FEDERAL RESERVE BANK *of* NEW YORK

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ASSISTANT VICE PRESIDENT

October 6, 2014

To: The Individuals Responsible for Preparing the Consolidated Financial Statements for Holding Companies (FR Y-9C) Located in the Second Federal Reserve District

Subject: Holding Companies Reporting Requirements for September 30, 2014

The following report forms and instructions for the September 30, 2014 reporting date have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms":

(1) Consolidated Financial Statements for Holding Companies (FR Y-9C);

(2) Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP);

(3) Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11);

(4) Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314); and

(5) Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12)

There are no changes to the reporting forms for the, FR Y-9C, FR Y-9LP, FR Y-11, FR Y-12 and the FR 2314 for this quarter. The FR Y-9C instructions have been modified to (1) clarify that pooled loans that have been guaranteed by GNMA should be included in Schedule HC-S item 1, and (2) update Schedule HI, item 11 to include reference to FASB Accounting Standards Update (ASU) No. 2014-08, "*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* There were no changes to the FR Y-9LP, FR Y-12, FR 2314 or the FR Y-11 reporting instructions. The revised instruction (data edits) pages for the FR Y-9C have vertical black lines in the margins to annotate revisions.

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Supplemental instructions concerning current accounting and reporting issues affecting the FR Y-9 series of reports are provided in this letter. A summary of significant updates to the FR Y-9C reporting forms and instructions is included in the Attachment.

The Federal Reserve System is in the midst of a multiyear project of replacing the Internet Electronic Submission (IESUB) application with a new reporting application, Reporting Central, report-by-report. Effective with the September 30, 2014 report date, the FR 2314 and the FR Y-11 reports will be available for electronic data submission via Reporting Central only (i.e., IESUB can no longer be used). The FR 2314S and FR Y-11S reports are scheduled for transition to Reporting Central at a later effective date, and until this transition is completed, these reports may continue to be submitted through IESUB. For institutions that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions. For institutions that submit these reports electronically, they must maintain in their files a signed printout of the data submitted. Additional information about the Reporting Central application, including an online resource center, is available at: http://www.frbservices.org/centralbank/reportingcentral/index.html.

As part of the transition to Reporting Central, the Federal Reserve has modified its internal procedures for handling confidentiality requests for those institutions that choose to submit data electronically. Generally, the FR 2314 and the FR Y-11 reports are available to the public upon request on an individual basis. However, a reporting U.S. banking organization and HCs may request confidential treatment for the entire report or for specific items on the FR 2314 or the FR Y-11. To better facilitate confidentiality requests and ensure the data are properly handled during the review of the request, the Federal Reserve strongly encourages institutions that are of the opinion that disclosure of certain commercial or financial information in the report would likely result in substantial harm to its (or its subsidiaries') competitive position or that disclosure of the submitted personal information would result in unwarranted invasion of personal privacy to:

(1) notify their Reserve Bank of their intent to request confidential treatment in advance of the written request and
(2) send the confidentiality request in writing prior to data submission.

For institutions that choose not to submit data electronically, written requests for confidentiality may be provided concurrently with the paper submission of the report.

For more information on confidentiality requests, please see the FR 2314/S and the FR Y-11/S General Instructions (page GEN-6).

Subscription Service

We offer a subscription service, which enables you to receive recent news and updates on our reporting forms and instructions and upcoming events. You can sign up for this service at the following website:
http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8

Reports Submission

All FR Y-9C and FR Y-9LP filers are required to submit electronically. A signed and attested printout of the data submitted must be maintained in the holding companies (HCs) files. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirements and should be attached to the printout placed in the HCs files.

For the FR Y-11, FR 2314 and FR Y-12 reports that are not submitted electronically, an original and two copies (one-sided) of each completed report must be returned to this bank by mail or messenger by the dates listed below.

