Board of Governors of the Federal Reserve System

Supplemental Instructions

December 2020 FR Y-9C Materials

There are new FR Y-9C data items in the report form for this quarter related to the Stress Capital Buffer on Schedule HC-R, Regulatory Capital, in addition to a new confidentiality checkbox on the FR Y-9SP and FR Y-9ES. A new topic has been added to the Supplemental Instructions for December 2020 on “Home Equity Lines of Credit That Convert From Revolving to Non-Revolving Status.” The following topics have been removed from the Supplemental Instructions this quarter:

- “Uncollectible Accrued Interest Receivable under ASC Topic 326” – This information is included in the FR Y-9C report instruction book updates for December 2020.
- “Recognition and Measurement of Financial Instruments: Investments in Equity Securities” and “Recognition and Measurement of Financial Instruments: Fair Value Option Liabilities” – Accounting Standards Update (ASU) No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities," which addresses the accounting for these securities and liabilities, is in effect for all institutions as of year-end 2020; certain information on these subjects is already included in the FR Y-9C report instructions with further guidance included in this quarter’s FR Y-9C report instructions updates.

In addition, Appendix I of these Supplemental Instructions provides information on certain sections of the CARES Act that affect accounting and regulatory reporting. This Appendix was initially added to the Supplemental Instructions for March 2020, and it has been updated this quarter for the effect of extensions to expiring CARES Act provisions related to troubled debt restructurings and the current expected credit losses methodology (CECL) that are included in the Consolidated Appropriations Act, 2021. A new Appendix II has been added this quarter to describe an adjustment to the measurement date for reporting the FR Y-9C and for certain total asset thresholds that trigger additional reporting requirements for report dates in 2021 only and to the $10 billion total asset threshold for the use of the community bank leverage ratio framework from December 31, 2020, through December 31, 2021.

Board's Recent COVID-19 Related Activities Affecting the FR Y-9C

In light of the disruptions in economic conditions caused by the Coronavirus Disease 2019 (COVID-19), the Board and other federal banking agencies issued interim final rules (IFRs) and final rules from March through June 2020 that revise certain aspects of the agencies' regulatory capital rule, and amended the Federal Reserve Board's (Board) Regulation D on reserve requirements. During the third quarter of 2020, the agencies finalized several of the capital-related interim IFRs with no changes or only limited changes. In addition, Section 4013 of the Corona Virus Aid Relief and Economic Security Act (CARES Act), as amended by Section 541 of the Consolidated Appropriations Act, 2021, provides optional temporary relief from accounting for eligible loan modifications as troubled debt restructurings, which the agencies discussed in an Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued April 7, 2020. The Board has revised the FR Y-9C report to implement changes arising from the rules mentioned above and Section 4013 of the CARES Act. The reporting changes either took effect as of March 31, 2020 and June 30, 2020, and these changes were finalized by the Board in December 2020.

The subjects of the regulatory capital-related rulemakings are:

- The definition of "eligible retained income;"
- Assets purchased through the Money Market Mutual Fund Liquidity Facility;
- An optional five-year regulatory capital transition for the effect of adopting the current expected credit losses methodology (CECL) in 2020;
- Temporary changes to and transition for the community bank leverage ratio framework; and
- Paycheck Protection Program Liquidity Facility and Paycheck Protection Program loans.

Separate stand-alone December 2020 COVID-19 Related Supplemental Instructions for implementing these rulemaking and Section 4013 of the CARES Act in the FR Y-9C for December 31, 2020, will be posted on the Federal Reserve reporting forms website. The Board has approved and finalized the reporting changes arising from these rules.

Home Equity Lines of Credit That Convert From Revolving to Non-Revolving Status

The instructions for Schedule HC-C, Part I, item 1.c, on loans secured by 1-to-4 family residential properties explain that a home equity line of credit (HELOC) is a revolving, open-end line of credit secured by a lien on a 1-to-4 family residential property that generally provides a draw period followed by a repayment period. During the draw period, a borrower has revolving access to unused amounts under a specified open-end line of credit. During the repayment period, the credit becomes non-revolving, the borrower can no longer draw on the line of credit, and the outstanding principal is either due immediately in a balloon payment or repaid over the remaining term through monthly payments. As previously approved by the Board,[1] instructional revisions and a new item on Schedule HC-C, Part I, Memorandum related to HELOCs that have

[1] See 85 FR 18230 (April 1, 2020)

converted to non-revolving status will take effect in 2021.

Beginning as of the March 31, 2021, report date, all holding companies must report HELOCs that convert to non-revolving, closed-end status on or after January 1, 2021, as open-end loans in Schedule HC-C, Part I, item 1.c.(1). A holding company that reported HELOCs that converted to non-revolving status as open-end loans in its FR Y-9C report for the December 31, 2020, and earlier report dates should continue to do so. A holding company that, as of March 31, 2020, reported HELOCs that converted to non-revolving status as closed-end loans in Schedule HC-C, Part I, items 1.c.(2)(a) or 1.c.(2)(b), as appropriate, may continue to report HELOCs that converted on or before December 31, 2020, as closed-end loans in its FR Y-9C reports for the March 31, 2021, and subsequent report dates. Alternatively, the holding company may choose to begin reporting some or all of these closed-end HELOCs as open-end loans in item 1.c.(1) as of the March 31, 2020, or any subsequent report date, provided this reporting treatment is consistently applied.

