

## **FEDERAL RESERVE SYSTEM**

### **Agency information collection activities: Announcement of Board approval under delegated authority and submission to OMB**

**AGENCY:** Board of Governors of the Federal Reserve System

**SUMMARY:** The Board of Governors of the Federal Reserve System (Board or Federal Reserve) is adopting a proposal to revise, with extension, the mandatory Consolidated Financial Statements for Holding Companies (FR Y-9C). The Board also proposes to extend, without revision, the other forms that make up the family of FR Y-9 reporting forms. These are: The Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) The Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP) The Financial Statements for Employee Stock Ownership Plan Holding Companies (FR Y-9ES) The Supplement to the Consolidated Financial Statements for Holding Companies (FR Y-9CS). The revisions to this mandatory information collection become effective on September 30, 2016, and March 31, 2017. The Board is also adopting a proposal to extend, without revision, the other reports that are part of this information collection.

On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board authority under the Paperwork Reduction Act (PRA) to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board. In exercising this delegated authority, the Board is directed to take every reasonable step to solicit comment. In determining whether to approve a collection of information, the Board will consider all comments received from the public and other agencies.

#### **FOR FURTHER INFORMATION CONTACT:**

Federal Reserve Board Clearance Officer —Nuha Elmaghrabi-- Office of the Chief Data Officer, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202) 452-3829. Telecommunications Device for the Deaf (TDD) users may contact (202) 263-4869, Board of Governors of the Federal Reserve System, Washington, DC 20551.

OMB Desk Officer—Shagufta Ahmed --Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17<sup>th</sup> Street, NW, Washington, DC 20503.

#### **Final approval under OMB delegated authority of the extension for three years, with revision, of the following report:**

*Report title:* Consolidated Financial Statements for Holding Companies, Parent Company Only Financial Statements for Large Holding Companies, Parent Company Only Financial Statements for Small Holding Companies, Financial Statement for Employee Stock Ownership Plan Holding Companies, and the Supplemental to the Consolidated Financial Statements for Holding Companies.

*OMB Control number:* 7100-0128.

*Agency form number:* FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9ES, and FR Y-9CS.

*Frequency:* Quarterly, semiannually, and annually.

*Reporters:* Bank holding companies (BHCs), savings and loan holding companies (SLHCs), securities holding companies (SHCs) and Intermediate Holding Companies (IHCs) (collectively, holding companies).

*Estimated annual reporting hours:* FR Y-9C (non -Advanced Approaches holding companies): 131,245 hours; FR Y-9C (Advanced Approaches holding companies): 2,674 hours; FR Y-9LP: 16,632 hours; FR Y-9SP: 44,518 hours; FR Y-9ES: 44 hours; FR Y-CS: 472 hours.

*Estimated average hours per response:* FR Y-9C (non -Advanced Approaches holding companies): 50.17 hours; FR Y-9C (Advanced Approaches holding companies): 51.42 hours; FR Y-9LP: 5.25 hours; FR Y-9SP: 5.40 hours; FR Y-9ES: 0.50 hours; FR Y-9CS: 0.50 hours.

*Number of respondents:* FR Y-9C (non -Advanced Approaches holding companies): 654; FR Y-9C (Advanced Approaches holding companies):13; FR Y-9LP: 792; FR Y-9SP: 4,122; FR Y-9ES: 88; FR Y-9CS: 236.

*General description of report:* This information collection is mandatory for BHCs (12 U.S.C. 1844(c)(1)(A)). Additionally, 12 U.S.C. 1467a (b)(2)(A) and 1850a(c)(1)(A), respectively, authorize the Federal Reserve to require that SLHCs and supervised SHCs file with the Federal Reserve. Lastly, 12 U.S.C. 5365 authorizes the Federal Reserve to require that U.S. IHCs file with the Federal Reserve. Confidential treatment is not routinely given to the financial data in this report. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6), or (b)(8) of FOIA (5 U.S.C. 522(b)(4), (b)(6), and (b)(8)). The applicability of these exemptions would need to be reviewed on a case by case basis.