The Federal Reserve continues to monitor the timeliness of receipt of these reports. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

The submission deadline for all **FR Y-9C** filers is Monday, November 10, 2014. Any **FR Y-9C** reports received after 5:00 p.m. on November 10 will be considered late. The submission deadline for all **FR Y-9LP** filers is Friday, November 14, 2014. Any FR **Y-9LP** reports received after 5:00 p.m. on November 14 will be considered late. The submission deadline for the **FR Y-12** is November 14, 2014. Any **FR Y-12** reports received after 5:00 p.m. on November 14 will be considered late unless postmarked by Wednesday, November 12 or sent by overnight service on Thursday, November 13. The submission deadline for the **FR Y-11** and **FR 2314** is Monday, December 1, 2014. Any **FR Y-11** and **FR 2314** reports received after 5:00 p.m. on December 1 will be considered late unless postmarked by Friday, November 28 or sent by overnight service on Saturday, November 29.

Submission of initial data via facsimile, even if prior to this deadline does not constitute an official filing. In view of this, please be sure that completed reports are submitted on time to:

Federal Reserve Bank of New York
Statistics Function
Administrative Support Staff
33 Liberty Street, 4th Floor
New York, N.Y. 10045

Editing of Data by Respondents

All HCs must submit their FR Y-9 reports via the Federal Reserve's internet submission facility (IESUB), using either data entry or file transfer. This data collection system will subject a HC's electronic data submission to the published validity and quality edit checks and transmit the results of such checks to the HC shortly thereafter. HCs must resolve any validity edits before the data can be accepted. The validity and quality edits are provided at the end of the reporting instructions for the FR Y-9C and the FR Y-9LP. HCs will also be provided a method for supplying explanations for quality edits. (Guidelines for providing quality explanations can be found at: http://www.frbservices.org/centralbank/reportingcentral/iesub.html. These explanations will be held confidential.

Reports that contain validity edit failures or have quality edit failures that are not explained on or before the filing deadline will be deemed late.

Companies that offer computer software to aid in the preparation of FR Y-9 reports or HCs that have developed their own reporting software may choose to incorporate validity and quality edit checks into their software.

The Federal Reserve will continue to provide updates about the enhanced IESUB submission process on the web site:
http://www.frbservices.org/centralbank/reportingcentral/iesub.html.

Private Company Accounting Alternatives, Including Accounting for Goodwill

In May 2012, the Financial Accounting Foundation, the independent private sector organization responsible for the oversight of the Financial Accounting Standards Board (FASB), approved the establishment of a Private Company Council (PCC) to improve the process of setting accounting standards for private companies. The PCC is charged with working jointly with the FASB to determine whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, and transition guidance for private companies reporting under U.S. generally accepted accounting principles (GAAP). Alternative guidance for private companies may include modifications or exceptions to otherwise applicable existing U.S. GAAP standards.

The Federal Reserve has concluded that a HC that is a private company, as defined in U.S. GAAP (as discussed in the next section of these Supplemental Instructions), is permitted to use private company accounting alternatives issued by the FASB when preparing its FR Y-9 report(s), except as provided in 12 U.S.C. 1831n (a) as described in the following sentence. If the Federal Reserve determines that a particular accounting principle within U.S. GAAP, including a private company accounting alternative, is inconsistent with the statutorily specified supervisory objectives, the Federal Reserve may prescribe an accounting principle for regulatory reporting purposes that are no less stringent than U.S. GAAP. In such a situation, an institution would not be permitted to use that particular private company accounting alternative or other accounting principle within U.S. GAAP for FR Y-9 reporting purposes. The Federal Reserve would provide appropriate notice if they were to disallow any accounting alternative under the statutory process.

On January 16, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-02, "Accounting for Goodwill," which is a consensus of the PCC. This ASU generally permits a private company to elect to amortize goodwill on a straight-line basis over a period of ten years (or less than ten years if more appropriate) and apply a simplified impairment model to goodwill. In addition, if a private company chooses to adopt the ASU's goodwill accounting alternative, the ASU requires the private company to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill must be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. In contrast, existing U.S. GAAP does not permit goodwill to be amortized, instead requiring goodwill to be tested for impairment at the reporting unit level annually and between annual tests in certain circumstances. The ASU's goodwill accounting alternative, if elected by a private company, is effective prospectively for new goodwill recognized in annual periods beginning after December 15, 2014, and in interim periods within annual periods beginning after December 15, 2015. Goodwill existing as of the beginning of the period of adoption is to be amortized prospectively over ten years (or less than ten years if more appropriate). The ASU states that early application of the goodwill accounting alternative is permitted for any annual or interim period for which a private company's financial statements have not yet been made available for issuance.