New Memorandum item 15, "Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit (in domestic offices) that have converted to non-revolving closed-end status," is being added to Schedule HC-C, Part I. Memorandum item 15 will be collected quarterly in the FR Y-9C report beginning as of the March 31, 2021, report date. Holding companies would report in Memorandum item 15 the amount of loans included in Schedule HC-C, Part I, item 1.c.(1), that have converted to non-revolving, closed-end status, but originated as draws under revolving, open-end lines of credit secured by 1-to-4 family residential properties, including those for which the draw periods have ended.

Reference Rate Reform

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The ASU states that "[r]eference rates such as the London Interbank Offered Rate (LIBOR) are widely used in a broad range of financial instruments and other agreements. Regulators and market participants in various jurisdictions have undertaken efforts, generally referred to as reference rate reform, to eliminate certain reference rates and introduce new reference rates that are based on a larger and more liquid population of observable transactions. As a result of this initiative, certain widely used reference rates such as LIBOR are expected to be discontinued."

The ASU provides optional expedients for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In particular, the expedients in the ASU are available to be elected by all institutions, subject to meeting certain criteria, for contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform.

With respect to contracts, the ASU applies to contract modifications that replace a reference rate affected by reference rate reform (including rates referenced in fallback provisions) and contemporaneous modifications of other contract terms related to the replacement of the reference rate (including contract modifications to add or change fallback provisions). The ASU

provides optional expedients for applying Accounting Standards Codification (ASC) requirements in the following areas:

- ASC Topics 310, Receivables, and 470, Debt: Modifications of contracts within the scope of these topics should be accounted for by prospectively adjusting the effective interest rate.
- ASC Topics 840, Leases, and 842, Leases: Modifications of contracts within the scope of these topics should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate (for example, the incremental borrowing rate) or remeasurements of lease payments that otherwise would be required under these topics for modifications not accounted for as separate contracts.
- ASC Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives: Modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under this subtopic.

For other topics in the ASC, the ASU states a general principle that permits an institution to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. When elected, an institution must apply the optional expedients for contract modifications consistently for all eligible contracts or eligible transactions within the relevant ASC topic that contains the guidance that otherwise would be required to be applied.

In addition, the ASU provides exceptions to the guidance in Topic 815, Derivatives and Hedging, related to changes to the critical terms of a hedging relationship due to reference rate reform. The ASU includes examples of changes to these terms that should not result in the dedesignation of the hedging relationship if certain criteria are met. The ASU also provides optional expedients for fair value hedging relationships, cash flow hedging relationships, and net investment hedging relationships for which the component excluded from the assessment of hedge effectiveness is affected by reference rate reform. If certain criteria are met, other optional expedients apply to cash flow hedging relationships affected by reference rate reform and to fair value hedging relationships for which the derivative designated as the hedging instrument is affected by reference rate reform. The optional expedients for hedging relationships may be elected on an individual hedging relationship basis.

Finally, the ASU permits institutions to make a one-time election to sell, transfer, or both sell and transfer held-to-maturity debt securities that reference a rate affected by reference rate reform and were classified as held-to-maturity before January 1, 2020.

The ASU is effective for all institutions as of March 12, 2020, through December 31, 2022. For additional information, institutions should refer to ASU 2020-04, which is available at https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176174318625&acceptedDisclai mer=true.

Nonaccrual Treatment for Purchased Credit-Deteriorated (PCD) Assets

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 concept of PCD assets. PCD assets are acquired financial assets that, at acquisition, have experienced more-than-insignificant deterioration in credit quality since origination. When recording the acquisition of PCD assets, the amount of expected credit losses as of the acquisition date is recorded as an allowance and added to the purchase price of the assets rather than recording these acquisition date expected credit losses through provisions for credit losses. The sum of the purchase price and initial allowance for credit losses establishes the amortized cost basis of the PCD assets at acquisition. Any difference between the unpaid principal balance of the PCD assets and the amortized cost basis of the assets as of the acquisition date is the noncredit discount or premium. The initial allowance for credit losses and noncredit discount or premium determined on a collective basis at that acquisition date are allocated to the individual PCD assets.

After acquisition, the noncredit discount or premium recorded at acquisition is accreted into interest income over the remaining lives of the PCD assets on a level-yield basis. However, if a PCD asset is placed in nonaccrual status, ASC paragraph 310-20-35-17 requires holding companies to cease accreting the noncredit discount or premium into interest income.

