedDisclaimer=true)

## Accounting and Reporting Implications of the New Tax Law

On January 18, 2018, the banking agencies issued an [Interagency Statement on Accounting and Reporting Implications of the New Tax Law](#) which was enacted on December 22, 2017, and is commonly known as the Tax Cuts and Jobs Act (the Act). U.S. GAAP requires the effect of changes in tax laws or rates to be recognized in the period in which the legislation is enacted. Thus, in accordance with Accounting Standards Codification (ASC) Topic 740, Income Taxes, the effects of the Act would be recorded in a holding company's FR Y-9C Report for December 31, 2017, because the Act was enacted before year-end 2017. Changes in deferred tax assets (DTAs) and deferred tax liabilities (DTLs) resulting from the Act's lower corporate income tax rate and other applicable provisions of the Act would be reflected in an institution's income tax expense in the period of enactment, i.e., the year-end 2017 FR Y-9C report. HCs should refer to the Interagency Statement for guidance on the remeasurement of DTAs and DTLs, assessing the need for valuation allowances for DTAs, the effect of the remeasurement of DTAs and DTLs on amounts recognized in accumulated other comprehensive income (AOCI), the use for FR Y-9C purposes of the measurement period approach described in the Securities and Exchange Commission's [Staff Accounting Bulletin No. 118](#) and a related [FASB Staff Q&A](#), and regulatory capital effects of the new tax law.

The Interagency Statement notes that the remeasurement of the DTA or DTL associated with an item reported in AOCI, such as unrealized gains (losses) on available-for-sale (AFS) securities, results in a disparity between the tax effect of the item included in AOCI and the amount recorded as a DTA or DTL for the tax effect of this item. However, when the new tax law was enacted, ASC Topic 740 did not specify how this disproportionate, or "stranded," tax effect should be resolved.

On February 18, 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows institutions to eliminate the stranded tax effects resulting from the Act by electing to reclassify these tax effects from AOCI to retained earnings. Thus, this reclassification is permitted, but not required. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the ASU is permitted, including in any interim period, as specified in the ASU. A holding company electing to reclassify its stranded tax effects for U.S. GAAP financial reporting purposes should also reclassify these stranded tax effects in the same period for FR Y-9C Report purposes. For additional information, institutions should refer to ASU 2018-02, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176170041017&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176170041017&acceptedDisclaimer=true).

A holding company that elects to reclassify the disproportionate, or stranded, tax effects of items within AOCI to retained earnings should not report any amounts associated with this reclassification in the FR Y-9C Report Schedule HI-A, Changes in Bank Equity Capital, because the reclassification is between two accounts within the equity capital section of Schedule RC, Balance Sheet, and does not result in any change in the total amount of equity capital.

When discussing the regulatory capital effects of the new tax law, the Interagency Statement

explains that temporary difference DTAs that could be realized through net operating loss (NOL) carrybacks are treated differently from those that could not be realized through NOL carrybacks (i.e., those for which realization depends on future taxable income) under the agencies' regulatory capital rules. These latter temporary differences DTAs are deducted from common equity tier 1 (CET1) capital if they exceed certain CET1 capital deduction thresholds. However, for tax years beginning on or after January 1, 2018, the Act generally removes the ability to use NOL carrybacks to recover federal income taxes paid in prior tax years. Thus, except as noted in the following sentence, for such tax years, the realization of all federal temporary difference DTAs will be dependent on future taxable income and these DTAs would be subject to the CET1 capital deduction thresholds. Nevertheless, consistent with current practice under the regulatory capital rules, when a holding company has paid federal income taxes for the current tax year, if all federal temporary differences were to fully reverse as of report date during the current tax year and create a hypothetical federal tax loss that would enable the institution to recover federal income taxes paid in the current tax year, the federal temporary difference DTAs that could be realized from this source may be treated as temporary difference DTAs realizable through NOL carrybacks as of the regulatory capital calculation date.

### **Presentation of Net Benefit Cost in the Income Statement**

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires an employer to disaggregate the service cost component from the other components of the net benefit cost of defined benefit plans. In addition, the ASU requires these other cost components to be presented in the income statement separately from the service cost component, which must be reported with the other compensation costs arising during the reporting period.

For holding companies that are public business entities, as defined under U.S. GAAP, ASU 2017-07 is currently in effect. For holding companies that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption is permitted as described in the ASU. Refer to the Glossary entries for "public business entity" and "private company" in the FR Y-9C Report instructions for further information on these terms.

For FR Y-9C purposes, a holding company should apply the new standard prospectively to the cost components of net benefit cost as of the beginning of the fiscal year of adoption. The service cost component of net benefit cost should be reported in Schedule HI, item 7.a, "Salaries and employee benefits." The other cost components of net benefit cost should be reported in Schedule HI, item 7.d, "Other noninterest expense."

For additional information, institutions should refer to ASU 2017-07, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176168888120&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168888120&acceptedDisclaimer=true).

## Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, “Measurement of Credit Losses on Financial Instruments,” which introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses. Under CECL, the allowance for credit losses is a valuation account, measured as the difference between the financial assets’ amortized cost basis and the net amount expected to be collected on the financial assets (i.e., lifetime credit losses). To estimate expected credit losses under CECL, holding companies will use a broader range of data than under existing U.S. generally accepted accounting principles (GAAP). These data include information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets.

The ASU is applicable to all financial instruments carried at amortized cost (including loans held for investment and held-to-maturity debt securities, as well as trade receivables, reinsurance receivables and receivables that relate to repurchase agreements and securities lending agreements) a lessor’s net investments in leases, and off-balance-sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credit, and financial guarantees. The new standard does not apply to trading assets, loans held for sale, financial assets for which the fair value option has been elected, or loans and receivables between entities under common control.