*Abstract:* The FR Y-9C is a standardized financial statement for the consolidated holding company. The FR Y-9LP and the FR Y 9SP serve as standardized financial statements for parent holding companies; the FR Y-9ES is a financial statement for holding companies that are Employee Stock Ownership Plans (ESOPs). The Federal Reserve also has the authority to use the FR Y-9CS (a free-form supplement) to collect additional information deemed to be (1) critical and (2) needed in an expedited manner. The FR Y-9 family of reporting forms continues to be the primary source of holding company financial data that examiners rely on in the intervals between on-site inspections. Financial data from these reporting forms are used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate holding company mergers and acquisitions, and to analyze a holding company's overall financial condition to ensure the safety and soundness of its operations.

*Current Actions:* On December 2, 2015, the Federal Reserve published a notice in the *Federal Register* requesting public comment for 60 days on the proposed revisions to the FR Y-9C.<sup>1</sup> As proposed, the revisions would have become effective in March 2016. Based on comments received on the proposal and other factors, the Federal Reserve notified institutions that the revisions would be deferred until no earlier than September 2016. Most of the proposed revisions were reporting burden reductions consistent with proposed changes to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036). The proposed revisions included deletions of existing data items, increases in existing thresholds for certain data items, a number of instructional revisions and the addition of new and revised data items.

The Federal Reserve received one comment letter from a bankers' association regarding proposed revisions to the FR Y-9C. The Federal Reserve also considered the comments on the Call Reports in developing the draft final notice for consistency. The Board, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) (the agencies) collectively received comment letters from seven banking organizations, four bankers' associations and two consulting firms on similar proposed revisions to the Call Reports.

The commenters generally supported the proposal, but suggested delayed implementation of the revisions. The Federal Reserve has delayed the effective dates for these changes consistent with the timing suggested by commenters. The Federal Reserve adopted most of the revisions as proposed, except for a few instructional changes due to comments received.

The following is a detailed discussion of the comments received and the Federal Reserve's responses to the comments.

## **Detailed Discussion of Public Comment**

### **A. Deletions of Existing Data Items**

The Federal Reserve proposed that the continued collection of the following items was no longer necessary and proposed to eliminate them effective March 2016:

- (1) Schedule HI, Memorandum items 17(a) and 17(b), on other-than-temporary impairments;<sup>2</sup>
- (2) Schedule HC-C, Memorandum items 1(f)(2), 1(f)(5), and 1(f)(6) on troubled debt restructurings in certain loan categories that are in compliance with their modified terms;
- (3) Schedule HC-N, Memorandum items 1(f)(2), 1(f)(5), and 1(f)(6) on troubled debt restructurings in certain loan categories that are 30 days or more past due or on nonaccrual;

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<sup>1</sup> Notice of the proposed action was published in the *Federal Register*; the comment period expired on February 1, 2016. See FR 80 75457.

<sup>2</sup> Institutions would continue to complete Schedule HI, Memorandum item 17(c), on net impairment losses recognized in earnings.

- (4) Schedule HC-M, items 6(a)(5)(a) through (d) on loans in certain loan categories that are covered by FDIC loss-sharing agreements; and
- (5) Schedule HC-N, items 12(e)(1) through (4) on loans in certain loan categories that are covered by FDIC loss-sharing agreements and are 30 days or more past due or on nonaccrual.

In addition, when Schedule HC-R, Part II, is completed properly, item 18(b) on unused commitments to asset-backed commercial paper conduits with an original maturity of one year or less is not needed because such commitments should already have been reported in item 10 as off-balance sheet securitization exposures. The instructions for item 18(b) explain that these unused commitments should be reported in item 10 and that amounts should not be reported in item 18(b). Accordingly, the Federal Reserve proposed to delete existing item 18(b) from Schedule HC-R, Part II. Existing item 18(c) of Schedule HC-R, Part II, for unused commitments with an original maturity exceeding one year would then be renumbered as item 18(b).