The current instructions for Schedule HC-N provide an exception to the criteria for placing financial assets in nonaccrual status for purchased credit-impaired (PCI) assets. However, the Schedule HC-N instructions indicate that this nonaccrual exception for PCI assets was not extended to PCD assets: "For purchased credit-deteriorated loans, debt securities, and other financial assets that fall within the scope of ASU 2016-13, nonaccrual status should be determined and subsequent nonaccrual treatment, if appropriate, should be applied in the same manner as for other financial assets held by a holding company."

For purposes of the FR Y-9C, if a holding company has adopted ASU 2016-13 and has a PCD asset, including a PCD asset that was previously a PCI asset or part of a pool of PCI assets, that would otherwise be required to be placed in nonaccrual status (see the Glossary entry for "Nonaccrual status"), the holding company may elect to continue accruing interest income and not report the PCD asset as being in nonaccrual status if the following criteria are met:

(1) The holding company reasonably estimates the timing and amounts of cash flows expected to be collected, and
(2) The holding company did not acquire the asset primarily for the rewards of ownership of the underlying collateral, such as use of collateral in operations of the holding company or improving the collateral for resale.

When a PCD asset that meets the criteria above is not placed in nonaccrual status, the asset should be subject to other alternative methods of evaluation to ensure that the holding company's net income is not materially overstated. Further, a holding company is not permitted to accrete the credit-related discount embedded in the purchase price of a PCD asset that is attributable to the acquirer's assessment of expected credit losses as of the date of acquisition (i.e., the

contractual cash flows the acquirer did not expect to collect at acquisition). Interest income should no longer be recognized on a PCD asset to the extent that the net investment in the asset would increase to an amount greater than the payoff amount. If a holding company is required or has elected to carry a PCD asset in nonaccrual status, the asset must be reported as a nonaccrual asset at its amortized cost basis in Schedule HC-N, column C.

For PCD assets whereby the holding company has made a policy election to maintain previously existing pools on adoption of ASU 2016-13, the determination of nonaccrual or accrual status should be made at the pool level, not the individual asset level.

For a PCD asset that is not reported in nonaccrual status, the delinquency status of the PCD asset should be determined in accordance with its contractual repayment terms for purposes of reporting the amortized cost basis of the asset as past due in Schedule HC-N, column A or B, as appropriate. If the PCD asset that is not reported in nonaccrual status consists of a pool of loans that were previously PCI that is being maintained as a unit of account after the adoption of ASU 2016-13, delinquency status should be determined individually for each loan in the pool in accordance with the individual loan's contractual repayment terms.

The Board will permit holding companies the option to not report PCD assets in nonaccrual status if they meet the criteria described above on an interim basis. The Board approved proposed changes to the FR Y-9C instructions to revise the nonaccrual treatment for PCD assets through the Paperwork Reduction Act (PRA) process.[2]

Presentation of Provisions for Credit Losses on Off-Balance Sheet Credit Exposures

For FR Y-9C purposes, the instructions currently require all provisions for credit losses on off-balance sheet credit exposures to be reported in Schedule HI, item 7.d, "Other noninterest expense."

The Board has received questions from holding companies concerning the reporting of provisions for credit losses on off-balance sheet credit exposures in the FR Y-9C income statement (Schedule HI) upon a holding company's adoption of ASU 2016-13. This ASU introduces CECL for estimating allowances for credit losses and addresses the measurement and reporting of expected credit losses on off-balance sheet credit exposures. According to ASC Subtopic 326-20, an institution should "report in net income (as a credit loss expense) the amount necessary to adjust the liability for credit losses for management's current estimate of expected credit losses on off- balance sheet credit exposures."

In their questions, these institutions indicated that, upon adoption of ASU 2016-13, reporting provisions for credit losses on off-balance sheet credit exposures together with the other provisions for credit losses in the FR Y-9C income statement would be more appropriate than reporting them as part of other noninterest expense. The institutions also noted that such a change would allow for more consistency in how their credit loss provisions for off-balance

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[2] See 85 FR 63553 (October 08, 2020)

sheet exposures are presented for financial reporting purposes.

After requesting public comment through the standard PRA process on this proposed change in reporting for holding companies that have adopted ASU 2016-13, the Board has finalized this revirsion, which will be reflected in the FR Y-9C instruction book updates for March 2021.[3] In the interim, the Board will permit such holding companies to report provisions for credit losses on off-balance sheet credit exposures in either Schedule HI, item 4, "Provision for loan and lease losses," or, as provided in the current FR Y-9C Instructions, Schedule HI, item 7.d, "Other noninterest expense." A holding company that makes this election for reporting in the fiscal quarter in which it adopts ASU 2016-13 (i.e., in the quarter ending March 31, 2020, for a holding company with a calendar year fiscal year) should maintain the same reporting treatment in each subsequent quarter until the proposed reporting change is finalized.

Goodwill Impairment Testing

In January 2017, the FASB issued 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 a holding company 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 holding companies, 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, a holding company 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. A holding company that early

[3] See footnote 1

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, holding companies should refer to ASU 2017-04, which is available at
https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168778106&acceptedD i sclaimer=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 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, holding companies 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 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.

