Board of Governors of the Federal Reserve System

Supplemental Instructions

December 2021 FR Y-9C Materials

A new FR Y-9C data item, "Standardized Approach for Counterparty Credit Risk opt-in election," takes effect this quarter and applies to FR Y-9C Schedule HC-R – Regulatory Capital, item 31.b. The new data item is related to the final rule on Standardized Approach for Counterparty Credit Risk (SA-CCR),[1] which allows for enhanced comparability of the reported derivative data and better supervision of the implementation of the framework at institutions that adopt SA-CCR.

Additionally, the FR Y-9C reporting forms and instructions have been revised to collect the name, phone number, and email address of the HC's Chief Executive Officer (CEO).

The topics on "Revenue Recognition: Accounting for Sales of OREO" and "New Revenue Recognition Accounting Standard" have been removed. All HCs will have been required to adopt ASU No. 2014-09, "Revenue from Contracts with Customers," before the December 31, 2021, report date. ASU 2014-09 applies to the accounting for the sale or transfer of repossessed nonfinancial assets such as other real estate owned (OREO). A HC that is a private company with a fiscal year other than the calendar year (e.g., a HC with a fiscal year that begins November 1) and elected to defer the adoption of the new standard must apply the revenue recognition standard on a modified retrospective basis as of the original or deferred effective date of the standard and determine the effect on its retained earnings as of January 1, 2021, upon adopting the revenue recognition standard as of November 1, 2020. The HC 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 report for December 31, 2021. The HC also must report calendar year-to-date revenue in its FR Y-9C report income statement in accordance with this new standard beginning as of January 1, 2021.

Given ASC Subtopic 610-20 supersedes ASC Subtopic 360-20, the December 2021 FR Y-9C instructions Glossary entries for "Foreclosed Assets" and "Revenue from Contracts with Customers" have been updated to remove outdated language related to ASC Subtopic 360-20. Language that is no longer applicable was also removed from the instructions for Schedule HC – Balance Sheet and Schedule HC-M – Memoranda.

As a reminder, beginning in March 2022, the temporary asset threshold relief extended to institutions for calendar year 2021 expires. Additionally, the relief under Section 4013, Temporary Relief from Troubled Debt Restructurings; Section 4014, Optional Temporary Relief

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[1] 85 FR 4362 (January 24, 2020).

from Current Expected Credit Losses of the CARES Act; and temporary adjustments to the optional community bank leverage ratio framework[2] expire January 1, 2022.

U.S. Department of the Treasury Emergency Capital Investment Program (ECIP)

On March 22, 2021, the agencies published in the *Federal Register* an interim final rule (IFR)[3] that supports the U. S. Department of the Treasury (Treasury Department) implementation of the Emergency Capital Investment Program (ECIP) established by Congress to make capital investments in minority depository institutions and community development financial institutions. The IFR revised the agencies' capital rules to provide that the Treasury Department's investments under the ECIP qualify as regulatory capital of insured depository institutions and holding companies. The program will support the efforts of these financial institutions to provide loans, grants, and forbearance to small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, which may be disproportionately affected by Coronavirus Disease 2019 (COVID-19). Under the program, the Treasury Department will purchase preferred stock or subordinated debt from qualifying minority depository institutions and community development financial institutions, with the corresponding dividend or interest rate based on the institution meeting lending targets.

As described in the terms published by the Treasury Department, Senior Preferred Stock issued under ECIP will be noncumulative, perpetual preferred stock that is senior to the issuer's common stock and pari passu with (or, in some cases, senior to) the issuer's most senior class of existing preferred stock. Subordinated Debt issued under ECIP will be unsecured subordinated debt. The Subordinated Debt will rank junior to all other debt of the issuer except that it will rank senior to mutual capital certificates or similar instruments issued by a mutual banking organization and to any equity instruments issued by an S corporation.

The noncumulative perpetual preferred stock issued under the Treasury Department's ECIP should be reported on the FR Y-9C report balance sheet (Schedule HC) in item 23, "Perpetual preferred stock and related surplus." For regulatory capital purposes, the noncumulative perpetual preferred stock issued under the Treasury Department's ECIP qualifies as additional Tier 1 capital,[4] reported in Schedule HC-R, Part I, line item 20 and should be included in the amount reported for "Tier 1 capital" in Schedule HC-R, Part I, line item 26.