Comments were received from two consulting firms and one banking organization regarding those proposed deletions. The banking organization stated that these revisions would have no impact on its reporting. One consulting firm agreed with all of the proposed deletions except the one involving information on other-than-temporary impairment (OTTI) losses in Schedule HI, Memorandum items 17(a) and 17(b). The firm believed the deletion of the two OTTI items would eliminate the reporting of important information about the performance of institutions' securities portfolios and how they recognize OTTI. While the Federal Reserve acknowledges that this proposal would result in the loss of information on the total year-to-date amount of OTTI losses and the portion of these losses recognized in other comprehensive income, institutions would continue to report the portion of OTTI losses recognized in earnings. It is this portion of OTTI losses that is of greatest interest and concern to the Federal Reserve. Because some or all of each OTTI loss must be recognized in earnings, when an institution reports a substantial amount of OTTI losses in earnings, it is this item that serves as a red flag for further supervisory follow-up. Additionally, the portion of OTTI losses that passes through other comprehensive income and accumulates in other comprehensive income is excluded from regulatory capital for the vast majority of institutions.

One consulting firm expressed concern about the proposed deletion of Memorandum items on troubled debt restructurings in certain loan categories in Schedules HC-C and HC-N. This firm stated that this information is important for understanding the specific nature of troubled loans relative to restructured loans and suggested that the loan categories being deleted may need to be added back if there is a significant economic downturn. The Federal Reserve notes that each of the loan categories proposed for deletion is a subset of the larger loan category "All other loans," which institutions would continue to report. Furthermore, the amount of troubled debt restructurings in each of these subset categories is reported only when it exceeds 10 percent of the total amount of troubled debt restructurings in compliance with their modified terms (Schedule HC-C) or not in compliance with their modified terms (Schedule HC-N), as appropriate. Thus, the total amount of an institution's troubled debt restructurings, both those in compliance with their modified terms and those that are not, would continue to be reported.

After considering these comments, the Federal Reserve will remove all of the items proposed for deletion from the FR Y-9C effective September 30, 2016, except for the deletion relating to OTTI, which would take effect March 31, 2017.

## **B. New Reporting Threshold and Increases in Existing Reporting Thresholds.**

In three FR Y-9C schedules, holding companies are currently required to itemize and describe each component of an existing item when the component exceeds both a specified percentage of the item and a specified dollar amount. Based on a preliminary evaluation of the existing reporting thresholds, the Federal Reserve proposed that the dollar portion of the thresholds that currently apply to these items could be increased to provide a reduction in reporting burden without a loss of data that would be necessary for supervisory or other public policy purposes. The percentage portion of the existing thresholds would not be changed. Accordingly, the Federal Reserve proposed to raise from \$25,000 to \$100,000 the dollar portion of the threshold for itemizing and describing components of:

- (1) Schedule HI, memo item 6, "Other noninterest income;"
- (2) Schedule HI, memo item 7, "Other noninterest expense;"
- (3) Schedule HC-Q, Memorandum item 1, "All other assets;" and
- (4) Schedule HC-Q, Memorandum item 2, "All other liabilities."

To reduce burden, the Federal Reserve also proposed to raise from \$25,000 to \$1,000,000 the dollar portion of the threshold for itemizing and describing components of "Other trading assets" and "Other trading liabilities" in Schedule HC-D, Memorandum items 9(b) and 10.

Based on the Federal Reserve's review of items reported on Schedule HC-I, Insurance-Related Underwriting Activities (Including Reinsurance), the Federal Reserve proposed to add a \$10,000,000 threshold to provide a reduction in reporting burden for reinsurance recoverables reported on Schedule HC-I, Part I line item 1 and HC-I, Part II line item 1, due to the limited activity and immateriality on these line items. Reporting of these data items would be determined as of the end of each quarter.

Two bankers' associations, two consulting firms, and two banking organizations commented on the proposed changes involving reporting thresholds. One banking organization supported the higher thresholds, stating that raising the thresholds would reduce reporting burden, but the other said that this change would not have an impact on its reporting. The two bankers' associations expressed support for the targeted approach to increasing the reporting thresholds, but observed that an increase from \$25,000 to \$100,000 would do little to reduce reporting burden for most institutions. The associations recommended increasing the percentage portion of the reporting threshold for which components must be itemized and described. At present, the percentage portion of the reporting threshold applicable to reporting components of "Other noninterest income" and "Other noninterest expense" in Schedule HI is three percent.<sup>3</sup> The associations recommended increasing this percentage to a range of 5 to 7 percent.

