

## SUPPLEMENTAL INSTRUCTIONS

### December 2019 Call Report Materials

*There are no new Call Report data items in the FFIEC 031, FFIEC 041, or FFIEC 051 Call Report forms this quarter. One new topic has been added to the Supplemental Instructions for December 2019, "Technical Amendments to the Banking Agencies' Regulatory Capital Rule," which includes information on an instructional clarification that revises the calculation applicable to an item in Schedule RC-R, Part I.*

Separate updates to the instruction book for the FFIEC 051 Call Report and the instruction book for the FFIEC 031 and FFIEC 041 Call Reports for December 2019 are available for printing and downloading from the FFIEC's website ([https://www.ffiec.gov/ffiec\\_report\\_forms.htm](https://www.ffiec.gov/ffiec_report_forms.htm)) and the FDIC's website (<https://www.fdic.gov/callreports>). Sample FFIEC 051, FFIEC 041, and FFIEC 031 Call Report forms, including the cover (signature) page, for December 2019 also can be printed and downloaded from these websites. In addition, institutions that use Call Report software generally can print paper copies of blank forms from their software. Please ensure that the individual responsible for preparing the Call Report at your institution has been notified about the electronic availability of the December 2019 report forms, instruction book updates, and these Supplemental Instructions. The locations of changes to the text of the previous quarter's Supplemental Instructions (except references to the quarter-end report date) are identified by a vertical line in the right margin.

### Submission of Completed Reports

Each institution's Call Report data must be submitted to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>), using one of the two methods described in the banking agencies' Financial Institution Letter (FIL) for the December 31, 2019, report date. The CDR Help Desk is available from 9:00 a.m. until 8:00 p.m., Eastern Time, Monday through Friday, to provide assistance with user accounts, passwords, and other CDR system-related issues. The CDR Help Desk can be reached by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at [CDR.Help@ffiec.gov](mailto:CDR.Help@ffiec.gov).

Institutions are required to maintain in their files a signed and attested hard-copy record of the Call Report data file submitted to the CDR. The appearance of this hard-copy record of the submitted data file need not match exactly the appearance of the sample report forms on the FFIEC's website, but the hard-copy record should show at least the caption of each Call Report item and the reported amount. A copy of the cover page printed from Call Report software or from the FFIEC's website should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the hard-copy record of the Call Report data file that must be placed in the institution's files.

Currently, Call Report preparation software products marketed by (in alphabetical order) Axiom Software Laboratories, Inc.; DBI Financial Systems, Inc.; Fed Reporter, Inc.; FIS Compliance Solutions; FiServ, Inc.; KPMG LLP; SHAZAM Core Services; Vermeg (formerly Lombard Risk); and Wolters Kluwer Financial Services meet the technical specifications for producing Call Report data files that are able to be processed by the CDR. Contact information for these vendors is provided on the final page of these Supplemental Instructions.

### Technical Amendments to the Banking Agencies' Regulatory Capital Rule

The banking agencies' [capital simplifications final rule](#), which was published July 22, 2019, included technical amendments to the agencies' regulatory capital rule (for national banks and federal savings associations, [12 CFR Part 3](#); for state member banks, [12 CFR Part 217](#); and for state nonmember banks and state savings associations, [12 CFR Part 324](#)). These amendments took effect October 1, 2019, and made certain technical corrections and clarifications to the capital rule.

The final rule clarifies the definition of "eligible retained income," which is reported in Schedule RC-R, Part I, item 47, if the amount of the capital conservation buffer reported in Schedule RC-R, Part I, item 46 on the

FFIEC 051, item 46.a on the FFIEC 031 and the FFIEC 041, in general, is less than or equal to the required minimum capital conservation buffer of 2.5000 percent. The Call Report instruction book updates for this quarter include clarified instructions for item 47 that result in a revision of the calendar quarters upon which the eligible retained income to be reported in item 47 should be based. The clarified instructions state, for example, that the amount of eligible retained income an institution would report in item 47 for the December 31, 2019, report date should be based on the net income attributable to the institution for the four calendar quarters ending on December 31, 2019.

