

## SUPPLEMENTAL INSTRUCTIONS

### September 2020 Call Report Materials

*There are no new Call Report data items in the FFIEC 031, FFIEC 041, or FFIEC 051 Call Report forms this quarter.* New topics that have been added to the Supplemental Instructions for September 2020 are “Reference Rate Reform” and “Uncollectible Accrued Interest Receivable under ASC Topic 326.” The topic on “Reporting High Volatility Commercial Real Estate (HVCRE) Exposures” has been removed from the Supplemental Instructions this quarter; information on reporting such exposures was included in the Call Report instruction book updates for June 2020. In addition, these Supplemental Instructions again include an Appendix providing information on certain sections of the CARES Act that affect accounting and regulatory reporting. This Appendix was initially added to the Supplemental Instructions for March 2020 and has been updated this quarter.

In general, institutions with domestic offices only and total assets less than \$5 billion as of June 30, 2019, were eligible to file the FFIEC 051 Call Report as of March 31, 2020, but such institutions had the option to file the FFIEC 041 Call Report instead as of that date. Institutions are expected to file the same report form, either the FFIEC 051 or the FFIEC 041, for each quarterly report date during 2020.

Separate updates to the instruction book for the FFIEC 051 Call Report and the instruction book for the FFIEC 031 and FFIEC 041 Call Reports for September 2020 soon will be available for printing and downloading from the FFIEC’s website ([https://www.ffiec.gov/ffiec\\_report\\_forms.htm](https://www.ffiec.gov/ffiec_report_forms.htm)) and the FDIC’s website (<https://www.fdic.gov/callreports>). Sample FFIEC 051, FFIEC 041, and FFIEC 031 Call Report forms, including the cover (signature) page, for September 2020 also can be printed and downloaded from these websites. In addition, institutions that use Call Report software generally can print paper copies of blank forms from their software. Please ensure that the individual responsible for preparing the Call Report at your institution has been notified about the electronic availability of the September 2020 report forms, instruction book updates, separate standalone September 2020 COVID-19 Related Supplemental Instructions (discussed below), and these Supplemental Instructions. The locations of changes to the text of the previous quarter’s Supplemental Instructions (except references to the quarter-end report date) are identified by a vertical line in the right margin.

### Submission of Completed Reports

Each institution’s Call Report data must be submitted to the FFIEC’s Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>), using one of the two methods described in the banking agencies’ Financial Institution Letter (FIL) for the September 30, 2020, report date. The CDR Help Desk is available from 9:00 a.m. until 8:00 p.m., Eastern Time, Monday through Friday, to provide assistance with user accounts, passwords, and other CDR system-related issues. The CDR Help Desk can be reached by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at [cdr.help@cdr.ffiec.gov](mailto:cdr.help@cdr.ffiec.gov).

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

Currently, Call Report preparation software products marketed by (in alphabetical order) Axiom Software Laboratories, Inc.; DBI Financial Systems, Inc.; Fed Reporter, Inc.; FIS Compliance Solutions; FiServ, Inc.; KPMG LLP; SHAZAM Core Services; Vermeg; and Wolters Kluwer Financial Services meet the technical

specifications for producing Call Report data files that are able to be processed by the CDR. Contact information for these vendors is provided on the final page of these Supplemental Instructions.

### Call Report Signature Requirement and COVID-19

Generally, each Call Report submission must be signed by the Chief Financial Officer (or equivalent) and three directors (two for state nonmember banks).<sup>1</sup> While the Call Report data submission occurs electronically, the current Call Report instructions require that the signed cover page must be attached to a printout or copy of the Call Report forms or data reported to the agencies. The agencies note that while the instructions refer to a single page, the required signatures may be obtained on separate cover pages from each required signer, rather than by obtaining all signatures on a single cover page.

Business disruptions related to the Coronavirus Disease 2019 (COVID-19), including distancing requirements and remote work, may make it operationally challenging for an institution to obtain original ink signatures from all required signers in order to submit the Call Report on a timely basis. Therefore, for the duration of the COVID-19 disruptions, including for the September 30, 2020, Call Report, the agencies will permit an institution to use electronic signatures in lieu of ink signatures to fulfill the Call Report attestation requirement. The institution should follow appropriate governance procedures for collecting and retaining electronic signatures:

- The signature is executed by the required signer with the intent to sign;
- The signature is digitally attached to or associated with a copy of the Call Report;
- The signature or process identifies and authenticates the required signer; and
- The institution maintains the electronically signed Call Report and has it available for subsequent examiner review.

One acceptable method during the COVID-19 disruption could include obtaining written attestation via e-mail from the required signer to the person submitting the Call Report data, provided the e-mail included an attached electronic version of the Call Report data and indicating the attestation is based on the attached information. That e-mail should be retained in the institution's records to support that the Call Report was appropriately attested to by the required signer.

Institutions should discuss any concerns regarding the attestation with their primary federal regulator.

### Banking Agencies' Recent COVID-19-Related Activities Affecting the Call Report

In light of the disruptions in economic conditions caused by COVID-19, one or all of the banking agencies have issued interim final rules published from March through June 2020 that revise certain aspects of the agencies' regulatory capital rule, amend the Federal Reserve Board's (Board) Regulation D on [reserve requirements](#), and except certain [insider loans](#) from the Board's Regulation O. The FDIC also adopted a final rule modifying its [deposit insurance assessment rules](#). During the third quarter, the agencies finalized several of the capital-related interim final rules with no changes or only limited changes. In addition, Section 4013 of the CARES Act provides optional temporary relief from accounting for eligible loan modifications as troubled debt restructurings, which the agencies discussed in an [Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus \(Revised\)](#) issued April 7, 2020. The agencies received approvals from the U.S. Office of Management and Budget to implement changes to the three versions of the Call Report arising from these interim final rules, the FDIC's final rule, and Section 4013 of the CARES Act. The reporting changes took effect as of March 31, 2020, and June 30, 2020.