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<sup>3</sup> For the other items for which Federal Reserve proposed an increase in the dollar portion of the existing reporting threshold, the percentage portion of the threshold is 25 percent of the total amount of the item.

Because of the interaction between the dollar and percentage portions of the reporting thresholds on the total amount of an item that is subject to component itemization and description, the Federal Reserve acknowledges that the proposed increase in the dollar portion of the reporting threshold from \$25,000 to \$100,000 may not benefit all holding companies, particularly larger holding companies. One consulting firm supported the increase in the dollar portion of the reporting threshold for Schedule HC-Q, but recommended retaining the \$25,000 threshold for the “Other noninterest income” and “Other noninterest expense” in Schedule HI. The consulting firm commented that, for smaller institutions, information on the components of these noninterest items “is an important indicator of the activity of the institution, its style and management ability” and “provide[s] regulators with a clearer insight into the activities of a bank.” This firm also observed that the component information is or should be captured in the internal accounting systems. The Federal Reserve recognizes that the proposed increase in the dollar portion of the threshold for reporting components of other noninterest income and expense would result in a reduced number of their components being itemized and described in the FR Y-9C Schedule HI, particularly by smaller holding companies. However, in carrying out on- and off-site supervision of holding companies, the Federal Reserve is able to follow up directly with an individual holding company when the level and trend of noninterest income and expense, and other elements of net income (or loss), that are reflected in its FR Y-9C raise questions about the quality of, and the factors affecting, the holding company’s reported earnings. The Federal Reserve does not believe the proposed increase in the dollar portion of the reporting thresholds in Schedule HI will impede the ability to evaluate holding companies’ earnings.

Another consulting firm questioned the proposed increase from \$25,000 to \$1,000,000 in the dollar portion of the threshold for itemizing and describing components of “Other trading assets” and “Other trading liabilities” in Schedule HC-D, Memorandum items 9 and 10. In addition to meeting the dollar portion of the threshold, a component must exceed 25 percent of the total amount of “Other trading assets” or “Other trading liabilities” in order to be itemized and described in Memorandum item 9 or 10, respectively. These two memorandum items are to be completed only by holding companies that report average trading assets of \$1 billion or more in any of the four preceding calendar quarters. Thus, at \$1,000,000, the proposed higher dollar threshold for component itemization and description in Memorandum items 9 and 10 of Schedule HC-D would represent one tenth of one percent of the amount of average trading assets that a holding company must have in order to be subject to the requirement to report components of its other trading assets and liabilities that exceed the reporting threshold. As a result, the Federal Reserve believes that raising the dollar portion of the threshold for reporting components of Memorandum items 9 and 10 of Schedule HC-D to \$1,000,000 will continue to provide meaningful data while reducing burden for holding companies that must complete these items.

No comments were received on the proposal to add a \$10,000,000 threshold on HC-I. After considering the comments about the proposed new and increased reporting thresholds, the Federal Reserve will implement all of these changes effective September 30, 2016.<sup>4</sup>

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<sup>4</sup> Although the proposed reporting threshold changes would take effect as of September 30, 2016, holding companies may choose, but are not required, to continue using \$25,000 as the dollar portion of the threshold for reporting components of the specified items in the three previously identified schedules rather than the higher dollar thresholds.

## C. Instructional Revisions

### 1. Reporting Home Equity Lines of Credit that Convert from Revolving to Non Revolving Status.

Holding companies report the amount outstanding under revolving, open-end lines of credit secured by 1-4 family residential properties (commonly known as home equity lines of credit or HELOCs) in item 1(c)(1) of Schedule HC-C, Loans and Leases. Closed-end loans secured by 1-4 family residential properties are reported in Schedule HC-C, item 1(c)(2)(a) or (b), depending on whether the loan is a first or a junior lien.<sup>5</sup>