The ASU also modifies the treatment of credit impairment on available-for-sale (AFS) debt securities. Under the new standard, holding companies will recognize a credit loss on an AFS debt security through an allowance for credit losses, rather than the current practice required by U.S. GAAP of write-downs of individual securities for other-than-temporary impairment.

For entities that are public business entities and are also U.S. Securities and Exchange Commission (SEC) filers, as both terms are defined in U.S. GAAP, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For public business entities that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For holding companies that are not public business entities (i.e., that are private companies), the FASB issued ASU 2018-19 in November 2018 to amend the effective date of ASU 2016-13. As amended, ASU 2016-13 is effective for such entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all entities, early application of the new standard is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Institutions must apply ASU 2016-13 for reporting purposes in accordance with the effective dates set forth in the ASU as amended. An institution that early adopts ASU 2016-13 for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for reporting purposes.

The Federal Reserve revised several Federal Reserve reports and schedules as of the March 31, 2019, report date in response to the revised accounting for credit losses under ASU 2016-13.) The FR Y-9C report revisions also include reporting changes to the regulatory capital schedule (Schedule HC-R) related to the agencies’ final rule on the implementation and capital transition for the current expected credit losses methodology in ASU 2016-13.

For additional information, institutions should refer to the agencies' [Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses](#) which was recently updated on April 3, 2019 and June 17, 2016, [Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses](#), and ASU 2016-13, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176168232528&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168232528&acceptedDisclaimer=true). Institutions also may refer to ASU 2018-19, which is available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176171644373&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176171644373&acceptedDisclaimer=true).

Since the issuance of ASU 2016-13 and ASU 2018-19, the FASB has published the following additional amendments to the new credit losses accounting standard: ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,” which is available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176172541591&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176172541591&acceptedDisclaimer=true); and ASU 2019-05, “Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief,” which is available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176172668879&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176172668879&acceptedDisclaimer=true)

## **Accounting for Hedging Activities**

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities.” This ASU amends Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, to “better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.”

For holding companies that are public business entities, as defined under U.S. generally accepted accounting principles (GAAP), the ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020.

Early application of the ASU is permitted for all holding companies in any interim period or fiscal year before the effective date of the ASU. Further, the ASU specifies transition requirements and offers transition elections for hedging relationships existing on the date of adoption (i.e., hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or for which the institution has not removed the designation of the hedging relationship). These transition requirements and elections should be applied on the date of adoption of the ASU and the effect of adoption should be reflected as of the beginning of the fiscal year of adoption (i.e., the

initial application date). Thus, if a holding company early adopts the ASU in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes the interim period of adoption, e.g., as of January 1 for a calendar year institution. A holding company that early adopts ASU 2017-12 in an interim period for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for FR Y-9C purposes.

The FR Y-9C instructions, including the Glossary entry for “Derivative Contracts,” will be revised to conform to the ASU at a future date.

For additional information, holding companies should refer to ASU 2017-12, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176169282347&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176169282347&acceptedDisclaimer=true).

### **Premium Amortization on Purchased Callable Debt Securities**

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-08, “Premium Amortization on Purchased Callable Debt Securities.” This ASU amends Accounting Standards Codification (ASC) Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs (formerly FASB Statement No. 91, “Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases”), by shortening the amortization period for premiums on callable debt securities that have explicit, non-contingent call features and are callable at fixed prices and on preset dates. Under existing U.S. generally accepted accounting principles (GAAP), the premium on such a callable debt security generally is required to be amortized as an adjustment of yield over the contractual life of the debt security. Under the ASU, the excess of the amortized cost basis of such a callable debt security over the amount repayable by the issuer at the earliest call date (i.e., the premium) must be amortized to the earliest call date (unless the institution applies the guidance in ASC Subtopic 310-20 that allows estimates of future principal prepayments to be considered in the effective yield calculation when the institution holds a large number of similar debt securities for which prepayments are probable and the timing and amount of the prepayments can be reasonably estimated). If the call option is not exercised at its earliest call date, the institution must reset the effective yield using the payment terms of the debt security.

The ASU does not change the accounting for debt securities held at a discount. The discount on such debt securities continues to be amortized to maturity (unless the Subtopic 310-20 guidance mentioned above is applied).

For holding companies that are public business entities, as defined under U.S. GAAP, the new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Refer to the Glossary entries for “public business entity” and “private company” in the FR Y-9C instructions for further information on these terms.

Early application of the new standard is permitted for all holding companies, including adoption in an interim period of a year before the applicable effective date for a holding company. If a holding company early adopts the ASU in an interim period, the cumulative-effect adjustment shall be reflected as of the beginning of the fiscal year of adoption.

A holding company must apply the new standard on a modified retrospective basis as of the beginning of the period of adoption. Under the modified retrospective method, a holding company should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the fiscal year the new standard is adopted. The cumulative-effect adjustment to retained earnings for this change in accounting principle should be reported in FR Y-9C Report Schedule HI-A, item 2.

For additional information, institutions should refer to ASU 2017-08, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176168934053&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168934053&acceptedDisclaimer=true).

### **Recognition and Measurement of Financial Instruments: Investments in Equity Securities**

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU makes targeted improvements to U.S. GAAP. As one of its main provisions, the ASU requires investments in equity securities, except those accounted for under the equity method and those that result in consolidation, to be measured at fair value with changes in fair value recognized in net income. Thus, the ASU eliminates the existing concept of available-for-sale (AFS) equity securities, which are measured at fair value with changes in fair value generally recognized in other comprehensive income. To be classified as AFS under current U.S. GAAP, an equity security must have a readily determinable fair value and not be held for trading. In addition, for an equity security that does not have a readily determinable fair value, the ASU permits an entity to elect to measure the security at cost minus impairment, if any, plus or minus changes resulting from observable

price changes in orderly transactions for the identical or a similar investment of the same issuer. When this election is made for an equity security without a readily determinable fair value, the ASU simplifies the impairment assessment of such an investment by requiring a qualitative assessment to impairment.