In addition, the final rule adds the European Stability Mechanism and the European Financial Stability Facility to the list of entities for which exposures to, and the portions of exposures guaranteed by, the entity receive a zero percent risk weight. This risk weight applies to the reporting of such exposures for the December 31, 2019, report date. The “Summary of Risk Weights for Exposures to Government and Public Sector Entities” in the General Instructions for Schedule RC-R, Part II, will be updated to reflect this addition at a future date.

### **Small Bank Assessment Credits**

As of September 30, 2018, the Deposit Insurance Fund (DIF) reserve ratio, the balance of the DIF as a percentage of estimated insured deposits, reached 1.36 percent, exceeding the statutorily required minimum reserve ratio of 1.35 percent. Under FDIC regulations issued pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, all insured depository institutions that were assessed as small institutions (generally, those with total consolidated assets of less than \$10 billion) at any time during the period from July 1, 2016, through September 30, 2018, were awarded assessment credits (“small bank assessment credits”) for the portion of their assessments that contributed to the growth in the reserve ratio from the former minimum of 1.15 percent to 1.35 percent. The FDIC notified all such eligible institutions of their respective assessment credit amounts in January 2019.

As amended November 27, 2019, FDIC regulations further provide that, effective as of July 1, 2019, the FDIC will automatically apply small bank assessment credits up to the full amount of an institution’s credits or its quarterly deposit insurance assessment, whichever is less, starting in the first quarterly assessment period in which the DIF reserve ratio is at least 1.38 percent and in each of the next three assessment periods thereafter in which this ratio is at least 1.35 percent. After assessment credits have been applied for four quarterly assessment periods, the FDIC will remit the full nominal value of an institution’s remaining assessment credits, if any, in a single lump-sum payment to the institution in the next assessment period in which the DIF reserve ratio is at least 1.35 percent. The amended FDIC regulations are expected to result in more stable and predictable application of credits to quarterly assessments, permitting insured depository institutions to better budget for their assessment cash flow.

With the DIF reserve ratio reaching 1.40 percent as of June 30, 2019, the FDIC first applied small bank assessment credits to offset institutions’ second quarter 2019 deposit insurance assessments, which were due September 30, 2019. The reserve ratio increased to 1.41 percent as of September 30, 2019. Therefore, the FDIC automatically applied small bank assessment credits to offset institutions’ third quarter 2019 deposit insurance assessments, which were due December 30, 2019. When an institution that was awarded small bank assessment credits prepares its Call Report for December 31, 2019, it should offset (i.e., reduce) its deposit insurance assessment expense accruals for the second and third quarters of 2019 by the amount of assessment credits the FDIC applied against its deposit insurance assessments for these two quarters. Furthermore, consistent with the FDIC’s amended assessment regulations governing the use of small bank assessment credits and considering the level and trend of the DIF reserve ratio, an institution awarded small bank assessment credits also may offset (i.e., reduce) the deposit insurance assessment expense it has accrued for the fourth quarter of 2019 by the remaining amount of its assessment credits or its assessment expense for the quarter, whichever is less, when it prepares its December 31, 2019, Call Report. Thus, the institution would include the amount of deposit insurance assessment expense accrued for the four quarters of 2019, net of the assessment credits applied or to be applied for the second, third, and fourth quarters of 2019, in Schedule RI, item 7.d, and, if applicable, Schedule RI-E, item 2.g, of the Call Report for December 31, 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 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, such as the [final rule](#) on the regulatory capital treatment for HVCRE exposures published on December 13, 2019, and effective on April 1, 2020. However, institutions will not be required to amend Call Reports previously filed for report dates on or after June 30, 2018, as these estimates are adjusted, and institutions are not required to incorporate information contained in the final rule into their reporting and risk weighting of HVCRE exposures until report dates after the April 1, 2020, effective date of the [final rule](#).