The subjects of the regulatory capital-related rulemakings are:

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

<sup>1</sup> See, e.g., 12 U.S.C. §§ [161\(a\)](#) and [1817\(a\)\(3\)](#).

- [Temporary exclusion](#) of U.S. Treasury securities and deposits at Federal Reserve Banks from the supplementary leverage ratio.

Separate standalone September 2020 COVID-19 Related Supplemental Instructions for implementing these rulemakings and Section 4013 of the CARES Act in the Call Report for September 30, 2020, will be posted on the FFIEC [Reporting Forms](#) webpage and the FDIC [Bank Financial Reports](#) webpage.

### Reference Rate Reform

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

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

With respect to contracts, the ASU applies to contract modifications that replace a reference rate affected by reference rate reform (including rates referenced in fallback provisions) and contemporaneous modifications of other contract terms related to the replacement of the reference rate (including contract modifications to add or change fallback provisions). The ASU provides optional expedients for applying Accounting Standards Codification (ASC) requirements in the following areas:

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

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

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

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

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

### **Uncollectible Accrued Interest Receivable under ASC Topic 326**

In April 2019, the FASB issued ASU No. 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,” which amended ASC Topic 326 to allow an institution to make certain accounting policy elections for accrued interest receivable balances, including a separate policy election, at the class of financing receivable or major security-type level, to charge off any uncollectible accrued interest receivable by reversing interest income, recognizing credit loss expense (i.e., provision expense), or a combination of both. The Call Report Glossary entry for “Accrued Interest Receivable” currently references the following accounting policy elections in ASU 2019-04:

- (1) Institutions may elect to present accrued interest receivable separately from the associated related financial asset, and the accrued interest receivable is presented net of an allowance for credit losses (ACL), if any; and
- (2) Institutions that charge off uncollectible accrued interest receivable in a timely manner, i.e., in accordance with the Glossary entry for “nonaccrual status,” may elect, at the class of financing receivable or the major security-type level, not to measure an ACL for accrued interest receivable.

Although this Glossary entry does not currently provide for the ASU’s separate accounting policy election for the charge-off of uncollectible accrued interest receivable at the class of financing receivable or the major security-type level, this election is specifically addressed in the [Interagency Policy Statement on Allowances for Credit Losses](#) issued in May 2020. Accordingly, for Call Report purposes, an institution that has adopted ASC Topic 326 may make the charge-off election for accrued interest receivable balances in ASU 2019-04 separately from the other elections for these balances in the ASU. Furthermore, an institution also may charge off uncollectible accrued interest receivable against an ACL for Call Report purposes.

### **Nonaccrual Treatment for Purchased Credit-Deteriorated (PCD) Assets**

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments,” which introduces the concept of PCD assets. PCD assets are acquired financial assets that, at acquisition, have experienced more-than-insignificant deterioration in credit quality since origination. When recording the acquisition of PCD assets, the amount of expected credit losses as of the acquisition date is recorded as an allowance and added to the purchase price of the assets rather than recording these acquisition date expected credit losses through provisions for credit losses. The sum of the purchase price and initial allowance for credit losses establishes the amortized cost basis of the PCD assets at acquisition. Any difference between the unpaid principal balance of the PCD assets and the amortized cost basis of the assets as of the acquisition date is the noncredit discount or premium. The initial allowance for credit losses and noncredit discount or premium determined on a collective basis at that acquisition date are allocated to the individual PCD assets.

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

The current instructions for Schedule RC-N provide an exception to the criteria for placing financial assets in nonaccrual status for purchased credit-impaired (PCI) assets. However, the Schedule RC-N instructions indicate that this nonaccrual exception for PCI assets was not extended to PCD assets: “For purchased credit-deteriorated loans, debt securities, and other financial assets that fall within the scope of ASU 2016-13,

nonaccrual status should be determined and subsequent nonaccrual treatment, if appropriate, should be applied in the same manner as for other financial assets held by an institution.”

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

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

When a PCD asset that meets the criteria above is not placed in nonaccrual status, the asset should be subject to other alternative methods of evaluation to ensure that the institution’s net income is not materially overstated. Further, an institution is not permitted to accrete the credit-related discount embedded in the purchase price of a PCD asset that is attributable to the acquirer’s assessment of expected credit losses as of the date of acquisition (i.e., the contractual cash flows the acquirer did not expect to collect at acquisition). Interest income should no longer be recognized on a PCD asset to the extent that the net investment in the asset would increase to an amount greater than the payoff amount. If an institution is required or has elected to carry a PCD asset in nonaccrual status, the asset must be reported as a nonaccrual asset at its amortized cost basis in Schedule RC-N, column C.

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

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

The agencies will permit institutions the option to not report PCD assets in nonaccrual status if they meet the criteria described above on an interim basis. The agencies have requested public comment on the proposed changes to the Call Report Instructions to revise the nonaccrual treatment for PCD assets through the standard Paperwork Reduction Act (PRA) process.<sup>2</sup>

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

For Call Report purposes, the instructions currently require all provisions for credit losses on off-balance sheet credit exposures to be reported in Schedule RI, item 7.d, “Other noninterest expense.”