The ASU’s measurement guidance for investments in equity securities also applies to other ownership interests, such as interests in partnerships, unincorporated joint ventures, and limited liability companies. However, the measurement guidance does not apply to Federal Home Loan Bank and Federal Reserve Bank stock.

For holding companies that are public business entities, as defined under U.S. GAAP, ASU 2016-01 is currently in effect. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application of the ASU is permitted for all holding companies that are not public business entities as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Holding companies must apply ASU 2016-01 for FR Y-9C purposes in accordance with the effective dates set forth in the ASU.



With the elimination of AFS equity securities upon a holding company's adoption of ASU 2016-01, the amount of net unrealized gains (losses) on these securities, net of tax effect, that is included in accumulated other comprehensive income (AOCI) on the FR Y-9C report balance sheet (Schedule HC, item 26(b)) as of the adoption date will be reclassified (transferred) from AOCI into the retained earnings component of equity capital on the balance sheet (Schedule HC, item 26(a)). Thereafter, changes in the fair value of (i.e., the unrealized gains and losses on) an holding company's equity securities that would have been classified as AFS under existing U.S. GAAP will be recognized through net income rather than other comprehensive income. For holding company's holdings of equity securities without readily determinable fair values as of the adoption date, the measurement provisions of the ASU are to be applied prospectively to these securities.

For additional information, institutions should refer to ASU 2016-01, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true).

### **Recognition and Measurement of Financial Instruments: Fair Value Option Liabilities**

In addition to the changes in the accounting for equity securities discussed in the preceding section of these Supplemental Instructions, ASU No. 2016-01 requires a holding company to present separately in other comprehensive income (OCI) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk ("own credit risk") when the holding company has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Until a holding company adopts the own credit risk provisions of the ASU, U.S. GAAP requires the holding company to report the entire change in the fair value of a fair value option liability in earnings. The ASU does not apply to other financial liabilities measured at fair value, including derivatives. For these other financial liabilities, the effect of a change in an entity's own credit risk will continue to be reported in net income.

The change due to own credit risk, as described above, is the difference between the total change in fair value and the amount resulting from a change in a base market rate (e.g., a risk-free interest rate). A holding company may use another method that it believes results in a faithful measurement of the fair value change attributable to instrument-specific credit risk. However, it will have to apply the method consistently to each financial liability from period to period.

The effective dates of ASU 2016-01 are described in the preceding section of these Supplemental Instructions. Notwithstanding these effective dates, early application of the ASU's provisions regarding the presentation in OCI of changes due to own credit risk on fair value option liabilities is permitted for all holding companies for financial statements of fiscal years or interim periods that have not yet been issued or made available for issuance, and in the same period for FR Y-9C Report purposes.

When a holding company with a calendar year fiscal year adopts the own credit risk provisions of ASU 2016-01, the accumulated gains and losses as of the beginning of the fiscal year due to changes in the instrument-specific credit risk of fair value option liabilities, net of tax effect, are reclassified from Schedule HC, item 26(a), "Retained earnings," to Schedule HC, item 26(b),

“Accumulated other comprehensive income” (AOCI). If a holding company with a calendar year fiscal year chooses to early apply the ASU’s provisions for fair value option liabilities in an interim period after the first interim period of its fiscal year, any unrealized gains and losses due to changes in own credit risk and the related tax effects recognized in the FR Y-9C Report income statement during the interim period(s) before the interim period of adoption should be reclassified from earnings to OCI. In the FR Y-9C Report, this reclassification would be from Schedule HI, item 5.1, “Other noninterest income,” and Schedule HI, item 9, “Applicable income taxes,” to Schedule HI-A, item 12, “Other comprehensive income,” with a corresponding reclassification from Schedule HC, item 26(a), to Schedule HC, item 26(b).

Additionally, for purposes of reporting on Schedule HC-R, Part I, holding companies should report in 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,” the amount included in AOCI attributable to changes in the fair value of fair value option liabilities that are due to changes in the holding company’s own credit risk. Holding companies should note that this AOCI amount is included in the amount reported in Schedule HC-R, Part I, item 3, “Accumulated other comprehensive income (AOCI).”

For additional information, institutions should refer to ASU 2016-01, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true).

## **New Revenue Recognition Accounting Standard**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers,” which added Topic 606, Revenue from Contracts with Customers, to the Accounting Standards Codification (ASC). The core principle of Topic 606 is that an entity should recognize revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer as part of the entity’s ordinary activities. ASU 2014-09 also added Topic 610, Other Income, to the ASC. Topic 610 applies to income recognition that is not within the scope of Topic 606, other Topics (such as Topic 840 on leases), or other revenue or income guidance. As discussed in the following section of these Supplemental Instructions, Topic 610 applies to a holding company’s sales of repossessed nonfinancial assets, such as other real estate owned (OREO). The sale of repossessed nonfinancial assets is not considered an “ordinary activity” because holding companies do not typically invest in nonfinancial assets. ASU 2014-09 and subsequent amendments are collectively referred to herein as the “new standard.” For additional information on this accounting standard and the revenue streams to which it does and does not apply, please refer to the Glossary entry for “Revenue from Contracts with Customers,” which has been added to the FR y-9C instructions this quarter.

For holding companies that are public business entities, as defined under U.S. generally accepted accounting principles (GAAP), the new standard is currently in effect. For holding companies that are not public business entities (i.e., that are private companies), the new standard is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within fiscal years beginning after December 15, 2019. Early application of the new standard is permitted for all

holding companies for fiscal years beginning after December 15, 2016, and interim reporting periods as prescribed in the new standard. If a holding company chooses to early adopt the new standard for financial reporting purposes, the holding company should implement the new standard in its FR Y-9C for the same quarter-end report date.