A HC that meets the private company definition in ASU 2014-02, as discussed in the following section of these Supplemental Instructions (i.e., a private institution), is permitted, but not required, to adopt this ASU for FR Y-9 reporting purposes and may choose to early adopt the ASU. If a private institution issues U.S. GAAP financial statements and adopts the ASU, it should apply the ASU's goodwill accounting alternative in its FR Y-9 reports in a manner consistent with its reporting of goodwill in its financial statements. Thus, for example, a private institution with a calendar year fiscal year that chooses to adopt ASU 2014-02 must apply the ASU's provisions in its December 31, 2015, and subsequent quarterly FR Y-9C reports unless early application of the ASU is elected. If a private institution with a calendar year fiscal year is adopting ASU 2014-02 for 2014 financial reporting purposes, the institution may implement the provisions of the ASU in its FR Y-9 reports for December 31, 2014. This would require the private institution to report in its year-end 2014 FR Y-9C one full year's amortization of goodwill existing as of January 1, 2014, and the amortization of any new goodwill recognized in 2014. Alternatively, the calendar year private institution could begin to apply the provisions of ASU 2014-02 in its FR Y-9C or FR Y-9LP report for September 30, 2014, in which case it would report nine months' amortization of goodwill existing as of January 1, 2014, and the amortization of any new goodwill recognized in the first nine months of 2014. For the FR Y-9C, goodwill amortization expense should be reported in item 7.c.(1) of the income statement (Schedule HI) unless the amortization is associated with a discontinued operation, in which case the goodwill amortization should be included within the results of discontinued operations and reported in Schedule HI, item 11, "Extraordinary items and other adjustments, net of income taxes."

Private institutions choosing to early adopt the goodwill accounting alternative in ASU 2014-02 that have a fiscal year or an early application date other than the one described in the examples above should contact their Federal Reserve District Bank for reporting guidance.

For additional information on the private company accounting alternative for goodwill, institutions should refer to ASU 2014-02, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Definitions of Private Company and Public Business Entity

According to ASU No. 2014-02, "Accounting for Goodwill," a private company is a business entity that is not a public business entity. ASU No. 2013-12, "Definition of a Public Business Entity," which was issued in December 2013, added this term to the Master Glossary in the Accounting Standards Codification. This ASU states that a business entity, such as a HC, that meets any one of five criteria set forth in the ASU is a public business entity for reporting purposes under U.S. GAAP, including FR Y-9 reporting purposes. An institution that is a public business entity is not permitted to apply the private company goodwill accounting alternative discussed in the preceding section when preparing its FR Y-9 reports.

As defined in ASU 2013-12, a business entity is a public business entity if it meets any one of the following criteria:

- It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC (such as one of the federal banking agencies).
- It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

- It has issued securities that are traded, listed, or quoted on an exchange or an over-the-counter market, which includes an interdealer quotation or trading system for securities not listed on an exchange (for example, OTC Markets Group, Inc., including the OTC Pink Markets, or the OTC Bulletin Board).
- It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

ASU 2013-12 also explains that if an entity meets the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC, but not for other reporting purposes.

If a HC does not meet any one of the first four criteria, it would need to consider whether it meets both of the conditions included in the fifth criterion to determine whether it would be a public business entity. A mutual institution does not meet the fifth criterion. With respect to the first condition under the fifth criterion, a stock institution must determine whether it has a class of securities not subject to contractual restrictions on transfer, which the FASB has stated means that the securities are not subject to management preapproval on resale. A contractual management preapproval requirement that lacks substance would raise questions about whether the stock institution meets this first condition.

For additional information on the definition of a public business entity, institutions should refer to ASU 2013-12, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring

When a loan has previously been modified in a troubled debt restructuring (TDR), the lending institution and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR loan should be carefully evaluated to determine the appropriate accounting by the institution under U.S. generally accepted accounting principles. Under certain circumstances it may be acceptable not to account for the subsequently restructured loan as a TDR. The federal financial institution regulatory agencies will not object to an institution no longer treating such a loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the institution than those it would offer for such new debt. When assessing whether a concession has been granted by the institution, the Federal Reserve considers any principal forgiveness on a cumulative basis to be a continuing concession. When determining whether the borrower is experiencing financial difficulties, the institution's assessment of the borrower's financial condition and prospects for repayment after the restructuring should be supported by a current, well-documented credit evaluation performed at the time of the restructuring.