A HELOC is a line of credit secured by a lien on a 1-4 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 line of credit. During the repayment period, the borrower can no longer draw on the line of credit, and the outstanding principal is either due immediately in a balloon payment or is repaid over the remaining loan term through monthly payments. The FR Y-9C instructions do not address the reporting treatment for a home equity line of credit when it reaches its end-of-draw period and converts from revolving to nonrevolving status. Such a loan no longer has the characteristics of a revolving, open-end line of credit and, instead, becomes a closed-end loan. In the absence of instructional guidance that specifically addresses this situation, the Federal Reserve has found diversity in how these credits are reported in Schedule HC-C. Some holding companies continue to report home equity lines of credit that have converted to non-revolving closed-end status in item 1(c)(1) of Schedule HC-C, as if they were still revolving open-end lines of credit, while other holding companies recategorize such loans and report them as closed-end loans in item 1(c)(2)(a) or (b), as appropriate.

Therefore, to address this absence of instructional guidance and promote consistency in reporting, the Federal Reserve proposed to clarify the instructions for reporting loans secured by 1-4 family residential properties to specify that after a revolving open-end line of credit has converted to non-revolving closed-end status, the loan should be reported in Schedule HC-C, item 1(c)(2)(a) or (b), as appropriate.

Two bankers' associations, one consulting firm, and one banking organization commented on the proposed instructional clarification for HELOCs. The consulting firm agreed with this clarification because of the consistency in reporting that it would provide. The two bankers' associations stated that they appreciated the proposed clarification, but noted that "material definitional changes would require a whole recoding of these credits." The associations observed that the proposed clarification would likely have implications for other regulatory requirements such as the Comprehensive Capital Analysis and Review, which evaluates the capital planning processes and capital adequacy of the largest U.S.-based bank holding companies. They also described two situations involving HELOCs for which further

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<sup>5</sup> Information also is separately reported for open-end and closed-end loans secured by 1-4 family residential properties in Schedule HI-B, Part I, Charge-offs and Recoveries on Loans and Leases; Memorandum items in Schedule HC-C; Schedule HC-D; Schedule HC-M; and Schedule HC-N.

guidance would be needed if the proposed instructional change were to be implemented and recommended that examples be provided with the instructions for reporting HELOCs.

The banking organization opposed the proposed instructional clarification for HELOCs and requested that it be withdrawn, citing several difficulties it would encounter if the clarification were made. These difficulties include identifying when a HELOC has begun the repayment period and the lien position of a HELOC at that time because the bank's loan system for HELOCs has not been set up to generate this information. The bank requested time for systems reprogramming if the proposed instructional clarification were to be adopted.

Based on the issues raised in the comments received on the proposed HELOC instructional clarification, the Federal Reserve will give further consideration to this proposal, including its effect on and relationship to other regulatory reporting requirements. Accordingly, the Federal Reserve will not proceed with this proposed instructional clarification at this time and the existing instructions for reporting HELOCs in item 1.c(1) of Schedule HC-C, will remain in effect. Once the Federal Reserve completes its consideration of this instructional matter and determines whether and how the FR Y-9C instructions should be clarified with respect to the reporting of revolving open-end lines of credit that have converted to non-revolving closed-end status, any proposed instructional clarification will be published in the Federal Register for comment.

## 2. Reporting Treatment for Securities for Which a Fair Value Option is Elected

The FR Y-9C Glossary entry for "Trading Account" currently states that "all securities within the scope of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities"), that a holding company has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities." This reporting treatment was based on language contained in former FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," but that language was not codified when Statement No. 159 was superseded by current ASC Topic 825, Financial Instruments. Thus, under U.S. GAAP as currently in effect, the classification of all securities within the scope of ASC Topic 320 that are accounted for under a fair value option as trading securities is no longer required. Accordingly, to bring the "Trading Account" Glossary entry into conformity with current U.S. GAAP, the Federal Reserve proposed to revise the statement from the Glossary entry quoted above by replacing "should be classified" with "may be classified."

This revision to the "Trading Account" Glossary entry would have meant that a holding company that elects the fair value option for securities within the scope of ASC Topic 320 would have been able to classify such securities as held-to-maturity or available-for-sale in accordance with this topic based on the holding company's intent and ability with respect to the securities. In addition, a holding company could have chosen to classify securities for which a fair value option is elected as trading securities.