For FR Y-9C purposes, a holding company must apply the new standard on a modified retrospective basis as of the effective date of the standard. Under the modified retrospective method, a holding company should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the fiscal year the new standard is adopted. The cumulative-effect adjustment to retained earnings for this change in accounting principle should be reported in the FR Y-9C Schedule HI-A, item 2. A holding company that early adopts the new standard must apply it in its entirety. The holding company cannot choose to apply the guidance to some revenue streams and not to others that are within the scope of the new standard.

For additional information, holding companies should refer to the new standard, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Revenue Recognition: Accounting for Sales of OREO**

As stated in the preceding section, Topic 610 applies to a holding company's sale of repossessed nonfinancial assets, such as OREO. When the new standard becomes effective at the dates discussed above, Topic 610 will eliminate the prescriptive criteria and methods for sale accounting and gain recognition for dispositions of OREO currently set forth in ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the new standard, a holding company will recognize the entire gain, if any, and derecognize the OREO at the time of sale if the transaction meets the requirements of Topic 606. Otherwise, a holding company will record any payments received as a deposit liability to the buyer and continue reporting the OREO as an asset at the time of the transaction.

The following paragraphs highlight key aspects of Topic 610 that will apply to seller-financed sales of OREO once the new standard takes effect. When implementing the new standard, a holding company will need to exercise judgment in determining whether a contract (within the meaning of Topic 606) exists for the sale or transfer of OREO, whether the holding company has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss. For additional information, please refer to the Glossary entry for "Foreclosed Assets" in the FR Y-9C instructions, which has been updated this quarter to incorporate guidance on the application of the new standard to sales of OREO.

Under Topic 610, a holding company's first step in assessing whether it can derecognize an OREO asset and recognize revenue upon the sale or transfer of the OREO is to determine whether a contract exists under the provisions of Topic 606. In order for a transaction to be a contract under Topic 606, it must meet five criteria. Although all five criteria require careful analysis for seller-financed sales of OREO, two criteria in particular may require significant judgment. These criteria are the commitment of the parties to the transaction to perform their respective obligations and the collectability of the transaction price. To evaluate whether a transaction meets the collectability criterion, a selling holding company must determine whether it is probable that it will collect

substantially all of the consideration to which it is entitled in exchange for the transfer of the OREO, i.e., the transaction price. To make this determination, as well as the determination that the buyer of the OREO is committed to perform its obligations, a holding company should consider all facts and circumstances related to the buyer's ability and intent to pay the transaction price. As with the current accounting standards governing seller-financed sales of OREO, the amount and character of a buyer's initial equity in the property (typically the cash down payment) and recourse provisions remain important factors to evaluate. Other factors to consider may include, but are not limited to, the financing terms of the loan (including amortization and any balloon payment), the credit standing of the buyer, the cash flow from the property, and the selling holding company's continuing involvement with the property following the transaction.

If the five contract criteria in Topic 606 have not been met, the holding company may not derecognize the OREO asset or recognize revenue (gain or loss) as an accounting sale has not occurred. In contrast, if the holding company determines the contract criteria in Topic 606 have been met, it must then determine whether it has satisfied its performance obligations as identified in the contract by transferring control of the asset to the buyer, indicators of which are identified in the new standard. For seller-financed sales of OREO, the transfer of control generally occurs on the closing date of the sale when the holding company obtains the right to receive payment for the property and transfers legal title to the buyer. However, a holding company must consider all relevant facts and circumstances to determine whether control of the OREO has transferred.

When a contract exists and a holding company has transferred control of the asset, the holding company should derecognize the OREO asset and recognize a gain or loss for the difference between the transaction price and the carrying amount of the OREO asset. Generally, the transaction price in a sale of OREO will be the contract amount in the purchase/sale agreement, including for a seller-financed sale financed at market terms. However, the transaction price may differ from the amount stated in the contract due to the existence of below market terms on the financing. In this situation, the contract amount should be adjusted for the time value by using as the discount rate a market rate of interest considering the credit characteristics of the buyer and the terms of the financing.

As stated in the preceding section, for FR Y-9C purposes, holding companies must apply the new standard on a modified retrospective basis. To determine the cumulative-effect adjustment for the change in accounting for seller-financed OREO sales, holding companies should measure the impact of applying Topic 610 to the outstanding seller-financed sales of OREO currently accounted for under Subtopic 360-20 using the installment, cost recovery, reduced-profit, or deposit method as of the beginning of the fiscal year the new standard is adopted. The cumulative-effect adjustment to retained earnings for this change in accounting principle should be reported in FR Y-9C Schedule HI-A, item 2.

### **Accounting for Leases**

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which added ASC Topic 842, Leases. Once effective, this guidance, as amended by certain subsequent ASUs, supersedes ASC Topic 840, Leases.

Topic 842 does not fundamentally change lessor accounting; however, it aligns terminology between lessee and lessor accounting and brings key aspects of lessor accounting into alignment with the FASB's new revenue recognition guidance in ASC Topic 606. As a result, the classification difference between direct financing leases and sales-type leases for lessors moves from a risk-and-rewards principle to a transfer of control principle. Additionally, there is no longer a distinction in the treatment of real estate and non-real estate leases by lessors.