If at the time of the subsequent restructuring the institution appropriately demonstrates that a loan meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No.114), and the loan need no longer be disclosed as a TDR in the FR- Y9C report, except as noted below. Accordingly, going forward, loan impairment should be measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5). Even though the loan need no longer be measured for impairment as a TDR or disclosed as a TDR, the recorded investment in the loan should not change at the time of the subsequent restructuring (unless cash is advanced or received). In this regard, when there have been charge-offs prior to the subsequent restructuring, consistent with longstanding FR Y-9C instructions, no recoveries should be recognized until collections on amounts previously charged off have been received. Similarly, if interest payments were applied to the recorded investment in the TDR loan prior to the subsequent restructuring, the application of these payments to the recorded investment should not be reversed nor reported as interest income at the time of the subsequent restructuring.

If the TDR designation is removed from a loan that meets the conditions discussed above and the loan is later modified in a TDR or individually evaluated and determined to be impaired, then the impairment on the loan should be measured under ASC Subtopic 310-10 and, if appropriate, the loan should be disclosed as a TDR.

For a subsequently restructured TDR loan on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the loan should continue to be measured as a TDR. However, if the subsequent restructuring agreement specifies a contractual interest rate that, at the time of the subsequent restructuring, is not less than a market interest rate for new debt with similar credit risk characteristics and the loan is performing in compliance with its modified terms after the subsequent restructuring, the loan need not continue to be reported as a TDR in Schedule HC-C, Memorandum item 1, in calendar years after the year in which the subsequent restructuring took place. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

Institutions may choose to apply this guidance prospectively to subsequently restructured loans that meet the conditions discussed above for removing the TDR designation. Institutions also may choose to apply this guidance to loans outstanding as of September 30, 2014, for which there has been a previous subsequent restructuring that met the conditions discussed above at the time of the subsequent restructuring. However, prior FR Y-9C reports should not be amended.

Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure

In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure," to address diversity in practice for how government-guaranteed mortgage loans are recorded upon foreclosure. The ASU updates guidance contained in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended), because U.S. generally accepted accounting principles (GAAP) previously did not provide specific guidance on how to categorize or measure foreclosed mortgage loans that are government guaranteed. The new ASU clarifies the conditions under which a creditor must derecognize a government-guaranteed mortgage loan and recognize a separate "other receivable" upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan in accordance with the guidance in ASC Subtopic 310-40).

Under the new guidance, institutions should derecognize a mortgage loan and record a separate other receivable upon foreclosure of the real estate collateral if the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the institution has the intent to convey the property to the guarantor and make a claim on the guarantee and it has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed (that is, the real estate property has been appraised for purposes of the claim and thus the institution is not exposed to changes in the fair value of the property).

This guidance is applicable to fully and partially government-guaranteed mortgage loans. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This other receivable should be reported in Schedule HC-F, item 6, "All other assets." Any interest income earned on the other receivable would be reported in Schedule HI, item 1.g, "Other interest income." Other real estate owned would not be recognized by the institution.

For institutions that are public business entities, as defined under U.S. GAAP (as discussed in the preceding section of these Supplemental Instructions), ASU 2014-14 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. For example, institutions with a calendar year fiscal year that are public business entities must apply the ASU in their FR Y-9C reports beginning March 31, 2015. However, institutions that are not public business entities (i.e., that are private companies) are not required to apply the guidance in ASU 2014-14 until annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. Thus, institutions with a calendar year fiscal year that are private companies must apply the ASU in their December 31, 2015, and subsequent quarterly FR Y-9C reports. Earlier adoption of the guidance in ASU 2014-14 is permitted if the institution has already adopted the amendments in ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure" (which is discussed in the following section of these Supplemental Instructions).