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 June 30, 2020, report date when the agencies’ [final rule](#) amending their regulatory capital rule revising the definition of an HVCRE exposure to conform to the statutory definition of an “HVCRE ADC loan” takes effect for reporting purposes. For more detail, see the agencies’ [final rule](#) published on December 13, 2019.

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 Call Report 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 Call Report 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 Call Report 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 Tax Cuts and Jobs Act

On January 18, 2018, the banking agencies issued an [Interagency Statement on Accounting and Reporting Implications of the New Tax Law](#). The tax law 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 ASC Topic 740, Income Taxes, the effects of the Act were to be recorded in an institution's Call 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 were to be reflected in an institution's income tax expense in the period of enactment, i.e., the year-end 2017 Call Report. Institutions 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 Call Report 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 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. An institution 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 Call 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).

An institution 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 Call Report Schedule RI-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 difference 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 an institution has paid federal income taxes for the current tax year, if all federal temporary differences were to fully reverse as of the 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 institutions that are public business entities, as defined under U.S. GAAP, ASU 2017-07 is currently 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, 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 Call Report instructions for further information on these terms.

For Call Report purposes, an institution 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 RI, item 7.a, “Salaries and employee benefits.” The other cost components of net benefit cost should be reported in Schedule RI, 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 FASB issued 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, an 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, institutions will use a broader range of data than under existing U.S. 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 measured at amortized cost (including loans held for investment and held-to-maturity debt securities, as well as trade receivables, reinsurance recoverables, 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 AFS debt securities. Under the new standard, institutions 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.

On November 15, 2019, the FASB issued ASU No. 2019-10 to defer the effective dates of ASU 2016-13 for certain institutions. Under this ASU, for institutions that are U.S. Securities and Exchange Commission (SEC) filers, excluding those that are “smaller reporting companies” as defined in the SEC’s rules, ASU 2016-13 continues to be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, i.e., January 1, 2020, for such entities with calendar year fiscal years. For all other entities, including those SEC filers that are smaller reporting companies, ASU 2016-13 now will take effect for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, i.e., January 1, 2023, for such entities with calendar year fiscal years. For all institutions, early application of the new credit losses 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 Call Report purposes in accordance with the effective dates set forth in the ASU as amended in November 2019. 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 Call Report purposes.

The agencies revised several Call Report schedules as of the March 31, 2019, report date in response to the revised accounting for credit losses under ASU 2016-13 (see [FIL-10-2019](#), dated March 6, 2019). The



Call Report revisions also included reporting changes to Call Report Schedule RC-R, Regulatory Capital, to align the schedule with the agencies' [final rule](#) that amends their regulatory capital rule for the implementation of and capital transition for CECL. This final capital rule for CECL was published on February 14, 2019.

For additional information, institutions should refer to the agencies' [Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses](#), which were most recently updated on April 3, 2019; the agencies' 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). Since the issuance of ASU 2016-13, the FASB has published the following amendments to the new credit losses accounting standard:

- ASU 2018-19, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” 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);
- ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,” 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);
- ASU 2019-05, “Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief,” 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);
- ASU 2019-10, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,” available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176173775344&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176173775344&acceptedDisclaimer=true); and
- ASU 2019-11, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses,” available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176173831330&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176173831330&acceptedDisclaimer=true).

### Accounting for Hedging Activities

In August 2017, the FASB issued ASU No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities.” This ASU amends 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 institutions that are public business entities, as defined under U.S. GAAP, ASU 2017-12 is currently in effect. For institutions that are not public business entities (i.e., that are private companies), the FASB issued ASU 2019-10 on November 15, 2019, to defer the effective date of ASU 2017-12 by one year. As amended by ASU 2019-10, ASU 2017-12 will take effect for entities that are not public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

Early application of ASU 2017-12 is permitted for all institutions in any interim period or fiscal year before the effective date of the ASU. Further, ASU 2017-12 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 ASU 2017-12 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 an institution 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. An institution 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 Call Report purposes.