The most significant change that Topic 842 makes is to lessee accounting. Under existing accounting standards, lessees recognize lease assets and lease liabilities on the balance sheet for capital leases, but do not recognize operating leases on the balance sheet. The lessee accounting model under Topic 842 retains the distinction between operating leases and capital leases, which the new standard labels finance leases. However, the new standard requires lessees to record a right-of-use (ROU) asset and a lease liability on the balance sheet for operating leases. (For finance leases, a lessee's lease asset also is designated an ROU asset.) In general, the new standard permits a lessee to make an accounting policy election to exempt leases with a term of one year or less at their commencement date from on-balance sheet recognition. The lease term generally includes the noncancellable period of a lease as well as purchase options and renewal options reasonably certain to be exercised by the lessee, renewal options controlled by the lessor, and any other economic incentive for the lessee to extend the lease. An economic incentive may include a related-party commitment. When preparing to implement Topic 842, lessees will need to analyze their existing lease contracts to determine the entries to record on adoption of this new standard.

For a sale-leaseback transaction to qualify for sales treatment, Topic 842 requires certain criteria within Topic 606 to be met. Topic 606 focuses on the transfer of control of the leased asset from the seller/lessee to the buyer/lessor. A sale-leaseback transaction that does not transfer control is accounted for as a financing arrangement. For a transaction currently accounted for as a sale-leaseback under existing GAAP, an entity is not required to reassess whether the transaction would have qualified as a sale and a leaseback under Topic 842 when it adopts the new standard.

Leases classified as leveraged leases prior to the adoption of Topic 842 may continue to be accounted for under Topic 840 unless subsequently modified. Topic 842 eliminates leveraged lease accounting for leases that commence after an entity adopts the new accounting standard. For holding companies that are public business entities, as defined by U.S. generally accepted accounting principles (GAAP), ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For holding companies that are not public business entities, the new standard is effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early application of the new standard is permitted for all holding companies. A holding company that early adopts the new standard must apply it in its entirety to all lease-related transactions. If a holding company chooses to early adopt the new standard for financial reporting purposes, the holding company should implement the new standard in its FR Y-9C report for the same quarter-end report date.

Under ASU 2016-02, an institution must apply the new leases standard on a modified retrospective basis for financial reporting purposes. Under the modified retrospective method, an institution should apply the leases standard and the related cumulative-effect adjustments to affected accounts

existing as of the beginning of the earliest period presented in the financial statements. However, as explained in the “Changes in accounting principles” section of the Glossary entry for “Accounting Changes” in the FR Y-9C instructions, when a new accounting standard (such as the leases standard) requires the use of a retrospective application method, institutions should instead report the cumulative effect of adopting the new standard on the amount of retained earnings at the beginning of the year in which the new standard is first adopted for FR Y-9C purposes (net of applicable income taxes, if any) as a direct adjustment to equity capital in the FR Y-9C. For the adoption of the new leases standard, the cumulative-effect adjustment to bank equity capital for this change in accounting principle should be reported in Schedule HI-A, item 2. In July 2018, the FASB issued ASU 2018-11, “Targeted Improvements,” which provides an additional and “optional transition method” for comparative reporting purposes at adoption of the new leases standard. Under this optional transition method, an institution initially applies the new leases standard at the adoption date (e.g., January 1, 2019, for a public business entity with a calendar year fiscal year) and, for FR Y-9C purposes, the institution should recognize and report a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with the Glossary instructions described above

For FR Y-9C purposes, all ROU assets for operating leases and finance leases, including ROU assets for operating leases recorded upon adoption of ASU 2016-02, should be reflected in Schedule HC, item 6, “Premises and fixed assets.”

The agencies have received questions from institutions concerning the reporting of lease liabilities for operating leases by a bank lessee. These institutions indicated that reporting operating lease liabilities as other liabilities instead of other borrowings would better align the reporting of the single noninterest expense item for operating leases (required by the standard and discussed below) with their balance sheet classification and would be consistent with how these institutions report these lease liabilities internally. The Federal Reserve plans to request public comment on this proposed change in reporting. However, until that process is complete, the Federal Reserve will permit institutions to report the lease liability for operating leases in either Schedule HC-G, item 4, “All other liabilities,” or Schedule HC-M, item 14, “Other borrowed money.” An institution may choose to amend the reporting of operating lease liabilities in its FR Y-9C for March 31, 2019, consistent with this supplemental instruction.

In the FR Y-9C report income statement, for an operating lease, a lessee should report a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, in Schedule HI, item 7.b, “Expenses of premises and fixed assets.” For a finance lease, a lessee should report interest expense on the lease liability separately from the amortization expense on the ROU asset. The interest expense should be reported on Schedule HI in item 2.c, “Interest on trading liabilities and other borrowed money,” on the FR Y-9C report. The amortization expense should be reported on Schedule HI in item 7.b, “Expenses of premises and fixed assets.”

The agencies have also received questions regarding how lessee institutions should treat ROU assets under the agencies’ regulatory capital rules (12 CFR Part 3 (OCC); 12 CFR Part 217 (Board); and 12 CFR Part 324 (FDIC)). Those rules require that most intangible assets be deducted

from regulatory capital. However, some institutions are uncertain whether ROU assets are intangible assets. The agencies are clarifying that, to the extent an ROU asset arises due to a lease of a tangible asset (e.g., building or equipment), the ROU asset should be treated as a tangible asset not subject to deduction from regulatory capital. An ROU asset not subject to deduction must be risk weighted at 100 percent under Section 32(l)(5) of the agencies' regulatory capital rules and included in a lessee institution's calculations of total risk-weighted assets. In addition, such an asset must be included in a lessee institution's total assets for leverage capital purposes. The agencies believe this treatment is consistent with the current treatment of capital leases under the rules, whereby a lessee's lease assets under capital leases of tangible assets are treated as tangible assets, receive a 100 percent risk weight, and are included in the leverage ratio denominator. This treatment is also consistent with the approach taken by the Basel Committee on Banking Supervision (<https://www.bis.org/press/p170406a.htm>).

For additional information on ASU 2016-02, holding companies should refer to the FASB's website at:

[http://www.fasb.org/cs/ContentServer?c=FASBContent\\_C&pagename=FASB%2FFASBContent\\_C%2FCompletedProjectPage&cid=1176167904031](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FCompletedProjectPage&cid=1176167904031), which includes a link to the new accounting standard.