The agencies have received questions from institutions concerning the reporting of provisions for credit losses on off-balance sheet credit exposures in the Call Report income statement (Schedule RI) upon an institution’s adoption of ASU 2016-13. This ASU introduces CECL for estimating allowances for credit losses and addresses the measurement and reporting of expected credit losses on off-balance sheet credit exposures. According to ASC Subtopic 326-20, an institution should “report in net income (as a credit loss expense) the amount necessary to adjust the liability for credit losses for management’s current estimate of expected credit losses on off-balance sheet credit exposures.”

In their questions, these institutions indicated that, upon adoption of ASU 2016-13, reporting provisions for credit losses on off-balance sheet credit exposures together with the other provisions for credit losses in the Call Report income statement would be more appropriate than reporting them as part of other noninterest

<sup>2</sup> See [FIL-73-2020](#) dated July 30, 2020, and [85 FR 44361](#) (July 22, 2020).

expense. The institutions also noted that such a change would allow for more consistency in how their credit loss provisions for off-balance sheet exposures are presented for financial reporting purposes.

The agencies have requested public comment through the standard PRA process on this proposed change in reporting for institutions that have adopted ASU 2016-13.<sup>3</sup> However, until that process is complete, the agencies will permit such institutions to report provisions for credit losses on off-balance sheet credit exposures in either Schedule RI, item 4, “Provision for loan and lease losses,” or, as provided in the current Call Report Instructions, Schedule RI, item 7.d, “Other noninterest expense.” An institution that makes this election for reporting in the fiscal quarter in which it adopts ASU 2016-13 (i.e., in the quarter ending March 31, 2020, for an institution with a calendar year fiscal year) should maintain the same reporting treatment in each subsequent quarter until the proposed reporting change is finalized.

### **Small Bank Assessment Credits**

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

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

With the DIF reserve ratio reaching 1.40 percent as of June 30, 2019, the FDIC first applied small bank assessment credits to offset institutions’ second quarter 2019 deposit insurance assessments, which were due September 30, 2019. The reserve ratio remained above 1.35 percent for the next three assessment periods, and the FDIC automatically applied small bank assessment credits to offset institutions’ third and fourth quarter 2019 and first quarter 2020 deposit insurance assessments. In September 2020, the FDIC Board waived the requirement that the DIF reserve ratio must be at least 1.35 percent in order for the FDIC to remit institutions’ remaining assessment credits. Thus, the FDIC remitted the remaining balance of small bank assessment credits to institutions that did not fully use their small bank assessment credits during the four-quarter application period. This remittance was reflected on such institutions’ second quarter 2020 deposit insurance assessments, which were due September 30, 2020.

When an institution that was awarded small bank assessment credits prepares its September 30, 2020, Call Report, the institution should reflect the amount of assessment credits, if any, the FDIC automatically applied against the institution’s first quarter 2020 deposit insurance assessment, which was due June 30, 2020, and the amount of any remaining assessment credits the FDIC remitted through its September 30, 2020, deposit insurance assessment, as a reduction of the year-to-date deposit insurance assessment expense it includes in Schedule RI, item 7.d, and, if applicable, Schedule RI-E, item 2.g, of the Call Report.

### **Goodwill Impairment Testing**

In January 2017, the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment,” to address concerns over the cost and complexity of the two-step goodwill impairment test in ASC Subtopic 350-20, Intangibles—Goodwill and Other – Goodwill, that applies to an entity that has not elected

<sup>3</sup> See footnote 2.

the private company alternative for goodwill (which is discussed in the Glossary entry for “Goodwill” in the Call Report instructions). Thus, the ASU simplifies the subsequent measurement of goodwill by eliminating the second step from the test, which involves the computation of the implied fair value of a reporting unit’s goodwill. Instead, under the ASU, when an entity tests goodwill for impairment, which must take place at least annually, the entity should compare the fair value of a reporting unit with its carrying amount. In general, the entity should recognize an impairment charge for the amount, if any, by which the reporting unit’s carrying amount exceeds its fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This one-step approach to assessing goodwill impairment applies to all reporting units, including those with a zero or negative carrying amount. An entity retains the option to perform the qualitative assessment for a reporting unit described in ASC Subtopic 350-20 to determine whether it is necessary to perform the quantitative goodwill impairment test.

For an institution that is a public business entity and is also a U.S. Securities and Exchange Commission (SEC) filer, as both terms are defined in U.S. generally accepted accounting principles (GAAP), the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019. For a public business entity that is not an SEC filer, the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2020. For all other institutions, the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. For Call Report purposes, an institution should apply the provisions of ASU 2017-04 to goodwill impairment tests on a prospective basis in accordance with the applicable effective date of the ASU. An institution that early adopts ASU 2017-04 for U.S. GAAP financial reporting purposes should early adopt the ASU in the same period for Call Report purposes.

For additional information, institutions should refer to ASU 2017-04, which is available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176168778106&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168778106&acceptedDisclaimer=true).

### **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, institutions will use a broader range of data than under existing U.S. GAAP. These data include information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets.

The ASU is applicable to all financial instruments measured at amortized cost (including loans held for investment and held-to-maturity debt securities, as well as trade receivables, reinsurance recoverables, and receivables that relate to repurchase agreements and securities lending agreements), a lessor’s net investments in leases, and off-balance-sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credit, and financial guarantees. The new standard does not apply to trading assets, loans held for sale, financial assets for which the fair value option has been elected, or loans and receivables between entities under common control.