The Call Report instructions, including the Glossary entry for “Derivative Contracts,” will be revised to conform to the ASU at a future date.

For additional information, institutions 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); and ASU 2019-10, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815),

and Leases (Topic 842): Effective Dates,” which is available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176173775344&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176173775344&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 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 identify 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 stock and Federal Reserve Bank stock.

For institutions 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 institutions that are not public business entities as described in the ASU. Institutions must apply ASU 2016-01 for Call Report purposes in accordance with the effective dates set forth in the ASU. Institutions with a calendar year fiscal year that are not public business entities (and did not early adopt ASU 2016-01) must first report their investments in equity securities in accordance with the ASU in the Call Report for December 31, 2019.

With the elimination of AFS equity securities upon an institution’s adoption of ASU 2016-01, the amount of net unrealized gains (losses) on these securities, net of tax effect, that is included in AOCI on the Call Report balance sheet (Schedule RC, 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 RC, item 26.a). For an institution with a calendar year fiscal year that is not a public business entity (and did not early adopt ASU 2016-01), the adoption date is January 1, 2019. Thereafter, changes in the fair value of (i.e., the unrealized gains and losses on) an institution’s equity securities that would have been classified as AFS under previous U.S. GAAP will be recognized through net income rather than other comprehensive income (OCI). For an institution’s holdings of equity securities without readily determinable fair values as of the adoption date for which the measurement alternative is elected, the measurement provisions of the ASU are to be applied prospectively to these securities.

An institution with a calendar year fiscal year that is not a public business entity, did not early adopt ASU 2016-01, and must first report its investments in equity securities in accordance with the ASU in the Call Report for December 31, 2019, should report the fair value of its equity securities with readily determinable fair values not held for trading in Schedule RC, item 2.c, and leave Schedule RC-B, item 7, columns C and D, blank. If the institution is an insured state bank that has received FDIC approval in accordance with Section 362.3(a) of the FDIC’s regulations to hold certain equity investments (“grandfathered equity securities”), it also must report the cost basis of all equity securities with readily determinable fair values not held for trading (that are reported in Schedule RC, item 2.c) in Schedule RC-M, item 4. Otherwise, the institution should leave Schedule RC-M, item 4, blank. The institution should continue to report its equity securities and other equity investments without readily determinable fair values not held for trading in Schedule RC-F, item 4, or in Schedule RC, item 9, “Direct and indirect investments in real estate venture,” as applicable. In addition, the institution should report the following in Schedule RI, item 8.b, “Unrealized holding gains (losses) on equity securities not held for trading,” in its year-end 2019 Call Report:

- Unrealized holding gains (losses) before applicable income taxes, if any, during the January 1 through December 31, 2019, reporting period on equity securities with readily determinable fair values not held for trading. Because these equity securities were previously reported as available-for-sale equity securities in the Call Report, the year-to-date unrealized holding gains (losses) on these securities, net of applicable income taxes, if any, were reported in Schedule RI-A, item 10, “Other comprehensive income,” in the Call Report for September 30, 2019. No unrealized holding gains (losses) on available-for-sale equity securities should be reported in Schedule RI-A, item 10, in the Call Report for December 31, 2019.
- Unrealized holding gains (losses) during the January 1 through December 31, 2019, reporting period on equity securities and other equity investments without readily determinable fair values not held for trading that are measured at fair value through earnings. Also include in Schedule RI, item 8.b, impairment, if any, plus or minus changes resulting from observable price changes during the January 1 through December 31, 2019, reporting period on equity securities and other equity investments without readily determinable fair values not held for trading for which this measurement election is made. Year-to-date other-than temporary impairment losses on equity securities and other equity investments without readily determinable fair values not held for trading (including those reported in Schedule RC, item 9) that were reported in Schedule RI, item 5.k, in the Call Report for September 30, 2019, should be excluded from item 5.k in the Call Report for December 31, 2019, when the valuation changes on such equities during 2019 described in the two preceding sentences must be reported in Schedule RI, item 8.b.
- Realized gains (losses) on equity securities and other equity investments not held for trading during the January 1 through December 31, 2019, reporting period. Year-to-date realized gains (losses) on such equities (including those reported in Schedule RC, item 9) that were reported in Schedule RI, items 6.b and 5.k, as applicable, in the Call Report for September 30, 2019, should be excluded from these items and included in the amount reported in Schedule RI, item 8.b, in the Call Report for December 31, 2019.