On November 15, 2019, the FASB issued ASU No. 2019-10 to defer the effective dates of ASU 2016-13 for certain holding companies. Under this ASU, for holding companies that are SEC filers, excluding those that are not eligible to be "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 holding companies, including those SEC filers that are eligible to be smaller reporting holding 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 holding companies, 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.

Holding companies must apply ASU 2016-13 for FR Y-9C purposes in accordance with the effective dates set forth in the ASU, as amended in November 2019. A holding company that early adopts ASU 2016-13 for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for FR Y-9 purposes. However, Section 4014 of the CARES Act, as amended by section 540 of the Consolidated Appropriations Act, 2021, allows a holding company to delay the adoption of ASU 2016-13 until the earlier of (1) January 1, 2022, or (2) the first day of the institution's fiscal year that begins after the date of the termination of the national emergency concerning the coronavirus outbreak declared by the President on March 13, 2020, under the National Emergencies Act.

For additional information, holding companies should refer to the agencies' Interagency Policy Statement on Allowances for Credit Losses, which was published June 1, 2020. 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;
- 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;
- 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;
- 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; 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
- ASU 2020-03, "Codification Improvements to Financial Instruments," available at https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176174290619&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 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. GAAP, ASU 2017-12 is currently in effect. For holding companies 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 holding companies 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 holding company 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 a holding company early adopts ASU 2017-12 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. 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; 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.

New Revenue Recognition Accounting Standard

In May 2014, the FASB issued 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 a holding company 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, which 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," in the FR Y-9C instructions.

For holding companies that are public business entities, as defined under U.S. 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 annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Holding companies that are private companies with a calendar year fiscal year (that did not early adopt the new standard) should have begun to report revenue in accordance with the standard in the FR Y-9C for December 31, 2019. Holding companies that are private companies with a non-calendar fiscal year that ended on or after January 1, 2020, but before April 1, 2020 (e.g., March 31, 2020), and did not early adopt the ASU, should have begun to report revenue in accordance with the new standard in the FR Y-9C for March 31, 2020. However, to provide immediate, near-term relief because of the unique challenges resulting from the COVID-19 pandemic, the FASB issued ASU No. 2020-05, "Effective Dates for Certain Entities," on June 3, 2020, to defer, for one year, the required effective date of the new revenue recognition standard for certain institutions that are private companies. More specifically, institutions that are private companies with a non-calendar fiscal year that ended, or will end, after March 31, 2020, but before January 1, 2021 (e.g., a fiscal year that ended June 30, 2020, or September 30, 2020), and have not yet been required to file a FR Y-9C reflecting the adoption of the new revenue recognition standard, may elect to either (1) adopt this new standard for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020, or (2) follow the new standard's original effective date as described above and begin to report revenue in accordance with the new standard in annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. For example, a holding company that is private with a fiscal year that ends September 30, 2020 (that did not early adopt the new standard), may elect to begin to report revenue in accordance with the new standard in its FR Y-9C for either September 30, 2020, or September 30, 2021.

For FR Y-9C purposes, a holding company must apply the new revenue recognition standard on a modified retrospective basis as of the original or deferred effective date of the standard. When applying the modified retrospective method in the FR Y-9C, a private holding company with a

fiscal year that begins November 1, for example, and elects to adopt the new standard at its original effective date must determine the effect on its retained earnings as of January 1, 2020, of adopting the new revenue recognition standard as of November 1, 2019. The holding company should report the effect of this change in accounting principle, net of applicable income taxes, as a direct adjustment to equity capital in Schedule HI-A, item 2, in the FR Y-9C for December 31, 2020. The holding company also must report calendar year-to-date revenue in its FR Y-9C income statement in accordance with this new standard beginning as of January 1, 2020.

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 revenue recognition 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 or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of Topic 606. Otherwise, a holding company generally 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 provides 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 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 selling 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 generally 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. 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 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, a holding company must apply the new revenue recognition standard, including the change in accounting for seller-financed OREO sales, on a modified retrospective basis for FR Y-9C purposes. A private holding company with a fiscal year other than the calendar year, such as a holding company with a fiscal year that begins November 1 that elects to begin reporting revenue in accordance with the new standard in the FR Y-9C for December 31, 2020, should follow the guidance for applying the modified retrospective method in the preceding section to its seller-financed OREO sales.

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 a holding company adopts the new accounting standard.