The ASU also modifies the treatment of credit impairment on available-for-sale (AFS) debt securities. Under the new standard, institutions will recognize a credit loss on an AFS debt security through an allowance for credit losses, rather than the current practice required by U.S. GAAP of write-downs of individual securities for other-than-temporary impairment.

On November 15, 2019, the FASB issued ASU No. 2019-10 to defer the effective dates of ASU 2016-13 for certain institutions. Under this ASU, for institutions that are SEC filers, excluding those that are not eligible to be “smaller reporting companies” as defined in the SEC’s rules, ASU 2016-13 continues to be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, i.e., January 1, 2020, for such entities with calendar year fiscal years. For all other entities, including those SEC filers that are eligible to be smaller reporting companies, ASU 2016-13 now will take effect for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, i.e., January 1, 2023, for such entities with calendar year fiscal years. For all institutions, early application of the new credit losses

standard is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Institutions must apply ASU 2016-13 for Call Report purposes in accordance with the effective dates set forth in the ASU as amended in November 2019. An institution that early adopts ASU 2016-13 for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for Call Report purposes. However, Section 4014 of the CARES Act allows an institution to delay the adoption of ASU 2016-13 until the earlier of (1) December 31, 2020, or (2) 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, institutions should refer to the agencies' [Interagency Policy Statement on Allowances for Credit Losses](#), which was published June 1, 2020. Since the issuance of ASU 2016-13, the FASB has published the following amendments to the new credit losses accounting standard:

- ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses," available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176171644373&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176171644373&acceptedDisclaimer=true);
- ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments," available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176172541591&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176172541591&acceptedDisclaimer=true);
- ASU 2019-05, "Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief," available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176172668879&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176172668879&acceptedDisclaimer=true);
- ASU 2019-10, "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates," available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176173775344&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176173775344&acceptedDisclaimer=true);
- ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses," available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176173831330&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176173831330&acceptedDisclaimer=true); and
- ASU 2020-03, "Codification Improvements to Financial Instruments," available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176174290619&acceptedDisclaimer=true](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 institutions that are public business entities, as defined under U.S. GAAP, ASU 2017-12 is currently in effect. For institutions that are not public business entities (i.e., that are private companies), the FASB issued ASU 2019-10 on November 15, 2019, to defer the effective date of ASU 2017-12 by one year. As amended by ASU 2019-10, ASU 2017-12 will take effect for entities that are not public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

Early application of ASU 2017-12 is permitted for all institutions in any interim period or fiscal year before the effective date of the ASU. Further, ASU 2017-12 specifies transition requirements and offers transition elections for hedging relationships existing on the date of adoption (i.e., hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or for which the institution has not removed the designation of the hedging relationship). These transition requirements and elections should be applied on the date of adoption of ASU 2017-12 and the effect of adoption should be reflected as of the beginning of the fiscal year of adoption (i.e., the initial application date). Thus, if an institution early adopts the ASU in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes the interim period of adoption, e.g., as of January 1 for a calendar year institution. An institution that early adopts ASU 2017-12 in an interim period for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for Call Report purposes.

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

For additional information, institutions should refer to ASU 2017-12, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176169282347&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176169282347&acceptedDisclaimer=true); and ASU 2019-10, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,” which is available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176173775344&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176173775344&acceptedDisclaimer=true).

### **Recognition and Measurement of Financial Instruments: Investments in Equity Securities**

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU makes targeted improvements to U.S. GAAP. As one of its main provisions, the ASU requires investments in equity securities, except those accounted for under the equity method and those that result in consolidation, to be measured at fair value with changes in fair value recognized in net income. Thus, the ASU eliminates the existing concept of AFS equity securities, which are measured at fair value with changes in fair value generally recognized in other comprehensive income. To be classified as AFS under current U.S. GAAP, an equity security must have a readily determinable fair value and not be held for trading. In addition, for an equity security that does not have a readily determinable fair value, the ASU permits an entity to elect to measure the security at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When this election is made for an equity security without a readily determinable fair value, the ASU simplifies the impairment assessment of such an investment by requiring a qualitative assessment to identify impairment.

The ASU's measurement guidance for investments in equity securities also applies to other ownership interests, such as interests in partnerships, unincorporated joint ventures, and limited liability companies. However, the measurement guidance does not apply to Federal Home Loan Bank stock and Federal Reserve Bank stock.

For institutions that are public business entities, as defined under U.S. GAAP, ASU 2016-01 is currently in effect. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Institutions must apply ASU 2016-01 for Call Report purposes in accordance with the effective dates set forth in the ASU. Thus, institutions with a calendar year fiscal year that are not public business entities (and did not early adopt ASU 2016-01) should have begun to report their investments in equity securities in accordance with the ASU in the Call Report for December 31, 2019. Institutions with a fiscal year other than the calendar year that are not public business entities (and did not early adopt the ASU) must begin to report these investments in accordance with the ASU in the Call Report for the quarter in 2020 that includes the end of their fiscal year. For example, if such an institution has a fiscal year that begins October 1, it must begin to report in accordance with ASU 2016-01 in the Call Report for September 30, 2020.

With the elimination of the concept of AFS equity securities upon an institution's adoption of ASU 2016-01, the amount of net unrealized gains (losses) on these securities, net of tax effect, that is included in accumulated other comprehensive income (AOCI) on the balance sheet as of the adoption date will be reclassified (transferred) from AOCI into the retained earnings component of equity capital on the balance sheet. Thereafter, changes in the fair value of (i.e., the unrealized gains and losses on) an institution's equity securities that would have been classified as AFS under previous U.S. GAAP will be recognized through net income rather than other comprehensive income (OCI). For an institution's holdings of equity securities without readily determinable fair values as of the adoption date for which the measurement alternative is elected, the measurement provisions of the ASU are to be applied prospectively to these securities.

