

Board of Governors of the Federal Reserve System

Supplemental Instructions

December 2022 FR Y-9C Materials

The following topics have been removed from the Supplemental Instructions this quarter:

- “Accounting for Hedging Activities” - This information is included in the FR Y-9C instructions updates for December 2022.
- “Accounting for Leases” – Accounting Standards Update No. 2016-02, “Leases” (ASU 2016-02) is in effect for all institutions as of year-end 2022. Guidance on this standard is already included in the FR Y-9C instructions for institutions that have chosen to early adopt ASU 2016-02. Guidance provided during the transition period for institutions that had not yet adopted the standard will be removed in the March 2023 updates to the instructions.

September 2022 FR Y-9C Materials

A new FR Y-9C Report data item, “Unallocated portfolio layer fair value hedge basis adjustments,” was added this quarter on Schedule HC-B – Securities. This data item is applicable to those holding companies that have early adopted Accounting Standards Update 2022-01, “Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method,” and have chosen to apply the portfolio layer method to a closed portfolio of available-for-sale (AFS) debt securities. The instructions for Schedule HC-C, item 11, “LESS: Any unearned income on loans reflected in items 1-9 above” have also been revised for holding companies that have chosen to apply the portfolio layer method to a closed portfolio of loans. The instructions for these items, and the supplemental instructions topic on “Accounting for Hedging Activities,” have also been revised accordingly.

Securities and Exchange Commission Staff Accounting Bulletin No. 121

On March 31, 2022, the SEC released SAB 121 to express SEC staff views regarding the accounting for entities that have obligations to safeguard crypto-assets held for their platform users. SAB 121 provides that an entity, including a financial institution, should present a liability on its balance sheet to reflect its obligation to safeguard the crypto-assets held for its platform users at the fair value of the crypto-assets. The entity should also recognize a corresponding asset on its balance sheet measured at the fair value of the crypto-assets held for its platform users.

The agencies are still reviewing the implications of SAB 121. A Holding Company that determines that it is appropriate for it to apply SAB 121 for SEC or other financial reporting purposes should complete its FR Y-9C Report consistent with the classification determination made for SEC or other financial reporting purposes. For example, a Holding Company that has

concluded that a SAB 121 crypto safeguarding asset should be recorded on its balance sheet as “other assets” would include the asset in the relevant regulatory reporting schedules as “other assets”. If the reported item requires a concise caption on a schedule and a preprinted caption has not been provided, an institution can write in a caption that best describes the item (e.g., “SAB 121 custody activity”). Holding Companies may provide details in the Notes to the Balance Sheet schedule indicating that SAB 121 was implemented and the value of the associated asset and liability.

A Holding Company that intends to apply SAB 121 for SEC or other financial reporting purposes should discuss any questions regarding SAB 121 with its primary federal regulator.

Accounting for Loan Modifications to Borrowers Experiencing Financial Difficulties

In March 2022, the FASB issued ASU No. 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,” which amended ASC Topic 326, Financial Instruments – Credit Losses. This guidance, once effective, will eliminate the recognition and measurement accounting guidance for Troubled Debt Restructurings (TDRs) by creditors in Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Consistent with the accounting for other loan modifications under ASC Section 310-20-35, Subsequent Measurements, under ASU 2022-02, an institution would evaluate whether the modification to a borrower experiencing financial difficulty represents a new loan or a continuation of an existing loan.

Prior to the adoption of ASU 2022-02, Holding Companies must recognize and disclose modified loans where the institution has granted a concession, for economic or legal reasons, related to the borrower’s financial difficulty as TDRs. Holding Companies report loans identified as TDRs on Schedule HC-C, Part I, Loans and Leases, if the loan is performing in accordance with its modified terms or Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, if the loan is not performing in accordance with its modified terms.

For all Holding Companies that have adopted ASC Topic 326, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim reporting periods within those fiscal years. For Holding Companies that have not yet adopted the amendments in ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the effective dates for this ASU would be the same as the effective dates in ASU 2016-13. Early application of the new standard is permitted for all Holding Companies, provided that a Holding Company has adopted ASU 2016-13.

Reporting for Early Adopters

If a Holding Company chooses to early adopt the new standard for financial reporting purposes during 2022, the Holding Company should implement the new standard in its FR Y-9C Report for the same quarter-end report date.

These Holding Companies would report all loan modifications to borrowers experiencing financial difficulties as defined by ASU 2022-02 prospectively from the beginning of the fiscal year of adoption.

For FR Y-9C Report purposes, all loans modified since adoption of the new standard to borrowers experiencing financial difficulty as defined by ASU 2022-02 that are performing in accordance with their modified terms would be reported on Schedule HC-C, Part I, Memorandum items 1.a. through 1.g. If a loan is not performing in accordance with its modified terms, it would be reported on Schedule HC-N, Memorandum items 1.a through 1.g. Upon adoption of this standard, TDRs would no longer be reported in these Memorandum items.

These Holding Companies have an option to apply a modified retrospective transition method for the elimination of the TDR recognition and measurement guidance. The option to apply a modified retrospective transition method would result in a cumulative effect adjustment to retained earnings in the period of adoption. The cumulative-effect adjustment to Holding Company equity capital for this change in accounting principle should be reported in Schedule HI-A, Cumulative effect of changes in accounting principles, item 2, and disclosed in the Notes to the Income Statement (Other) with a write-in descriptor indicating ASU 2022-02. Holding Companies that early adopt ASU 2022-02 that do not apply the modified retrospective method in the calendar year ending December 31, 2022, may provide a statement in the Notes to the Balance Sheet indicating the quarter in which ASU 2022-02 was adopted.

For additional information on ASU 2022-02, institutions should refer to the FASB's website at: [Accounting Standards Updates Issued \(fasb.org\)](https://www.fasb.org/Accounting-Standards-Updates-Issued), which includes a link to the accounting standard update.

The agencies plan to revise the FR Y-9C forms and instructions to replace the current TDR terminology with updated language from ASU 2022-02.

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 "reference 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 ASC 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 ASC 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, 2024. For additional information, institutions should refer to ASU 2020-04, which is available at: [Accounting Standards Updates Issued \(fasb.org\) and Deferral of Sunset Date of Topic 848](#).

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.

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, which are available at Accounting Standards Updates Issued (fasb.org):

- ASU 2018-19, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,”
- ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,”
- ASU 2019-05, “Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief,”
- ASU 2019-10, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,”
- ASU 2019-11, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses,”
- ASU 2020-03, “Codification Improvements to Financial Instruments,”
- ASU 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.”

Other Reporting Matters

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

U.S. Department of the Treasury Emergency Capital Investment Program

Holding companies should continue to follow the guidance for U.S. Department of the Treasury Emergency Capital Investment Program 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_202112.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 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>).