For holding companies that are public business entities, as defined under U.S. GAAP, ASU 2016-02 is currently in effect. For holding companies that are not public business entities (i.e., that are private companies), ASU 2016-02, as amended in 2019, was scheduled to take effect for fiscal years beginning after December 15, 2020, and interim reporting periods within fiscal years beginning after December 15, 2021. However, to provide immediate, near-term relief because of the significant business disruptions caused by the COVID-19 pandemic, the FASB issued ASU No. 2020-05, "Effective Dates for Certain Entities," on June 3, 2020, to defer, for one year, the required effective date of the new lease accounting standard for entities not yet required to adopt ASU 2016-02. As a result, ASU 2016-02 will now take effect for institutions that are private companies for fiscal years beginning after December 15, 2021, and to interim periods within

fiscal years beginning after December 15, 2022. Early application of ASU 2016-02 continues to be permitted. 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, a holding company must apply the new leases standard on a modified retrospective basis for financial reporting purposes. Under the modified retrospective method, a holding company 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, holding companies 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, a holding company initially applies the new leases standard at the adoption date (e.g., January 1, 2022, for a private holding company with a calendar year fiscal year) and, for FR Y-9C purposes, the holding company 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."

Holding companies that have adopted ASU 2016-02 should report the lease liability for operating leases on the FR Y-9C balance sheet in Schedule HC, item 20, ''Other liabilities.'' In Schedule HC- G, Other Liabilities, operating lease liabilities should be reported in item 4, "All other liabilities." In addition, institutions should report the amount of operating lease liabilities in Schedule RC-G, item 4.e, if this amount is greater than $100,000 and exceeds 25 percent of the total amount reported in Schedule RC-G, item 4. Lease liabilities for finance leases should be reported in Schedule HC-M, items 14, "Other borrowed money," and 23.b, "Amount of 'Other borrowings' that are secured."

For an operating lease, a lessee should report a single lease cost for the lease in the FR Y-9C income statement, 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 HI in item 2.c, "Interest on trading liabilities and other borrowed money," on the FR Y-9C. The amortization expense should be reported on Schedule HI in item 7.b, "Expenses of premises and fixed assets."

To the extent an ROU asset arises due to a lessee's 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. Except for a holding company that has a community bank leverage ratio framework election in effect, an ROU asset not subject to deduction must be risk weighted at 100 percent in accordance with Board's regulatory capital rules and included in a lessee institution's calculations of total risk-weighted assets. In addition, an ROU asset must be included in a lessee holding company's total assets for leverage capital purposes.

For additional information on ASU 2016-02, holding companies should refer to the FASB's website at https://www.fasb.org/leases, which includes a link to the lease accounting standard and subsequent amendments to this standard. Holding companies may also refer to the Glossary entry for "Lease Accounting" in the FR Y-9C instructions, which was updated as of September 30, 2020 in response to the changes in the accounting for leases summarized above.

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)

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)

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)

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

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)

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)

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)

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

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)

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)

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)

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 December 31, 2012. These instructions can be accessed via the Federal Reserve's Web site
(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)

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).

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 Small Business Lending Fund 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).

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).

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).

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).

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).

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).

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).

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).

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).

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)

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).

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).

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 I

Coronavirus Aid, Relief, and Economic Security (CARES) Act: Accounting and Reporting Considerations

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted into law to provide emergency assistance and health care response for individuals, families, and businesses affected by the 2020 coronavirus (also known as Coronavirus Disease 2019 (COVID- 19)) pandemic. The CARES Act includes sections that provide new regulatory reporting options for holding companies and affect accounting and reporting in the Consolidated Financial Statements for Holding Companies (FR Y-9C) for first quarter 2020 and subsequent reporting, including: (1) Section 2303, Modifications for Net Operating Losses; (2) Section 4013, Temporary Relief from Troubled Debt Restructurings; and (3) Section 4014, Optional Temporary Relief from Current Expected Credit Losses. As discussed below, the Consolidated Appropriations Act, 2021, enacted into law on December 27, 2020, extends the expiring CARES Act provisions in Sections 4013 and 4014.

1) Section 2303, Modifications for Net Operating Losses

   Section 2303 of the CARES Act makes two changes to sections of the Internal Revenue Code that were impacted by the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, related to (1) net operating loss (NOL) carryforwards and (2) NOL carrybacks. As stated in the Glossary entry for "Income Taxes" in the FR Y-9C instructions, when a holding company's deductions exceed its income for income tax purposes, it has sustained an NOL. To the extent permitted under a taxing authority's laws and regulations, an NOL that occurs in a year following periods when a holding company had taxable income may be carried back to recover income taxes previously paid. Generally, an NOL that occurs when loss carrybacks are not available becomes an NOL carryforward.

   The CARES Act, (1) repeals the 80 percent taxable income limitation for NOL carryback and carryforward deductions in tax years beginning before 2021, and (2) for NOL carrybacks under federal law, allows an holding company to apply up to 100 percent of a carryback for up to five years for any NOLs incurred in taxable years 2018, 2019, and 2020. Although the Glossary entry for "Income Taxes" currently refers to federal law prior to the CARES Act (e.g., indicating that, "for years beginning on or after January 1, 2018, a bank may no longer carry back operating losses to recover taxes paid in prior tax years"), holding companies should use the newly enacted provisions of federal law within the CARES Act when determining the extent to which NOLs may be carried forward or back.