### **Classification and Measurement of Financial Instruments: Fair Value Option Liabilities**

In January 2016 FASB completed its Classification and Measurement of Financial Instruments project by issuing ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities.

This ASU makes targeted improvements to U.S. generally accepted accounting principles (GAAP). It includes requiring a holding company to present separately in other comprehensive income (OCI) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (own credit risk) when the holding company has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Prior to the new ASU, U.S. GAAP required holding companies to report the entire change in fair value of such an instrument in earnings. The effect of a change in an entity's own credit risk for other financial liabilities measured at fair value, including derivatives, will continue to be reported in net income.

The change due to own credit risk, as described above, is the difference between the total change in fair value and the amount resulting from a change in a base market rate (e.g., a risk-free interest rate). A holding company may use another method that it believes results in a faithful measurement of the fair value change attributable to instrument-specific credit risk. However, it will have to apply the method consistently to each financial liability from period to period.

For public business entities, as defined under U.S. GAAP, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other holding companies, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application of the ASU is permitted for all holding companies that are not public business entities as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

Additionally, early application of the provisions regarding the presentation in OCI of changes due to own credit risk, as described above, is permitted for all holding companies for financial statements of fiscal years or interim periods that have not yet been issued or made available for issuance, and in the same period for FR Y-9C Report purposes.

When a holding company with a calendar year fiscal year adopts ASU 2016-01, the accumulated gains and losses as of the beginning of the fiscal year due to changes in the instrument-specific credit risk of fair value option liabilities, net of tax effect, are reclassified from Schedule HC, item 26(a), "Retained earnings," to Schedule HC, item 26(b), "Accumulated other comprehensive income" (AOCI). If a holding company with a calendar year fiscal year chooses to early apply the ASU's provisions for fair value option liabilities in an interim period after the first interim period of its fiscal year, any unrealized gains and losses due to changes in own credit risk and the related tax effects recognized in the FR Y-9C Report income statement during the interim period(s) before the interim period of adoption should be reclassified from Schedule RI, item 5(l), "Other noninterest income," and Schedule HI, item 9, "Applicable income taxes," to Schedule HI-A, item 12, "Other comprehensive income," with a corresponding reclassification from Schedule HC, item 26(a) to Schedule HC, item 26(b).

Additionally, for purposes of reporting on Schedule HC-R, Part I, holding companies should report in 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," the amount included in AOCI attributable to changes in the fair value of fair value option liabilities that are due to changes in the holding company's own credit risk. Holding companies should note that this AOCI amount is included in the amount reported in Schedule HC-R, Part I, item 3, "Accumulated other comprehensive income (AOCI)."

For additional information, holding companies should refer to ASU 2016-01, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Accounting for Measurement-Period Adjustments Related to a Business Combination**

In September 2015, FASB issued Accounting Standards Update ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." Under Accounting Standards Codification Topic 805, Business Combinations (formerly FASB Statement No. 141(R), "Business Combinations"), if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports provisional amounts in its financial statements for the items for which the accounting is incomplete. During the measurement period, the acquirer is required to adjust the provisional amounts recognized at the acquisition date, with a corresponding adjustment to goodwill, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. At present under Topic 805, an acquirer is required to retrospectively adjust the provisional amounts recognized at the acquisition date to reflect the new information. To simplify the accounting for the adjustments made to provisional amounts, ASU 2015-16 eliminates the requirement to retrospectively account for the adjustments. Accordingly, the ASU amends Topic 805 to require an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the



reporting period in which adjustment amounts are determined. Under the ASU, the acquirer also must recognize in the financial statements for the same reporting period the effect on earnings, if any, resulting from the adjustments to the provisional amounts as if the accounting for the business combination had been completed as of the acquisition date.

In general, the measurement period in a business combination is the period after the acquisition date during which the acquirer may adjust provisional amounts reported for identifiable assets acquired, liabilities assumed, and consideration transferred for the acquiree for which the initial accounting for the business combination is incomplete at the end of the reporting period in which the combination occurs. Topic 805 provides additional guidance on the measurement period, which shall not exceed one year from the acquisition date, and adjustments to provisional amounts during this period.

The ASU's amendments to Topic 805 should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the ASU. For holding companies that are public business entities, as defined under U.S. GAAP, ASU 2015-16 is in effect. For institutions that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Thus, holding companies with a calendar year fiscal year that are private companies must apply the ASU to any adjustments to provisional amounts that occur after January 1, 2017, beginning with their FR Y-9C Report for December 31, 2017. Early application of ASU 2015-16 is permitted in the FR Y-9C that has not been submitted.

For additional information, institutions should refer to ASU 2015-16, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Other Reporting Matters**

For the following topics, holding companies should continue to follow the guidance in the specified FR Y-9C Supplemental Instructions:

#### **Regulatory Capital Treatment of Certain Centrally-Cleared Derivative Contracts**

Holding companies should continue to follow the guidance for Regulatory Capital Treatment of Certain Centrally-Cleared Derivative Contracts in the FR Y-9C Supplemental Instructions for December 2018. These instructions can be accessed via the Federal Reserve's website ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201812.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201812.pdf))

#### **Reporting Exposures Hedged with Cleared Eligible Credit Derivatives in Schedule HC-R**

Holding companies should continue to follow the guidance for Reporting Exposures Hedged with Cleared Eligible Credit Derivatives in Schedule HC-R that was included in the FR Y-9C Supplemental Instructions for December 2016. These instructions can be accessed via the Federal Reserve's website ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201612.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201612.pdf))

## **Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share**

Holding companies should continue to follow the guidance for Disclosures for Investments in Certain Entities that Calculate Net Asset Value per share that was included in the FR Y-9C Supplemental Instructions for December 2016. These instructions can be accessed via the Federal Reserve's website