For an institution with a fiscal year other than the calendar year that is not a public business entity, did not early adopt ASU 2016-01, and must first report its investments in equity securities in accordance with the ASU in the Call Report in 2020, e.g., an institution with a fiscal year that began October 1, 2019, the institution should report the fair value as of September 30, 2020, of its equity securities with readily determinable fair values not held for trading in Schedule RC, item 2.c, and leave Schedule RC-B, item 7, columns C and D, blank in its third quarter 2020 Call Report. If the institution is an insured state bank that has received FDIC

approval in accordance with Section 362.3(a) of the FDIC’s regulations to hold certain equity investments (“grandfathered equity securities”), it also must begin to report the cost basis of all equity securities with readily determinable fair values not held for trading (that are reported in Schedule RC, item 2.c) in Schedule RC-M, item 4. Otherwise, the institution should leave Schedule RC-M, item 4, blank. Equity securities and other equity investments without readily determinable fair values not held for trading should continue to be reported in Schedule RC-F, item 4, or in Schedule RC, item 9, “Direct and indirect investments in real estate ventures,” as appropriate, in the September 30, 2020, Call Report, but these investments should be reported at fair value or, if the measurement alternative is elected, at cost minus impairment, if any, plus or minus changes resulting from observable price changes since October 1, 2019, or acquisition date, if later.

Continuing this example for an institution with a fiscal year that began October 1, 2019, the institution should report the following in Schedule RI, item 8.b, “Change in net unrealized holding gains (losses) on equity securities not held for trading,” in its September 30, 2020, Call Report:

- The change in net unrealized holding gains (losses) before applicable income taxes, if any, during the January 1 through September 30, 2020, reporting period on equity securities with readily determinable fair values not held for trading. Because these equity securities were reported as AFS equity securities in the Call Report for December 31, 2019, the unrealized holding gains (losses) on these securities, net of applicable income taxes, if any, that were included in AOCI on the Call Report balance sheet (Schedule RC, item 26.b) as of that date should be reclassified (transferred) from AOCI into retained earnings on the balance sheet (Schedule RC, item 26.a). The institution should not report any amounts associated with this reclassification in Schedule RI-A, Changes in Bank Equity Capital, because the reclassification is between two accounts within the equity capital section of the Call Report balance sheet and does not result in any change in the total amount of equity capital. No change in net unrealized holding gains (losses) on AFS equity securities should be reported in Schedule RI-A, item 10, in the Call Report for September 30, 2020.
- The change in net unrealized holding gains (losses) before applicable income taxes during the January 1 through September 30, 2020, reporting period on equity securities and other equity investments without readily determinable fair values not held for trading that, after the adoption of ASU 2016-01, are measured at fair value through earnings. The change in net unrealized holding gains (losses) on these equity securities and other equity investments, net of applicable income taxes, during the period from October 1, 2019, through December 31, 2019, should be reported as a direct adjustment to retained earnings and included in Schedule RI-A, item 2, as part of the cumulative effect of a change in accounting principle.
- Impairment, if any, plus or minus changes resulting from observable price changes during the January 1 through September 30, 2020, reporting period on equity securities and other equity investments without readily determinable fair values not held for trading for which this measurement alternative is elected. The amount of observable price changes on these equity securities and other equity investments during the period from October 1, 2019, through December 31, 2019, also should be reported as a direct adjustment to retained earnings and included in Schedule RI-A, item 2. Any other-than-temporary impairment losses on these equity securities and other equity investments that were recognized during this October 1 through December 31, 2019, reporting period will already have been included in retained earnings as of year-end 2019.
- Realized gains (losses) on equity securities and other equity investments not held for trading during the January 1 through September 30, 2020, reporting period. Realized gains (losses) on these equity securities and other equity investments that were recognized during the period from October 1, 2019, through December 31, 2019, will already be included in retained earnings as of year-end 2019.

For additional information, institutions should refer to ASU 2016-01, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true). Institutions may also refer to the Glossary entry for “Securities Activities” in the Call Report instruction books, which was updated in September 2019 in response to the changes in the accounting for investments in equity securities summarized above.

### **Recognition and Measurement of Financial Instruments: Fair Value Option Liabilities**

In addition to the changes in the accounting for equity securities discussed in the preceding section of these Supplemental Instructions, ASU 2016-01 requires an institution to present separately in OCI the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk

(“own credit risk”) when the institution has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Until an institution adopts the own credit risk provisions of the ASU, U.S. GAAP requires the institution to report the entire change in the fair value of a fair value option liability in earnings. The ASU does not apply to other financial liabilities measured at fair value, including derivatives. For these other financial liabilities, the effect of a change in an entity’s own credit risk will continue to be reported in net income.

The change due to own credit risk, as described above, is the difference between the total change in fair value and the amount resulting from a change in a base market rate (e.g., a risk-free interest rate). An institution may use another method that it believes results in a faithful measurement of the fair value change attributable to instrument-specific credit risk. However, it will have to apply the method consistently to each financial liability from period to period.

The effective dates of ASU 2016-01 are described in the preceding section of these Supplemental Instructions. For additional information, institutions should refer to ASU 2016-01, which is available at [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true). In addition, the instructions for certain data items in Schedules RI, RI-A, and RC were updated in the Call Report instruction books in September 2019 in response to the change in accounting for own credit risk on fair value option liabilities.