   Additionally, deferred tax assets (DTAs) are recognized for NOL carryforwards as well as deductible temporary differences, subject to estimated realizability. As a result, a holding company can recognize the tax benefit of an NOL for accounting and reporting purposes to the extent the holding company determines that a valuation allowance is not considered necessary (i.e., realization of the tax benefit is more likely than not). U.S. generally accepted

accounting principles (GAAP) require 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 CARES Act should have been recorded in a holding company's FR Y-9C for March 31, 2020, because the CARES Act was enacted during that reporting period. Changes in DTAs and deferred tax liabilities (DTLs) resulting from the change in tax law for NOL carrybacks and carryforwards and other applicable provisions of the CARES Act will be reflected in an holding company's income tax expense in the period of enactment, i.e., the March 31, 2020, FR Y-9C.

As mentioned above, the CARES Act restores NOL carryback potential for federal income tax purposes to NOLs incurred in taxable years 2018, 2019, and 2020. Consequently, holding companies should note that DTAs arising from temporary differences that could be realized through NOL carrybacks are not subject to deduction for regulatory capital purposes. Instead, except for holding companies that have a community bank leverage ratio framework election in effect, such DTAs are assigned a risk weight of 100 percent. Only those DTAs arising from temporary differences that could not be realized through NOL carrybacks, net of related valuation allowances and net of DTLs, that exceed the thresholds described in FR Y-9C Schedule HC-R, Part I, items 15.a and 15.b, as applicable, and item 16, if applicable, are deducted from common equity tier 1 capital.

2) Section 4013, Temporary Relief from Troubled Debt Restructurings (TDR)

As provided for under the CARES Act, a financial institution may account for an eligible loan modification either under Section 4013 or in accordance with ASC Subtopic 310-40.[4] If a loan modification is not eligible under Section 4013, or the institution elects not to account for the loan modification under Section 4013, the financial institution should evaluate whether the modified loan is a TDR.[5]

To be an eligible loan under Section 4013 (Section 4013 loan), as amended by the Consolidated Appropriations Act, 2021, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the national emergency concerning the COVID-19 outbreak declared by the President on March 13, 2020, under the National Emergencies Act (National Emergency) or (B) January 1, 2022 (the applicable period).

Financial institutions accounting for eligible loans under Section 4013 are not required to apply ASC Subtopic 310-40 to the Section 4013 loans for the term of the loan modification

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[4] ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors.

[5] The agencies issued an interagency statement on April 7, 2020, to provide information to financial institutions that are working with borrowers affected by the coronavirus. On August 3, 2020, the FFIEC, on behalf of its members, issued a joint statement to provide prudent risk management and consumer protection principles for financial institutions to consider while working with borrowers as loans near the end of initial loan accommodation periods applicable during the COVID-19 event

and do not have to report Section 4013 loans as TDRs in regulatory reports, subject to the following considerations for additional modifications. If an institution elects to account for a loan modification under Section 4013, an additional loan modification could also be eligible under Section 4013 provided it is executed during the applicable period and meets the other statutory criteria referenced above. If an institution does not elect to account for a loan modification under Section 4013 or a loan modification is not eligible under Section 4013 (e.g., because it is executed after the applicable period), additional modifications should be viewed cumulatively in determining whether the additional modification is accounted for as a TDR under ASC Subtopic 310-40.[6]

Consistent with Section 4013, financial institutions should maintain records of the volume of Section 4013 loans. The CARES Act also permits the banking agencies to collect data about Section 4013 loans for supervisory purposes. Thus, beginning with the June 30, 2020, report date, institutions will report the number and amount outstanding of Section 4013 loans as of quarter end in FR Y-9C Schedule HC-C, Memorandum items 16.a and 16.b, respectively. These data items will be collected on a confidential basis at the institution level. Once the term of an eligible Section 4013 loan modification ends, a holding company should no longer include the loan in these Schedule HC-C, Memorandum items.

Institutions should continue to follow reporting instructions and U.S. GAAP for Section 4013 loans, including:

- Appropriately reporting past due and nonaccrual status;
- Maintaining an appropriate allowance for loan and lease losses in accordance with ASC Subtopic 450-20[7] and ASC Subtopic 310-10,[8] or an appropriate allowance for credit losses in accordance with ASC Subtopic 326-20,[9] as applicable.

Institutions are not required to report Section 4013 loans in the following FR Y-9C items:

- Schedule HC-C, Memorandum item 1, "Loans restructured in troubled debt restructurings that are in compliance with their modified terms."
- Schedule HC-N, Memorandum item 1, "Loans restructured in troubled debt restructurings included in Schedule HC-N, items 1 through 7, above."

One-to-four family residential mortgages will not be considered restructured or modified for the purposes of the agencies' risk-based capital rules solely due to a short-term modification made on a good faith basis in response to COVID-19, provided that the loans are prudently underwritten and not 90 days or more past due or carried in nonaccrual status. Loans meeting these requirements that received a 50 percent risk weight prior to such a modification may continue receiving that risk weight.

3) Section 4014, Optional Temporary Relief from Current Expected Credit Losses

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[6] Institutions can refer to the aforementioned interagency statement and joint statement for additional information when making these determinations.