([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201612.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201612.pdf))

## **Debt Issuance Cost**

Holding companies should continue to follow the guidance for Debt Issuance Cost that was included in the FR Y-9C Supplemental Instructions for September 2016. These instructions can be accessed via the Federal Reserve's website

([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201609.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf))

## **Accounting for Subsequent Restructuring of a Troubled Debt Restructuring**

Holding companies should continue to follow the guidance for Accounting for Subsequent Restructuring of a Troubled Debt Restructuring that was included in the FR Y-9C Supplemental Instructions for September 2016. These instructions can be accessed via the Federal Reserve's website

([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201609.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf))

## **Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon a Foreclosure**

Holding companies should continue to follow the guidance for Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon a Foreclosure that was included in the FR Y-9C Supplemental Instructions for September 2016. These instructions can be accessed via the Federal Reserve's website

([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201609.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf))

## **Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure**

Holding companies should continue to follow the guidance for Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure that was included in the FR Y-9C Supplemental Instructions for September 2016. These instructions can be accessed via the Federal Reserve's website

([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201609.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf))

## **Secured Consumer Debt Discharged in a Chapter 7 Bankruptcy Order**

Holding companies should continue to follow the guidance for Secured Consumer Debt Discharged in a Chapter 7 Bankruptcy Order that was included in the FR Y-9C Supplemental Instructions for December, 2015. These instructions can be accessed via the Federal Reserve's Web site

([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201512.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201512.pdf))

## **True Up Liability under an FDIC Loss-Sharing Agreement**

Holding companies should continue to follow the guidance for True up liability under an FDIC loss-sharing agreement that was included in the FR Y-9C Supplemental Instructions for September, 2015. These instructions can be accessed via the Federal Reserve's Web site

([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201509.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201509.pdf))

### **Purchased Loans Originated by Others**

Holding companies should continue to follow the guidance for purchased loans originated by others that was included in the FR Y-9C Supplemental Instructions for September, 2015. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201509.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201509.pdf))

### **Troubled Debt Restructurings, Current Market Interest Rates, and ASU No. 2011-02**

Holding companies should continue to follow the guidance for troubled debt restructurings that was included in the FR Y-9C Supplemental Instructions for March 31, 2015. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201503.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201503.pdf))

### **Indemnification Assets and Accounting Standards Update No. 2012-06**

Holding companies should continue to follow the guidance for indemnification assets that was included in the FR Y-9C Supplemental Instructions for June 30, 2014. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201406.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201406.pdf))

### **Determining the Fair Value of Derivatives**

Holding companies should continue to follow the guidance in determining the fair value of derivatives that was included in the FR Y-9C Supplemental Instructions for June 30, 2014. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201406.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201406.pdf))

### **Other- Than- Temporary Impairment**

Holding companies should continue to follow the guidance on reporting other-than- temporary-impairment that was included in the FR Y-9C Supplemental Instructions for June 30, 2014. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201406.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201406.pdf))

### **Reporting Defined Benefit Postretirement Plans**

Holding companies should continue to follow the guidance regarding the reporting of defined benefit postretirement plans that was included in the FR Y-9C Supplemental Instructions for June 30, 2013. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201306.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201306.pdf)).

### **Goodwill Impairment Testing**

Holding companies should continue to follow the guidance regarding reporting related to goodwill impairment testing that was included in the FR Y-9C Supplemental Instructions for

March 31, 2013. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201303.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201303.pdf)).

### **Small Business Lending Fund**

Holding companies should continue to follow the guidance regarding reporting related to the U.S. Treasury Department's Small Business Lending Fund (SBLF) that was included in the FR Y-9C Supplemental Instructions for March 31, 2013. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201303.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201303.pdf)).

## **Treasury Department's Community Development Capital Initiative Program**

Holding companies should continue to follow the guidance regarding reporting related to the Treasury Department's Community Development Capital Initiative Program that was included in the FR Y-9C Supplemental Instructions for September 30, 2012. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201209.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201209.pdf)).

## **Reporting Purchased Subordinated Securities in Schedule HC-S**

Holding companies should continue to follow the guidance on reporting purchased subordinated securities in Schedule HC-S that was included in the FR Y-9C Supplemental Instructions for September 30, 2011. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201109.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201109.pdf)).

## **Consolidated Variable Interest Entities**

Holding companies should continue to follow the guidance on reporting and accounting for consolidated variable interest entities that was included in the FR Y-9C Supplemental Instructions for September 30, 2011. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201109.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201109.pdf)).

## **Treasury Department's Capital Purchase Program**

Holding companies should continue to follow the guidance on accounting and reporting for the U.S. Treasury Department's Capital Purchase Program (CPP) under the Troubled Asset Relief Program mandated by the Emergency Economic Stabilization Act of 2008 that was included in the FR Y-9C Supplemental Instructions for September 30, 2011. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201109.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201109.pdf)).

## **Accounting Standards Codification**

A description of the adoption of FASB Statement No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles" was included in the FR Y-9C Supplemental Instructions for September 30, 2011. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201109.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201109.pdf)).

### **Extended Net Operating Loss Carryback Period**

Holding companies should continue to follow the guidance on accounting for the extended net operating loss carryback period under the Worker, Homeownership, and Business Assistance Act of 2009, that was included in the FR Y-9C Supplemental Instructions for December 31, 2010. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201012.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201012.pdf)).

### **FASB Interpretation No. 48 on Uncertain Tax Positions**

Holding companies should continue to follow the guidance on accounting for uncertain tax positions under FASB Interpretation No. 48 that was included in the FR Y-9C Supplemental Instructions for December 31, 2009. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_200912.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_200912.pdf)).