Holding companies that have been required to classify all securities within the scope of ASC Topic 320 that are accounted for under a fair value option as trading securities also should consider the related proposed changes to Schedule HC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis, which are discussed below.

Comments from two bankers' associations and one consulting firm were received regarding the proposed instructional revision for the classification of securities for which the fair value option is elected. The consulting firm welcomed the proposal. The two bankers' associations stated that they understood the purpose of the proposed instructional revision, but they requested further clarification of the reporting treatment for "securities for which an institution has elected to use the trading measurement classification," i.e., fair value through earnings.

The Federal Reserve has reconsidered this proposed instructional revision in light of the comments received, including the requested further clarification. Based on this reconsideration, the Federal Reserve has decided not to implement the proposed instructional revision and to retain the existing FR Y-9C instructions directing institutions to classify securities reported at fair value under a fair value option as trading securities.

### 3. Net Gains (Losses) on Sales of, and Other-Than-Temporary Impairments on, Equity Securities That Do Not Have Readily Determinable Fair Values

Holding companies report investments in equity securities that do not have readily determinable fair values and are not held for trading (and to which the equity method of accounting does not apply) in Schedule HC-F, item 4, and on the FR Y-9C balance sheet in Schedule HC, item 11, "Other assets." If such equity securities are held for trading, they are reported in Schedule HC, item 5, and in Schedule HC-D, item 9 and Memorandum item 7.b, if applicable. In contrast, investments in equity securities with readily determinable fair values that are not held for trading are reported as available-for-sale securities in Schedule HC, item 2(b), and in Schedule HC-B, item 7, whereas those held for trading are reported in Schedule HC, item 5, and in Schedule HC-D, item 9 and Memorandum item 7(a), if applicable.

In general, investments in equity securities that do not have readily determinable fair values are accounted for in accordance with ASC Subtopic 325-20, Investments-Other – Cost Method Investments (formerly Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock"), but are subject to the impairment guidance in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments").

The FR Y-9C instructions for Schedule HI, Income Statement, address the reporting of realized gains (losses), including other-than-temporary impairments, on held to-maturity and available-for-sale securities as well as the reporting of realized and unrealized gains (losses) on trading securities and other assets held for trading. However, the Schedule HI instructions do not specifically explain where to report realized gains (losses) on sales or other disposals of, and other-than-temporary impairments on, equity securities that do not have readily determinable fair

values and are not held for trading (and to which the equity method of accounting does not apply).

The instructions for Schedule HI, item 5.k, “Net gains (losses) on sales of other assets (excluding securities),” direct holding companies to “report the amount of net gains (losses) on sales and other disposals of assets not required to be reported elsewhere in the income statement (Schedule HI).” The instructions for item 5(k) further advise holding companies to exclude net gains (losses) on sales and other disposals of securities and trading assets. The intent of this wording was to cover securities designated as held-to-maturity, available-for-sale, and trading securities because there are separate specific items elsewhere in Schedule HI for the reporting of realized gains (losses) on such securities (items 6(a), 6(b), and 5(c), respectively).

Thus, the Federal Reserve proposed to revise the instructions for Schedule HI, item 5(k), by clarifying that the exclusions from this item of net gains (losses) on securities and trading assets apply to held-to-maturity, available-for-sale, and trading securities and other assets held for trading. At the same time, the Federal Reserve proposed to add language to the instructions for Schedule HI, item 5(k), that explains that net gains (losses) on sales and other disposals of equity securities that do not have readily determinable fair values and are not held for trading (and to which the equity method of accounting does not apply), as well as other-than-temporary impairments on such securities, should be reported in item 5(k). In addition, the Federal Reserve proposed to remove the parenthetical “(excluding securities)” from the caption for item 5(k) and add in its place a footnote to this item advising holding companies to exclude net gains (losses) on sales of trading assets and held-to-maturity and available-for-sale securities.

No comments were received on these proposed changes to the instructions and report form caption for Schedule HI, item 5(k). Accordingly, the changes would take effect March 31, 2017.