[7] ASC Subtopic 450-20, Contingencies—Loss Contingencies.

[8] ASC Subtopic 310-10, Receivables—Overall.

[9] ASC Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

Section 4014 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021, allows an institution to delay the adoption of Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, until the earlier of (1) January 1, 2022, or (2) the first day of the institution's fiscal year that begins after the date of the termination of the National Emergency.

Appendix II

Temporary Adjustment to the Measurement Date for Certain Total Asset Thresholds

During 2020, relief measures enacted by Congress through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the strains on the U.S. economy and disruptions to the financial markets as a result of coronavirus disease 2019 (COVID-19) have led to unprecedented growth at many institutions, including from loans made through the Paycheck Protection Program (PPP). This rapid growth has caused the assets of some institutions to rise above certain asset-based thresholds, and may cause the assets of other community institutions to do so in the near future. Much of this growth, especially growth related to PPP lending, is likely to be temporary, and the increase in assets currently held by an institution may not reflect a change in the institution's longer-term risk profile. To provide reporting relief due to holding companies' asset growth in 2020 related to participation in various COVID-19-related stimulus activities, the Board is adjusting the measurement date for certain total asset thresholds that trigger additional reporting requirements in the FR Y-9C for report dates in 2021 only, as discussed below.

On December 2, 2020, the agencies published in the Federal Register an interim final rule (IFR)[10] that, among other provisions, allows a holding company with under $10 billion to use the lesser of total consolidated asset as of December 31, 2019, or as of the normal measurement date to determine applicability of additional filing requirements. Secondly, the agencies capital rules permit institutions that meet certain criteria to use the community bank leverage ratio (CBLR) framework to measure their regulatory capital.[11] The agencies interim final rule revises these capital rules to allow institutions that exceed the $10 billion total asset threshold in those rules to use the CBLR framework from December 31, 2020, through December 31, 2021, provided they meet the other qualifying criteria for this framework.[12] Holding companies that elect to use the CBLR framework under this temporary relief would report CBLR information in FR Y-9C report, Schedule HC-R, Part I, as reflected in the FR Y-9C instructions, except that the holding company should:

- Report the lesser of its total assets as of December 31, 2019, or as of the current quarter-end report date, which must be less than $10 billion, in Schedule HC-R, Part I, item 32, "(Total assets)."
- Use its total assets as reported in Schedule HC, item 12, as of the current quarter-end report date when reporting (1) the sum of trading assets and trading liabilities as a percentage of total assets, which must be 5 percent or less, in Schedule HC-R, item 33, column B, and (2) total off-balance sheet exposures as a percentage of total assets, which must be 25 percent or less, in Schedule HC-R, Part I, item 34.d, column B.

Under the agencies' interim final rule, the Board permits a holding company to use the lesser of the total consolidated assets reported in its FR Y-9C report as of December 31, 2019, or as of the normal measurement date when determining whether the holding company has crossed a total

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[10] See 85 FR 77345, December 2, 2020.
[11] *See* 12 CFR 3.12 (OCC); 12 CFR 217.12 (Board); 12 CFR 324.12 (FDIC).
[12] See footnote 10

asset threshold to report certain additional data items in its FR Y-9C for report dates in calendar year 2021. Specifically, the following FR Y-9C report schedules and line items are impacted by this change:

- The $5 billion threshold to report Schedule HI–C, Part I, Disaggregated Data on the Allowance for Loan and Lease Losses; Schedule HC–D, Trading Assets and Liabilities; Schedule HC–P, 1–4 Family Residential Mortgage Banking Activities in Domestic Offices; Schedule HC–Q, Assets and Liabilities Measured at Fair Value; Schedule HC–S, Servicing, Securitization, and Asset Sale Activities; and Schedule HC–V, Variable Interest Entities.
- The $5 billion threshold to report Schedule HI item 1.e, interest income from trading assets; Schedule HI item 2.c, interest on trading liabilities and other borrowed money; Schedule HI item 2.d, interest on subordinated notes and debentures and on mandatory convertible securities; Schedule HI item 5.c, trading revenue; Schedule HI items 5.d.(1) through 5.d.(5), related to various fees and commissions on securities brokerage investments, investment banking, and insurance; Schedule HI item 5.e, venture capital revenue; Schedule HI item 5.g, net securitization income; Schedule HI Memoranda item 1, net interest income on a fully taxable equivalent basis; Schedule HI Memoranda item 2, net income before applicable income taxes, and discontinued operations; Schedule HI Memoranda items 8.a.(1) through 8.b.(2), discontinued operations and applicable income tax effect; Schedule HI Memoranda items 9.a through 9.e, related to trading revenue; Schedule HI Memoranda item 11, credit losses on derivatives; Schedule HI Memoranda items 12.a through 12.c, detail pertaining to income from the sale and servicing of mutual funds and annuities (in domestic offices); Schedule HI Memoranda items 14.a. through 14.b.(1), related to net gains (losses) recognized in earnings on assets and liabilities that are reported at fair value under a fair value option; Schedule HI Memoranda item 15, stock-based employee compensation expense; Schedule HI–B, Part I, items 4.a and 4.b, columns A and B, commercial and industrial loans; Schedule HI–B, Part I, item 6, columns A and B, loans to foreign governments and official institutions; Schedule HI–B, Part I, items 8.a and 8.b, lease finance receivables; Schedule HI–B, Part I, Memoranda item 2, columns A and B, loans secured by real estate to non-U.S. addressees; Schedule HI–B, Part I, Memoranda item 3, uncollectible retail credit card fees and finance charges reversed against income; Schedule HI–B, Part II, Memoranda item 1, allocated transfer risk reserve; Schedule HI–B, Part II, Memoranda item 2, separate valuation allowance for uncollectible retail credit card fees and finance charges; Schedule HI–B, Part II, Memoranda item 3, allowance for loan and lease losses attributable to retail credit card fees and finance charges; Schedule HI–B, Part II, Memoranda item 4, allowance for post-acquisition credit losses on purchased credit-impaired loans; Schedule HC–B, items 4.a.(1) through 4.a.(3), residential pass-through securities; Schedule HC–C, items 4.a and 4.b, commercial and industrial loans; Schedule HC–C, items 9.b.(1) through 9.b.(2), column A and B, loans for purchasing or carrying securities and all other loans; Schedule HC–C, items 10.a and 10.b, column A, lease financing receivables; Schedule HC–C Memoranda items 1.e.(1) and 1.e.(2), commercial and industrial loans; Schedule HC–C Memoranda item 3, loans secured by real estate to non-U.S. addressees; Schedule HC–C Memoranda item 4, outstanding credit card fees and finance charges; Schedule HC–C Memoranda items 12.a through 12.d, loans and leases held for investment (not subject to the requirements of FASB ASC 310–30) that are acquired in business combinations with

acquisition dates in the current calendar year; Schedule HC–K, item 4.a, trading assets; Schedule HC–L item 1.b.(1), unused consumer credit card lines; Schedule HC–L 1.b.(2), other unused credit card lines; Schedule HC–L item 1.d, securities underwriting; Schedule HC–L items 2.a and 3.a, financial and performance standby letters of credit conveyed to others; Schedule HC–L items 7.a through 7.d.(2)(b), related to credit derivatives; Schedule HC–L items 11.a through 14.b.(2), pertaining to derivatives positions; Schedule HC–M items 6.a.(1)(a)(1) through 6.d, pertaining to assets covered by loss-sharing agreements with the Federal Deposit Insurance Corporation; Schedule HC–N, items 8.a and 8.b, columns A, B, and C; Schedule HC–N items 12.a.(1)(a) through 12.f, pertaining to loans and leases which are covered by loss-sharing agreements with the Federal Deposit Insurance Corporation; Schedule HC–N Memoranda items 1.e.(1) and 1.e.(2), columns A, B, and C, commercial and industrial loans; and Schedule HC–N Memoranda item 6, fair value of derivative contract amounts carried as assets.

- The $5 billion threshold to report quarterly rather than annual of Schedule HI Memoranda items 6.a through 6.j, other noninterest income; Schedule HI Memoranda items 7.a through 7.p, other noninterest expense; and Schedule HI Memoranda 16, noncash income from negative amortization on closed-end loans secured by 1–4 family residential properties; and quarterly rather than semi-annual, Schedule HI Memoranda item 17, other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities recognized in earnings; Schedule HI–C, Part II, items 7 through 11, disaggregated data on the allowance for credit losses; Schedule HC–C Memoranda items 1.a.(1) through 1.f.(3)(c), pertaining to loans restructured in troubled debt restructurings that are in compliance with their modified terms; Schedule HC–N Memoranda items 1.a.(1) through 1.d.(2) and 1.e.(3) through 1.f.(3)(c), related to loans restructured in troubled debt restructurings that are in compliance with their modified terms; Schedule HC–R, Part II, items 1 through 25, columns A through U, risk-weighted assets; Schedule HC–R, Part II Memoranda item 1, current credit exposure across all derivative contracts; Schedule HC–R, Part II Memoranda item 2, columns A, B, and C, notional principal amounts of over-the-counter derivative contracts; and Schedule HC–R, Part II, Memoranda item 3, columns A, B, and C, notional principal amounts of centrally cleared derivatives contracts.

- The $10 billion threshold requires these holding companies to report Schedule HI Memoranda items 10.a and 10.b, related to net gains/losses on credit derivatives; Schedule HC–B Memoranda items 5.a through 5.f, related to asset-backed securities; Schedule HC–B Memoranda items 6.a through 6.g, related to structured financial products by underlying collateral or reference assets; Schedule HC–L item 15, pertaining to the additional information on over-the-counter derivatives; and Schedule HC–S items 6 and 10, and Schedule HC–S Memoranda item 3, related to securitization activity.