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). Institutions may also refer to the Glossary entry for “Securities Activities” in the Call Report instruction books, which was updated in September 2019 in response to the changes in the accounting for investments in equity securities summarized above.

### **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 2016-01 requires an institution to present separately in 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 institution has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Until an institution adopts the own credit risk provisions of the ASU, U.S. GAAP requires the institution 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). An institution 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 entities 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 Call Report purposes.

When an institution 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 RC, item 26.a, “Retained earnings,” to Schedule RC, item 26.b, “Accumulated other comprehensive income.” If an institution



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 Call Report income statement during the interim period(s) before the interim period of adoption should be reclassified from earnings to OCI. In the Call Report, this reclassification would be from Schedule RI, item 5.I, "Other noninterest income," and Schedule RI, item 9, "Applicable income taxes," to Schedule RI-A, item 10, "Other comprehensive income," with a corresponding reclassification from Schedule RC, item 26.a, to Schedule RC, item 26.b.

A similar approach would apply to an institution with a calendar year fiscal year that is not a public business entity, did not early adopt the own credit risk provisions of ASU 2016-01, and must first report the changes in the instrument-specific credit risk of fair value option liabilities in accordance with the ASU in the Call Report for December 31, 2019. Such an institution should reclassify any year-to-date unrealized gains and losses due to changes in own credit risk and the related tax effects that were included in Schedule RI, item 5.I, "Other noninterest income," and Schedule RI, item 9, "Applicable income taxes," respectively, in the September 30, 2019, Call Report to Schedule RI-A, item 10, "Other comprehensive income," in the Call Report for December 31, 2019. The institution also must include the changes during the fourth quarter of 2019 in the instrument-specific credit risk of fair value option liabilities, net of applicable income taxes, in the amount of OCI reported in Schedule RI-A, item 10, as of December 31, 2019.

Additionally, for purposes of reporting on Schedule RC-R, Part I, institutions 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 institution's own credit risk. Institutions should note that this AOCI amount is included in the amount reported in Schedule RC-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). In addition, the instructions for certain data items in Schedules RI, RI-A, and RC were updated in the Call Report instruction books in September 2019 in response to the change in accounting for own credit risk on fair value option liabilities.

### **New Revenue Recognition Accounting Standard**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which added ASC Topic 606, Revenue from Contracts with Customers. 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 an institution'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 institutions 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 was included in the Call Report instruction book updates for September 2018.

For institutions that are public business entities, as defined under U.S. GAAP, the new standard is currently in effect. 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, 2018, and interim reporting periods within fiscal years beginning after December 15, 2019. Early application of the new standard is permitted as described in the standard. Institutions that are private companies with a calendar year fiscal year (that did not early adopt the new standard) must first report revenue in accordance with the standard in the Call Report for December 31, 2019.

An institution that early adopts the new standard must apply it in its entirety. The institution cannot choose to apply the guidance to some revenue streams and not to others that are within the scope of the new standard.

If an institution chooses to early adopt the new standard for financial reporting purposes, the institution should implement the new standard in its Call Report for the same quarter-end report date.

For Call Report purposes, an institution must apply the new standard on a modified retrospective basis as of the effective date of the standard. Under the modified retrospective method, an institution should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the fiscal year the new standard is first adopted for Call Report purposes (i.e., as of January 1, 2019, for an institution that is a private company with a calendar year fiscal year that did not early adopt the new standard). In its Call Report for December 31, 2019, an institution that is a private company with a calendar year fiscal year that did not early adopt the new standard should report revenue for the entire calendar year (January 1 through December 31, 2019) in accordance with this new standard even though the year-to-date revenue it reported in its Call Report for September 30, 2019, was recognized in accordance with previous U.S. GAAP. The cumulative-effect adjustment to retained earnings for this change in accounting principle as of January 1, 2019, should be reported in Schedule RI-A, item 2, of the December 31, 2019, Call Report.