#### **D. New and Revised Data Items**

##### **1. Increase in the Time Deposit Size Threshold**

The Federal Reserve proposed to increase the time deposit size threshold from \$100,000 to \$250,000 in Schedule HC-E, memorandum item 3, Time Deposits of \$100,000 or more with a remaining maturity of one year or less. The comparable line item on the Call Report is being revised to reflect the permanent \$250,000 deposit insurance limit. Therefore, the Federal Reserve proposed this change to maintain consistency between the two reports.

The agencies received comments on the proposed increases in time deposit thresholds from four banking organizations, one consulting firm and two bankers’ associations. Three banking organizations and two bankers’ associations supported the proposed increase and further recommended increasing the deposit size threshold on brokered deposit items and time deposits of less than \$100,000.

In response to these comments, the Federal Reserve reviewed the collection and use of brokered deposit information reported in HC-E Memorandum items and has determined that HC-

E Memorandum item 1, Brokered Deposits less than \$100,000 with a remaining maturity of one year or less and HC-E Memorandum 2, Brokered deposits less than \$100,000 with a remaining maturity of more than one year can be revised to reflect the \$250,000 deposit size threshold. The Federal Reserve also reviewed the use of deposit information reported in HC-E 1(d) and 1(e) and HC-E 2(d) and (2e), time deposits of less than \$100,000 and time deposits greater than \$100,000 in domestic offices of commercial bank subsidiaries of the reporting holding company, and time deposits held in domestic offices of other depository institutions that are subsidiaries of the reporting holding company, and determined that these items can be revised to reflect the \$250,000 threshold.

One commenter questioned why the FR Y-9C proposal did not modify Schedule HI to reflect the increased deposit threshold similar to the Call Report. The commenter stated that by not aligning the reports may create confusion and delays as banks would have to maintain separate reporting systems. The Federal Reserve has reviewed the data collection and use of the deposit information reported in Schedule HI line item 2(a)1(a), Interest on Time Deposits of \$100,000 or more and HI 2(a)1(b) Interest on Time Deposits of less than \$100,000 and determined that these items can also be revised to reflect the \$250,000 threshold.

The proposed changes to Schedule HC-E as well as the proposed change to HI would take effect March 31, 2017.

## 2. Changes to Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis

Holding companies reporting on Schedule HC-Q are currently required to treat securities they have elected to report at fair value under a fair value option as part of their trading securities. As a consequence, institutions must include fair value information for their fair value option securities, if any, in Schedule HC-Q two times: first, as part of the fair value information they report for their “Other trading assets” in item 5(b) of the schedule, and then on a standalone basis in item 5(b)(1), “Nontrading securities at fair value with changes in fair value reported in current earnings.” This reporting treatment flows from the existing provision of the Glossary entry for “Trading Account” that, as discussed above, requires an institution that has elected to report securities at fair value under a fair value option to classify the securities as trading securities. However, as discussed above, the Federal Reserve proposed to remove this requirement, which would have permitted an institution to classify fair value option securities as held-to-maturity, available-for-sale, or trading securities.

In its current form, Schedule HC-Q contains an item for available-for-sale securities along with the items identified above for “Other trading assets,” which includes securities designated as trading securities, and “Nontrading securities at fair value with changes in fair value reported in current earnings.” However, given the existing instructional requirements for fair value option securities, Schedule HC-Q does not include an item for reporting held-to-maturity securities because only securities reported at amortized cost are included in this category of securities. Along with proposing to remove the requirement to report fair value option securities as trading securities, as discussed earlier in this notice, the Federal Reserve also proposed to replace item 5(b)(1) of Schedule HC-Q for nontrading securities accounted for under

a fair value option with a new item for any “Held-to-Maturity securities” to which a fair value option is applied.

In addition, at present, holding companies that have elected to measure loans (not held for trading) at fair value under a fair value option are required to report the fair value and unpaid principal balance of such loans in Memorandum items 10 and 11 of Schedule HC-C, Loans and Lease Financing Receivables. This information is also collected on the Call Report Schedule RC-C Loans and Leases. The FDIC and the OCC (the agencies) have proposed to move this information in the Call Report from Schedule RC-C to Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis. Holding companies have commented in the past that retaining a consistent format between the Call Report and the FR Y-9C on the reporting of comparable information reduces reporting burden to the holding companies. Accordingly, the Federal Reserve proposed to move Memorandum items 10 and 11 on the fair value and unpaid principal balance of fair value option loans from Schedule HC-C, to Schedule HC-Q effective March 31, 2017, and to designate them as Memorandum items 3 and 4.