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

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which added ASC Topic 606, Revenue from Contracts with Customers. The core principle of Topic 606 is that an entity should recognize revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer as part of the entity’s ordinary activities. ASU 2014-09 also added Topic 610, Other Income, which applies to income recognition that is not within the scope of Topic 606, other Topics (such as Topic 840 on leases), or other revenue or income guidance. As discussed in the following section of these Supplemental Instructions, Topic 610 applies to an institution’s sales of repossessed nonfinancial assets, such as other real estate owned (OREO). The sale of repossessed nonfinancial assets is not considered an “ordinary activity” because institutions do not typically invest in nonfinancial assets. ASU 2014-09 and subsequent amendments are collectively referred to herein as the “new standard.” For additional information on this accounting standard and the revenue streams to which it does and does not apply, please refer to the Glossary entry for “Revenue from Contracts with Customers” in the Call Report instruction books.

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

adopt the new standard) may elect to begin to report revenue in accordance with the new standard in its Call Report for either September 30, 2020, or September 30, 2021.

For Call Report purposes, an institution must apply the new revenue recognition standard on a modified retrospective basis as of the original or deferred effective date of the standard. When applying the modified retrospective method in the Call Report, an institution that is a private company with a fiscal year that begins October 1, for example, and elects to adopt the new standard at its original effective date must determine the effect on its retained earnings as of January 1, 2020, of adopting the new revenue recognition standard as of October 1, 2019. The institution should report the effect of this change in accounting principle, net of applicable income taxes, as a direct adjustment to equity capital in Schedule RI-A, item 2, in the Call Reports for September 30, 2020, and December 31, 2020. The institution also must report calendar year-to-date revenue in its Call Report income statement in accordance with this new standard beginning as of January 1, 2020.

For additional information, institutions should refer to the new standard, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Revenue Recognition: Accounting for Sales of OREO**

As stated in the preceding section, Topic 610 applies to an institution's sale of repossessed nonfinancial assets, such as OREO. When the new revenue recognition standard becomes effective at the dates discussed above, Topic 610 will eliminate the prescriptive criteria and methods for sale accounting and gain recognition for dispositions of OREO currently set forth in Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the new standard, an institution will recognize the entire gain or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of Topic 606. Otherwise, an institution will generally record any payments received as a deposit liability to the buyer and continue reporting the OREO as an asset at the time of the transaction.

The following paragraphs highlight key aspects of Topic 610 that will apply to seller-financed sales of OREO once the new standard takes effect. When implementing the new standard, an institution will need to exercise judgment in determining whether a contract (within the meaning of Topic 606) exists for the sale or transfer of OREO, whether the institution has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss. For additional information, please refer to the Glossary entry for "Foreclosed Assets" in the Call Report instruction books, which provides guidance on the application of the new standard to sales of OREO.

Under Topic 610, when an institution does not have a controlling financial interest in the OREO buyer under Topic 810, Consolidation, the institution's first step in assessing whether it can derecognize an OREO asset and recognize revenue upon the sale or transfer of the OREO is to determine whether a contract exists under the provisions of Topic 606. In order for a transaction to be a contract under Topic 606, it must meet five criteria. Although all five criteria require careful analysis for seller-financed sales of OREO, two criteria in particular may require significant judgment. These criteria are the commitment of the parties to the transaction to perform their respective obligations and the collectability of the transaction price. To evaluate whether a transaction meets the collectability criterion, a selling institution must determine whether it is probable that it will collect substantially all of the consideration to which it is entitled in exchange for the transfer of the OREO, i.e., the transaction price. To make this determination, as well as the determination that the buyer of the OREO is committed to perform its obligations, a selling institution should consider all facts and circumstances related to the buyer's ability and intent to pay the transaction price. As with the current accounting standards governing seller-financed sales of OREO, the amount and character of a buyer's initial equity in the property (typically the cash down payment) and recourse provisions remain important factors to evaluate. Other factors to consider may include, but are not limited to, the financing terms of the loan (including amortization and any balloon payment), the credit standing of the buyer, the cash flow from the property, and the selling institution's continuing involvement with the property following the transaction.

If the five contract criteria in Topic 606 have not been met, the institution generally may not derecognize the OREO asset or recognize revenue (gain or loss) as an accounting sale has not occurred. In contrast, if an institution determines the contract criteria in Topic 606 have been met, it must then determine whether it has satisfied its performance obligations as identified in the contract by transferring control of the asset to the

buyer. For seller-financed sales of OREO, the transfer of control generally occurs on the closing date of the sale when the institution obtains the right to receive payment for the property and transfers legal title to the buyer. However, an institution must consider all relevant facts and circumstances to determine whether control of the OREO has transferred.

When a contract exists and an institution has transferred control of the asset, the institution should derecognize the OREO asset and recognize a gain or loss for the difference between the transaction price and the carrying amount of the OREO asset. Generally, the transaction price in a sale of OREO will be the contract amount in the purchase/sale agreement, including for a seller-financed sale at market terms. However, the transaction price may differ from the amount stated in the contract due to the existence of off-market terms on the financing. In this situation, to determine the transaction price, the contract amount should be adjusted for the time value of money by using as the discount rate a market rate of interest considering the credit characteristics of the buyer and the terms of the financing.

As stated in the preceding section, an institution must apply the new revenue recognition standard, including the change in accounting for seller-financed OREO sales, on a modified retrospective basis for Call Report purposes. An institution that is a private company with a fiscal year other than the calendar year, such as an institution with a fiscal year that begins October 1 that elects to begin reporting revenue in accordance with the new standard in the Call Report for September 30, 2020, should follow the guidance for applying the modified retrospective method in the preceding section to its seller-financed OREO sales.