For additional information, institutions 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 an institution'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 Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the new standard, an institution will recognize the entire gain or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of Topic 606. Otherwise, an institution will generally 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, an institution 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 institution 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 Call Report instruction books, which was updated in March 2017 to incorporate guidance on the application of the new standard to sales of OREO.

Under Topic 610, when an institution does not have a controlling financial interest in the OREO buyer under Topic 810, Consolidation, the institution'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 institution 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 selling institution 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 institution's continuing involvement with the property following the transaction.

If the five contract criteria in Topic 606 have not been met, the institution generally may not derecognize the OREO asset or recognize revenue (gain or loss) as an accounting sale has not occurred. In contrast, if an institution 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. For seller-financed sales of OREO, the transfer of control generally occurs on the closing date of the sale when the institution obtains the right to receive payment for the property and transfers legal title to the buyer. However, an institution must consider all relevant facts and circumstances to determine whether control of the OREO has transferred.

When a contract exists and an institution has transferred control of the asset, the institution 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 at market terms. However, the transaction price may differ from the amount stated in the contract due to the existence of off-market terms on the financing. In this situation, to determine the transaction price, the contract amount should be adjusted for the time value of money 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 on the new revenue recognition accounting standard, for Call Report purposes, an institution 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, an institution 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 first adopted for Call Report purposes (i.e., as of January 1, 2019, for an institution that is a private company with a calendar year fiscal year that did not early adopt the new standard). In its Call Report for December 31, 2019, an institution that is a private company with a calendar year fiscal year that did not early adopt the new standard should recognize and report revenue (gains and losses) on OREO transfers accounted for as sales in accordance with the new standard over the entire calendar year (January 1 through December 31, 2019) even though the year-to-date revenue on OREO transfers it reported in its Call Report for September 30, 2019, was recognized in accordance with previous U.S. GAAP. The cumulative-effect adjustment to retained earnings for this change in accounting principle as of January 1, 2019, should be reported in Schedule RI-A, item 2, of the December 31, 2019, Call Report.

### **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 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 U.S. 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 institution adopts the new accounting standard.

For institutions that are public business entities, as defined under U.S. GAAP, ASU 2016-02 is currently in effect. For institutions that are not public business entities, the FASB issued ASU 2019-10 on November 15, 2019, to defer the effective date of ASU 2016-02 by one year. As amended by ASU 2019-10, ASU 2016-02 will take effect for entities that are not public business entities for fiscal years beginning after December 15, 2020, and interim reporting periods within fiscal years beginning after December 15, 2021. An institution that early adopts the new standard must apply it in its entirety to all lease-related transactions. If an institution chooses to early adopt the new standard for financial reporting purposes, the institution should implement the new standard in its Call 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 Call Report 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 Call Report purposes (net of applicable income taxes, if any) as a direct adjustment to equity capital in the Call Report. 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 RI-A, item 2, and disclosed in Schedule RI-E, item 4.b, “Effect of adoption of lease accounting standard - ASC Topic 842.” 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 Call Report 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 Call Report 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 RC, 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. On October 4, 2019, the agencies requested public comment on this proposed change in reporting with a proposed effective date of March 31, 2020. However, until this proposed change takes effect, the agencies will permit institutions to report the lease liability for operating leases in either Schedule RC-G, item 4, “All other liabilities,” or Schedule RC-M, item 5.b, “Other borrowings.” If an institution chooses the latter reporting treatment, the amount of operating lease liabilities reported in Schedule RC-M, item 5.b, should also be reported in Schedule RC-M, item 10.b, “Amount of ‘Other borrowings’ that are secured,” consistent with the current Call Report instructions for reporting obligations under capital leases, and this amount should not be reported in Schedule RC-O, item 7, as “Unsecured ‘Other borrowings’.” An institution may choose to amend the reporting of operating lease liabilities in its Call Reports for previous report dates in 2019 consistent with this supplemental instruction. The agencies do not plan to make any changes to the reporting for a lessee’s finance leases, the lease liabilities for which should be reported in Schedule RC-M, items 5.b and 10.b.