### **Business Combinations and Noncontrolling (Minority) Interests**

Holding companies should continue to follow the guidance on accounting for business combinations and noncontrolling (minority) interests under FASB Statements Nos. 141(R) and 160 that was included in the FR Y-9C Supplemental Instructions for September 30, 2009. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_200909.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_200909.pdf)).

### **Fair Value Measurement and Fair Value Option**

Holding companies should continue to follow the guidance on fair value measurements under FASB Statement No. 157, *Fair Value Measurements*, and the guidance on implementing the fair value option under FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, that was included in the FR Y-9C Supplemental Instructions for June 30, 2009. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_200906.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_200906.pdf)).

### **Accounting for Share-based Payments**

Holding companies should continue to follow the guidance on accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* (FAS 123(R)), that was included in the FR Y-9C Supplemental Instructions for December 31, 2006. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_200612.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_200612.pdf)).

### **Tobacco Transition Payment Program**

Holding companies should continue to follow guidance on the tobacco buyout program included in the FR Y-9C Supplemental Instructions for June 30, 2006, which can be accessed via the Federal Reserve's Web site (<http://www.federalreserve.gov/reportforms/supplemental/SI.FRY9.200606.pdf>).

### **Commitments to Originate and Sell Mortgage Loans**

Holding companies should continue to follow the guidance provided on this subject in the FR Y-9C Supplemental Instructions provided for December 31, 2005. These Supplemental Instructions can be accessed via the Federal Reserve's Web site (<http://www.federalreserve.gov/reportforms/supplemental/SI.FRY9.200512.pdf>).

## APPENDIX

Section 214 of EGRRCPA, which includes the definition of “HVCRE ADC Loan,” is as follows:

### **SEC. 214. PROMOTING CONSTRUCTION AND DEVELOPMENT ON MAIN STREET.**

The Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) is amended by adding at the end the following new section:

#### **“SEC. 51. CAPITAL REQUIREMENTS FOR CERTAIN ACQUISITION, DEVELOPMENT, OR CONSTRUCTION LOANS.**

“(a) **IN GENERAL.**—The appropriate Federal banking agencies may only require a depository institution to assign a heightened risk weight to a high volatility commercial real estate (HVCRE) exposure (as such term is defined under section 324.2 of title 12, Code of Federal Regulations, as of October 11, 2017, or if a successor regulation is in effect as of the date of the enactment of this section, such term or any successor term contained in such successor regulation) under any risk-based capital requirement if such exposure is an HVCRE ADC loan.

“(b) **HVCRE ADC LOAN DEFINED.**—For purposes of this section and with respect to a depository institution, the term ‘HVCRE ADC loan’—

“(1) means a credit facility secured by land or improved real property that, prior to being reclassified by

the depository institution as a non-HVCRE ADC loan pursuant to subsection (d)—

“(A) primarily finances, has financed, or refinances the acquisition, development, or construction

of real property;

“(B) has the purpose of providing financing to acquire, develop, or improve such real property into

income-producing real property; and

“(C) is dependent upon future income or sales proceeds from, or refinancing of, such real property

for the repayment of such credit facility;

“(2) does not include a credit facility financing—

“(A) the acquisition, development, or construction of properties that are—

“(i) one- to four-family residential properties;

“(ii) real property that would qualify as an investment in community development; or

“(iii) agricultural land;

“(B) the acquisition or refinance of existing income-producing real property secured by a mortgage

on such property, if the cash flow being generated by the real property is sufficient to support the debt

service and expenses of the real property, in accordance with the institution’s applicable loan underwriting criteria for permanent financings;



“(C) improvements to existing income-producing improved real property secured by a mortgage on such property, if the cash flow being generated by the real property is sufficient to support the debt service and expenses of the real property, in accordance with the institution’s applicable loan underwriting criteria for permanent financings; or

“(D) commercial real property projects in which—

“(i) the loan-to-value ratio is less than or equal to the applicable maximum supervisory loan-to-value ratio as determined by the appropriate Federal banking agency;

“(ii) the borrower has contributed capital of at least 15 percent of the real property’s appraised, ‘as completed’ value to the project in the form of—

“(I) cash;

“(II) unencumbered readily marketable assets;

“(III) paid development expenses out-of-pocket;

or

“(IV) contributed real property or improvements; and

“(iii) the borrower contributed the minimum amount of capital described under clause (ii) before the depository institution advances funds (other than the advance of a nominal sum made facility, in order to secure the depository institution’s lien against the real property) under the credit as a and such minimum amount of capital contributed by the borrower is contractually required to remain in the project until the credit facility has been reclassified by the depository institution

non-HVCRE ADC loan under subsection (d);

“(3) does not include any loan made prior to January 1, 2015; and

“(4) does not include a credit facility reclassified as a non-HVCRE ADC loan under subsection

(d).

“(c) VALUE OF CONTRIBUTED REAL PROPERTY.—For purposes of this section, the value of any

real property contributed by a borrower as a capital contribution shall be the appraised value of the property as determined under standards prescribed pursuant to section 1110 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3339), in connection with the extension of the credit facility or loan to such borrower.

“(d) RECLASSIFICATION AS A NON-HVCRE ADC LOAN.—For purposes of this section and with respect to a credit facility and a depository institution, upon—

“(1) the substantial completion of the development or construction of the real property being financed

by the credit facility; and

“(2) cash flow being generated by the real property being sufficient to support the debt service and

expenses of the real property, in accordance with the institution’s applicable loan underwriting criteria for

permanent financings, the credit facility may be reclassified by the depository institution as a Non- HVCRE

ADC loan.

“(e) EXISTING AUTHORITIES.—Nothing in this section shall limit the supervisory, regulatory, or enforcement authority of an appropriate Federal banking agency to further the safe and sound operation of an institution under the supervision of the appropriate Federal banking agency.”.

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