### **Accounting for Leases**

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which added ASC Topic 842, Leases. Once effective, this guidance, as amended by certain subsequent ASUs, supersedes ASC Topic 840, Leases.

Topic 842 does not fundamentally change lessor accounting; however, it aligns terminology between lessee and lessor accounting and brings key aspects of lessor accounting into alignment with the FASB’s new revenue recognition guidance in Topic 606. As a result, the classification difference between direct financing leases and sales-type leases for lessors moves from a risk-and-rewards principle to a transfer of control principle. Additionally, there is no longer a distinction in the treatment of real estate and non-real estate leases by lessors.

The most significant change that Topic 842 makes is to lessee accounting. Under existing accounting standards, lessees recognize lease assets and lease liabilities on the balance sheet for capital leases, but do not recognize operating leases on the balance sheet. The lessee accounting model under Topic 842 retains the distinction between operating leases and capital leases, which the new standard labels finance leases. However, the new standard requires lessees to record a right-of-use (ROU) asset and a lease liability on the balance sheet for operating leases. (For finance leases, a lessee’s lease asset also is designated an ROU asset.) In general, the new standard permits a lessee to make an accounting policy election to exempt leases with a term of one year or less at their commencement date from on-balance sheet recognition. The lease term generally includes the noncancellable period of a lease as well as purchase options and renewal options reasonably certain to be exercised by the lessee, renewal options controlled by the lessor, and any other economic incentive for the lessee to extend the lease. An economic incentive may include a related-party commitment. When preparing to implement Topic 842, lessees will need to analyze their existing lease contracts to determine the entries to record on adoption of this new standard.

For a sale-leaseback transaction to qualify for sales treatment, Topic 842 requires certain criteria within Topic 606 to be met. Topic 606 focuses on the transfer of control of the leased asset from the seller/lessee to the buyer/lessor. A sale-leaseback transaction that does not transfer control is accounted for as a financing arrangement. For a transaction currently accounted for as a sale-leaseback under existing U.S. GAAP, an entity is not required to reassess whether the transaction would have qualified as a sale and a leaseback under Topic 842 when it adopts the new standard.

Leases classified as leveraged leases prior to the adoption of Topic 842 may continue to be accounted for under Topic 840 unless subsequently modified. Topic 842 eliminates leveraged lease accounting for leases that commence after an institution adopts the new accounting standard.

For institutions that are public business entities, as defined under U.S. GAAP, ASU 2016-02 is currently in effect. For institutions that are not public business entities (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. An institution that early adopts the new standard must apply it in its entirety to all lease-related transactions. If an institution chooses to early adopt the new standard for financial reporting purposes, the institution should implement the new standard in its Call Report for the same quarter-end report date.

Under ASU 2016-02, an institution must apply the new leases standard on a modified retrospective basis for financial reporting purposes. Under the modified retrospective method, an institution should apply the leases standard and the related cumulative-effect adjustments to affected accounts existing as of the beginning of the earliest period presented in the financial statements. However, as explained in the “Changes in accounting principles” section of the Glossary entry for “Accounting Changes” in the Call Report instructions, when a new accounting standard (such as the leases standard) requires the use of a retrospective application method, institutions should instead report the cumulative effect of adopting the new standard on the amount of retained earnings at the beginning of the year in which the new standard is first adopted for Call Report purposes (net of applicable income taxes, if any) as a direct adjustment to equity capital in the Call Report. For the adoption of the new leases standard, the cumulative-effect adjustment to bank equity capital for this change in accounting principle should be reported in Schedule RI-A, item 2, and disclosed in Schedule RI-E, item 4.b, “Effect of adoption of lease accounting standard - ASC Topic 842.” In July 2018, the FASB issued ASU 2018-11, “Targeted Improvements,” which provides an additional and “optional transition method” for comparative reporting purposes at adoption of the new leases standard. Under this optional transition method, an institution initially applies the new leases standard at the adoption date (e.g., January 1, 2022, for an institution that is a private company with a calendar year fiscal year) and, for Call Report purposes, the institution should recognize and report a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with the Glossary instructions described above.

For Call Report purposes, all ROU assets for operating leases and finance leases, including ROU assets for operating leases recorded upon adoption of ASU 2016-02, should be reflected in Schedule RC, item 6, “Premises and fixed assets.”

Institutions that have adopted ASU 2016-02 should report the lease liability for operating leases on the Call Report balance sheet in Schedule RC, item 20, “Other liabilities.” In Schedule RC-G, Other Liabilities, operating lease liabilities should be reported in item 4, “All other liabilities.” In addition, institutions should report the amount of operating lease liabilities in Schedule RC-G, item 4.e, if this amount is greater than \$100,000 and exceeds 25 percent of the total amount reported in Schedule RC-G, item 4. Lease liabilities for finance leases should be reported in Schedule RC-M, items 5.b, “Other borrowings,” and 10.b, “Amount of ‘Other borrowings’ that are secured.”

For an operating lease, a lessee should report a single lease cost for the lease in the Call Report income statement, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, in Schedule RI, item 7.b, “Expenses of premises and fixed assets.” For a finance lease, a lessee should report interest expense on the lease liability separately from the amortization expense on the ROU asset. The interest expense should be reported on Schedule RI in item 2.c, “Other interest expense,” on the FFIEC 051 and in item 2.c, “Interest on trading liabilities and other borrowed money,” on the FFIEC 031 and the FFIEC 041. The amortization expense should be reported on Schedule RI in item 7.b, “Expenses of premises and fixed assets.”