Entities can elect to apply ASU 2014-14 on either a modified retrospective transition basis or a prospective transition basis. However, institutions must use the method of transition that is elected for ASU 2014-04 (that is, either modified retrospective or prospective). Applying ASU 2014-14 on a prospective transition basis should be less complex for institutions than applying the ASU on a modified retrospective transition basis. Under the prospective transition method, an institution should apply the new guidance to foreclosures of real estate property collateralizing certain government-guaranteed mortgage loans (based on the criteria described above) that occur after the date of adoption of the ASU. Under the modified retrospective transition method, an institution should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the annual period for which the ASU is adopted. The cumulative-effect adjustment for this change in accounting principle should be reported in Schedule HI-A, item 2.

For additional information, institutions should refer to ASU 2014-14, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon a Foreclosure

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans - Upon Foreclosure" to address diversity in practice for when certain loan receivables should be derecognized and the real estate recognized. The ASU updated guidance contained in Accounting Standards Codification Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors.

Under prior accounting guidance, all loan receivables were reclassified to other real estate owned (OREO) when the institution, as creditor, obtained physical possession of the property, regardless of whether formal foreclosure proceedings had taken place. The new ASU clarifies when a creditor is considered to have received physical possession (resulting from an in-substance repossession or foreclosure) of residential real estate collateralizing a consumer mortgage loan. Under the new guidance, physical possession for these residential real estate properties is considered to have occurred and a loan receivable would be reclassified to OREO only upon:

- The institution obtaining legal title through foreclosure even if the borrower has redemption rights whereby it can legally reclaim the real estate for a period of time, or
- Completion of a deed-in-lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the institution to satisfy the loan.

Real estate-secured loans other than consumer mortgage loans collateralized by residential real estate should continue to be reclassified to OREO when the institution has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place.

The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. However, nonpublic entities, as defined under generally accepted accounting principles, are not required to apply the guidance in the ASU to interim periods in the year of adoption.

Early adoption is permitted under the standard. Holding companies electing to early adopt should include as other real estate owned on Schedule HC-M, item 13, all residential real estate collateral underlying consumer mortgage loans when the institution has obtained physical possession of the collateral as defined under ASU 2014-04. HCs should report the cumulative effect of a change in accounting principle[1] in Schedule HI-A, item 2.

HCs can elect to apply the ASU on either a modified retrospective transition basis or a prospective transition basis. Under the modified retrospective transition method, an institution should apply a cumulative-effect adjustment to residential consumer mortgage loans and OREO existing as of the beginning of the annual period for which the amendments are effective. As a result of adopting the ASU, assets reclassified from OREO to loans should be measured at the carrying value of the real estate at the date of adoption while assets reclassified from loans to OREO should be measured at the lower of the net amount of loan receivable or the OREO property's fair value less costs to sell at the time of adoption. Under the prospective transition method, an institution should apply the new guidance to all instances where the institution receives physical possession of residential real estate property collateralized by consumer mortgage loans that occur after the date of adoption.

For additional information, institutions should refer to ASU 2014-04, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Secured Consumer Debt Discharged in a Chapter 7 Bankruptcy Order

Questions have arisen regarding the appropriate accounting and regulatory reporting treatment for certain secured consumer loans where (i) the loan has been discharged in a Chapter 7 bankruptcy under the U.S. Bankruptcy Code,[2](ii) the borrower has not reaffirmed the debt, (iii) the borrower is current on payments, and (iv) the loan has not undergone a troubled debt restructuring (TDR) before the bankruptcy.

When a debtor files for Chapter 7 bankruptcy, a trustee is appointed to liquidate the debtor's assets for the benefit of creditors. Generally, Chapter 7 bankruptcy results in a discharge of personal liability for certain debts that arose before the petition date. A bankruptcy discharge acts as a permanent injunction of claims against the debtor, but does not extinguish certain secured debt or any existing liens on the property securing the debt.

In general, for certain secured debt, the loan agreement (including the promissory note and, depending on the state, the security interest) entered into before bankruptcy remains in place

[1] The cumulative effect of a change in accounting principle is the difference between (1) the balance in the retained earnings account at the beginning of the year in which the change is made and (2) the balance in the retained earnings account that would have been reported at the beginning of the year had the newly adopted accounting principle been applied in all prior periods.