The full amount of all subordinated debt instruments issued under the Treasury Department's ECIP should be reported in Schedule HC, item 19, "Subordinated notes and debentures." For regulatory capital purposes, a holding company would report these subordinated debt instruments in Schedule HC-R, item 39, "Tier 2 capital instruments plus related surplus.[5]

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[2] 85 FR. 64003 (October 9, 2020).

[3] 86 FR 15076 (March 22, 2021).

[4] 12 CFR 217.20 (Board).

[5] See footnote 4.

Section 2303, Modifications for Net Operating Losses

Section 2303 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)[6] 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 an institution'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 an institution 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 institution 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"), institutions 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, an institution can recognize the tax benefit of an NOL for accounting and reporting purposes to the extent the institution 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.

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, institutions 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 institutions 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 deferred tax liabilities (DTLs), that exceed the thresholds described in FR Y-9C Schedule HC-R, Part I, items 15, 15.a, and 15.b, as applicable, and item 16, if applicable, are deducted from common equity tier 1 capital.

[6] Pub. L. 116-136.

Section 4014, Optional Temporary Relief from Current Expected Credit Losses

Section 4014 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021,[7] 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.

Temporary Adjustment to the Measurement Date for Certain Total Asset Thresholds in the FR Y-9C

Holding Companies should note that the guidance described in this section applies to calendar year 2021 and beginning in March 2022 asset thresholds will generally revert back to a Holding Company's total assets as of June 30 of the prior year (i.e. June 30, 2021, for calendar year 2022). Those HCs that elect the optional CBLR framework may also now refer to Interagency Statement on the Community Bank Leverage Ratio Framework for more information and guidance on the use of the two-quarter grace period when the temporary relief measures affecting the framework expire on December 31, 2021.

During 2020, relief measures enacted by Congress through the CARES Act in response to the strains on the U.S. economy and disruptions to the financial markets as a result of COVID-19 have led to unprecedented growth at many institutions, including loans made through the Paycheck Protection Program (PPP). This rapid growth caused the assets of some institutions to rise above certain asset-based thresholds. 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 institutions' asset growth in 2020 related to participation in various COVID-19-related stimulus activities, the Board has adjusted 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.

First, on December 2, 2020, the agencies published in the *Federal Register* an IFR[8] that, among other provisions, allows a holding company with under $10 billion in total consolidated assets to use the lesser of total consolidated assets as of December 31, 2019, or June 30, 2020, when determining applicability to report certain additional data items in its FR Y-9C for report dates in calendar year 2021. The footnotes on the FR Y-9C report form related to thresholds for these affected data items have been updated as of the March 31, 2021, report date, to reflect this temporary change in measurement dates. See Appendix II of the December 31, 2020, Supplemental Instructions for a full listing of items that the alternate measurement date may be used during 2021 only.

Secondly, the agencies capital rules permit institutions that meet certain criteria to use the

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[7] Pub. L. 116-260.

[8] 85 FR 77345 (December 2, 2020).

community bank leverage ratio (CBLR) framework to measure their regulatory capital.[9] The agencies IFR revises these capital rules to allow institutions that temporarily 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.[10] 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.

On May 26, 2021, the Board published a final *Federal Register*[11] notice to approve the revisions that will remain effect through December 31, 2021. See Appendix II of the December 31, 2020, Supplemental Instructions for a full listing of items that the alternate measurement date may be used during 2021 only.

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

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[9] *See* 12 CFR 217.12 (Board).

[10] See footnote 9.

[11] 86 FR 28346 (May 26, 2021).

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 de-designation 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&acceptedDisclaimer=true.

Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," which introduces 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, except those that are "smaller reporting companies" as defined in the SEC's rules, ASU 2016-13 continues to be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, i.e., January 1, 2020, for such entities with calendar year fiscal years. For all other 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 on 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 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 the ASU in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes the interim period of adoption, e.g., as of January 1 for a calendar year. 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.

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 revenue recognition standard. 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."

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 holding company'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:

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 30, 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 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)

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)

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).

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).

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 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).

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).