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 institutions that have 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 the agencies’ regulatory capital rules

and included in a lessee institution's calculations of total risk-weighted assets. In addition, an ROU asset must be included in a lessee institution's total assets for leverage capital purposes.

For additional information on ASU 2016-02, institutions 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. Institutions may also refer to the Glossary entry for "Lease Accounting" in the Call Report instruction books, which has been updated this quarter in response to the changes in the accounting for leases summarized above.

### Amending Previously Submitted Report Data

Should your institution find that it needs to revise previously submitted Call Report data, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' FIL for the September 30, 2020, report date. For technical assistance with the submission of amendments to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at [cdr.help@cdr.ffiec.gov](mailto:cdr.help@cdr.ffiec.gov).

### Other Reporting Matters

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

- True-up Liability under an FDIC Loss-Sharing Agreement – Supplemental Instructions for June 30, 2015 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201506.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201506.pdf))
- Troubled Debt Restructurings, Current Market Interest Rates, and ASU No. 2011-02 – Supplemental Instructions for December 31, 2014 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201412.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201412.pdf))
- Determining the Fair Value of Derivatives – Supplemental Instructions for June 30, 2014 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201406.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201406.pdf))
- Indemnification Assets and ASU No. 2012-06 – Supplemental Instructions for June 30, 2014 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201406.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201406.pdf))
- Small Business Lending Fund – Supplemental Instructions for March 31, 2013 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201303.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201303.pdf))
- Reporting Purchased Subordinated Securities in Schedule RC-S – Supplemental Instructions for September 30, 2011 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201109.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201109.pdf))
- Treasury Department's Capital Purchase Program – Supplemental Instructions for September 30, 2011 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_suppinst\\_201109.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201109.pdf))
- Deposit insurance assessments – Supplemental Instructions for September 30, 2009 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200909.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200909.pdf))
- Accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* – Supplemental Instructions for December 31, 2006 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200612.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200612.pdf))
- Commitments to originate and sell mortgage loans – Supplemental Instructions for March 31, 2006 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200603.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf)) and June 30, 2005 ([https://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200506.pdf](https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf))

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## APPENDIX

**Coronavirus Aid, Relief, and Economic Security Act: Accounting and Reporting Considerations**

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted into law to provide emergency assistance and health care response for individuals, families, and businesses affected by the 2020 coronavirus (also known as Coronavirus Disease 2019 (COVID-19)) pandemic. The CARES Act includes sections that provide new regulatory reporting options for institutions and affect accounting and reporting in the Consolidated Reports of Condition and Income (Call Reports) for first quarter 2020 and subsequent reporting, including: (1) Section 2303, Modifications for Net Operating Losses; (2) Section 4013, Temporary Relief from Troubled Debt Restructurings; and (3) Section 4014, Optional Temporary Relief from Current Expected Credit Losses.

1) Section 2303, Modifications for Net Operating Losses

Section 2303 of the CARES Act makes two changes to sections of the Internal Revenue Code that were impacted by the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, related to (1) net operating loss (NOL) carryforwards and (2) NOL carrybacks. As stated in the Glossary entry for “Income Taxes” in the Call Report 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. Thus, in accordance with Accounting Standards Codification (ASC) Topic 740, Income Taxes, the effects of the CARES Act should have been recorded in an institution’s Call Report for March 31, 2020, because the CARES Act was enacted during that reporting period. Changes in DTAs and deferred tax liabilities (DTLs) resulting from the change in tax law for NOL carrybacks and carryforwards and other applicable provisions of the CARES Act will be reflected in an institution’s income tax expense in the period of enactment, i.e., the March 31, 2020, Call Report.

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 DTLs, that exceed the thresholds described in Call Report Schedule RC-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.

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

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

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

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

Consistent with Section 4013, financial institutions should maintain records of the volume of Section 4013 loans. The CARES Act also permits the banking agencies to collect data about Section 4013 loans for supervisory purposes. Thus, beginning with the June 30, 2020, report date, institutions will report the number and amount outstanding of Section 4013 loans as of quarter end in Call Report Schedule RC-C, Part I, Memorandum items 17.a and 17.b, respectively. These data items will be collected on a confidential basis at the institution level. Once the term of an eligible Section 4013 loan modification ends, an institution should no longer include the loan in these Schedule RC-C, Part I, Memorandum items.

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

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

Institutions are not required to report Section 4013 loans in the following Call Report items:

- Schedule RC-C, Part I, Memorandum item 1, “Loans restructured in troubled debt restructurings that are in compliance with their modified terms.”
- Schedule RC-N, Memorandum item 1, “Loans restructured in troubled debt restructurings included in Schedule RC-N, items 1 through 7, above.”
- Schedule RC-O, Memorandum item 16, “Portion of loans restructured in troubled debt restructurings that are in compliance with their modified terms and are guaranteed or insured by the U.S.”

<sup>4</sup> ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors.

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

<sup>6</sup> Institutions can refer to the aforementioned interagency statement and joint statement for additional information when making these determinations.

<sup>7</sup> ASC Subtopic 450-20, Contingencies—Loss Contingencies.

<sup>8</sup> ASC Subtopic 310-10, Receivables—Overall.

<sup>9</sup> ASC Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

Government” (which is applicable only to “large institutions” and “highly complex institutions” for deposit insurance assessment purposes).

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

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

Section 4014 of the CARES Act 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) December 31, 2020, or (2) the termination of the National Emergency.