Two bankers’ association requested clarification on the proposed reporting of held-to-maturity securities, available-for-sale securities and securities for which a trading measurement classification has been elected in Schedule HC-Q. As stated above, the Federal Reserve reconsidered, and decided not to implement, the proposed instructional revision that would no longer have required an institution to classify fair value option securities as trading securities. Based on this decision, the Federal Reserve also will not implement the proposed elimination of the existing Schedule HC-Q item for nontrading securities accounted for under a fair value option and their proposed addition to the schedule of a new item for held-to-maturity securities.

No comments were received on the proposal to move the Memorandum items in Schedule HC-C, on the fair value and unpaid principal balance of fair value option loans to Schedule HC-Q, where they would be designated as Memorandum items 3 and 4. Therefore, the Federal Reserve will proceed with this change effective March 31, 2017.

### 3. Extraordinary Items

In January 2015, the FASB issued ASU No. 2015-01, “Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates the concept of extraordinary items from U.S. GAAP. At present, ASC Subtopic 225-20, Income Statement – Extraordinary and Unusual Items (formerly Accounting Principles Board Opinion No. 30, “Reporting the Results of Operations”), requires an entity to separately classify, present, and disclose extraordinary events and transactions. An event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item.

ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Thus, for example, holding companies with a calendar year fiscal year must begin to apply the ASU in their FR Y-9C for March 31, 2016.<sup>6</sup> After a holding

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<sup>6</sup> Early adoption of ASU 2015-01 is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption.

company adopts ASU 2015-01, any event or transaction that would have met the criteria for extraordinary classification before the adoption of the ASU should be reported in Schedule HI, item 5(l), “Other noninterest income,” or item 7(d), “Other noninterest expense,” as appropriate, unless the event or transaction would otherwise be reportable in another item of Schedule HI.

Consistent with the elimination of the concept of extraordinary items in ASU 2015-01, the Federal Reserve proposed to revise the instructions for Schedule HI, item 11, and remove the term “extraordinary items” and revise the captions for Schedule HI, item 8, “Income (loss) before income taxes and extraordinary items and other adjustments,” item 10, “Income (loss) before extraordinary items and other adjustments” and item 11, “Extraordinary items and other adjustment, net of income taxes effective March 31, 2016. After the concept of extraordinary items has been eliminated and such items would no longer be reportable in Schedule HI, item 11, only the results of discontinued operations would be reportable in item 11. Accordingly, effective March 31, 2016, the revised captions for Schedule HI, items 8, 10 and 11 would become “Income (loss) before income taxes and discontinued operations,” “Income (loss) before discontinued operations,” and “discontinued operations, net of applicable income taxes” respectively. The captions for Schedule HI, memorandum items 2 and 8, and items 8 and 11 on the Predecessor Financial Items and applicable Glossary references would also be revised to eliminate the concept of extraordinary items.

No comments were received on the planned changes related to extraordinary items. Accordingly, effective September 30, 2016, the captions for Schedule HI, items 8, 10, and 11, would be revised to say “Income (loss) before income taxes and discontinued operations,” “Income (loss) before discontinued operations,” and “Discontinued operations, net of applicable income taxes,” respectively. Similarly, the captions for Schedule HI, memorandum items 2 and 8, and items 8 and 11 on the Predecessor Financial Items and applicable Glossary references would also be revised to eliminate the concept of extraordinary items.

Additional comments:

One commenter requested clarification on why the proposed change to the Call Report regarding trading revenues due to changes in credit and debit valuation adjustments was not proposed on the FR Y-9C report. The Federal Reserve reviewed this information and determined that the proposed changes are not necessary for the FR Y-9C and that the current information is adequate to meet the Federal Reserve’s supervisory needs.

Board of Governors of the Federal Reserve System, September 1, 2016.

*Robert deV. Frierson (signed)*

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Robert deV. Frierson,  
Secretary of the Board.

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