Regardless of a lessee institution's balance sheet treatment of operating lease liabilities, a lessee should report a single lease cost for an operating lease in the Call Report income statement, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, in Schedule RI, 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 RI in item 2.c, "Other interest expense," on the FFIEC 051 and in item 2.c, "Interest on trading liabilities and other borrowed money," on the FFIEC 031 and the FFIEC 041. The amortization expense should be reported on Schedule RI 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, institutions 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.

### Amending Previously Submitted Report Data

Should your institution find that it needs to revise previously submitted Call Report data, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' FIL for the December 31, 2019, report date. For technical assistance with the submission of amendments to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at [CDR.Help@ffiec.gov](mailto:CDR.Help@ffiec.gov).

### Other Reporting Matters

For the following topics, institutions should continue to follow the guidance in the specified Call Report Supplemental Instructions:

- "Purchased" Loans Originated By Others – Supplemental Instructions for September 30, 2015 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201509.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201509.pdf))
- True-up Liability under an FDIC Loss-Sharing Agreement – Supplemental Instructions for June 30, 2015 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201506.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201506.pdf))
- Troubled Debt Restructurings, Current Market Interest Rates, and ASU No. 2011-02 – Supplemental Instructions for December 31, 2014 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201412.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201412.pdf))
- Determining the Fair Value of Derivatives – Supplemental Instructions for June 30, 2014 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201406.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201406.pdf))
- Indemnification Assets and ASU No. 2012-06 – Supplemental Instructions for June 30, 2014 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201406.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201406.pdf))
- Other-Than-Temporary Impairment of Debt Securities – Supplemental Instructions for June 30, 2014 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201406.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201406.pdf))
- Small Business Lending Fund – Supplemental Instructions for March 31, 2013 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201303.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201303.pdf))



- Reporting Purchased Subordinated Securities in Schedule RC-S – Supplemental Instructions for September 30, 2011  
([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201109.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201109.pdf))
- Treasury Department’s Capital Purchase Program – Supplemental Instructions for September 30, 2011  
([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201109.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201109.pdf))
- Deposit insurance assessments – Supplemental Instructions for September 30, 2009  
([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200909.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200909.pdf))
- Accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* – Supplemental Instructions for December 31, 2006  
([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200612.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200612.pdf))
- Commitments to originate and sell mortgage loans – Supplemental Instructions for March 31, 2006  
([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200603.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf)) and June 30, 2005  
([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200506.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf))

**Call Report Software Vendors**

For information on available Call Report preparation software products, institutions should contact:

Axiom Software Laboratories, Inc.  
67 Wall Street, 17th Floor  
New York, New York 10005  
Telephone: (212) 248-4188  
<http://www.axiomsl.com>

DBI Financial Systems, Inc.  
P.O. Box 14027  
Bradenton, Florida 34280  
Telephone: (800) 774-3279  
<http://www.e-dbi.com>

Fed Reporter, Inc.  
28118 Agoura Road, Suite 202  
Agoura Hills, California 91301  
Telephone: (888) 972-3772  
<http://www.fedreporter.net>

FIS Compliance Solutions  
16855 West Bernardo Drive,  
Suite 270  
San Diego, California 92127  
Telephone: (800) 825-3772  
<http://www.callreporter.com>

FiServ, Inc.  
1345 Old Cheney Road  
Lincoln, Nebraska 68512  
Telephone: (402) 423-2682  
<http://www.premier.fiserv.com>

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## 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 in order to secure the depository institution’s lien against the real property) under the credit facility, 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 as a 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.”.