[2] 11 USC Chapter 7

after the debt has been discharged in a Chapter 7 bankruptcy. However, the lender may no longer pursue the borrower personally for a deficiency due to nonpayment. In addition, the institution's ability to manage the loan relationship is restricted. For example, after a borrower has completed Chapter 7 bankruptcy, an institution is limited with regard to collection efforts, communications with the borrower, loss mitigation strategies, and reporting on the discharged debt to credit bureaus.

The accounting and regulatory reporting issues that arise for secured consumer loans discharged in a Chapter 7 bankruptcy include: (1) whether the discharge is a TDR, (2) the measure of impairment, (3) whether the loan should be placed in nonaccrual status, and (4) charge-off treatment.

<u>TDR Determination</u>

In determining whether a secured consumer debt discharged in a Chapter 7 bankruptcy constitutes a troubled debt restructuring, a HC needs to assess whether the borrower is experiencing financial difficulties and whether a concession has been granted to the borrower. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 310-40, a bankruptcy filing is an indicator of a borrower's financial difficulties. Determining whether a holding company has granted a concession in a Chapter 7 bankruptcy requires judgment. In assessing whether a concession has been granted, institutions should consider all relevant facts and circumstances, including the effect of changes to the legal rights and obligations of the lender and the borrower resulting from Chapter 7 bankruptcy. Changes taken as a whole that are not substantive may not be considered a concession. Holding companies should refer to the Glossary section of the *Instructions for Preparation of Consolidated Financial Statements for Holding Companies* for additional information on TDRs.

<u>Measure of Impairment</u>

If a HC has concluded that the completion of a Chapter 7 bankruptcy filing has resulted in a TDR, the loan should be measured for impairment under ASC Section 310-10-35 (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"). Under this guidance, impairment shall be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a HC may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. For regulatory reporting purposes, HCs must measure impairment based on the fair value of the collateral when an impaired loan is determined to be collateral dependent. A loan is considered to be collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. Judgment is required to determine whether an impaired loan is collateral dependent, and a holding company should assess all available credit information and weigh all factors pertaining to the loan's repayment sources.

If repayment of an impaired loan is not solely dependent upon the underlying collateral, impairment would be measured based on the present value of expected future cash flows. ASC Section 310-10-35 allows impaired loans to be aggregated and measured for impairment with other impaired loans that share common risk characteristics.

Discharged secured consumer debts that are not TDRs (or are not otherwise determined to be in the scope of ASC 310-10 and held for investment) should be measured collectively for impairment under ASC Subtopic 450-20 (formerly FASB Statement No. 5, "Accounting for Contingencies"). In estimating the allowance for loan and lease losses (ALLL) under ASC Subtopic 450-20, holding companies should consider all available evidence and weigh all factors that affect the collectability of the loans as of the evaluation date. Factors can include the bankruptcy filing, delinquent senior liens, and negative equity in the collateral and sustained timely payment performance by the borrower.

HCs should ensure that loans are properly segmented based upon similar risk characteristics when calculating the allowance under ASC Subtopic 450-20. Borrowers of secured consumer debt discharged in a Chapter 7 bankruptcy generally are considered to have a higher credit risk profile than those borrowers that have not filed for Chapter 7 bankruptcy. For HCs with significant holdings of these loans to borrowers who have completed a Chapter 7 bankruptcy, it is appropriate to segment these mortgage loans separately from pools of mortgage loans to borrowers who have not filed for Chapter 7 bankruptcy when calculating the allowance. HCs should follow existing regulatory guidance in calculating the ALLL including, if applicable, the *Interagency Supervisory Guidance on Allowance for Loan and Lease Losses Estimation Practices for Loans and Lines of Credit Secured by Junior Liens on 1-4 Family Residential Properties*, which can be accessed at http://fedweb.frb.gov/fedweb/bsr/srltrs/sr1203.shtm.

Regardless of impairment method used, when available information confirms that specific loans or portions thereof, are uncollectible, these amounts should be promptly charged off against the allowance for loan and leases losses.

Accrual Status

HCs should follow the Glossary entry under "Nonaccrual Status" when determining whether secured consumer debt discharged in a Chapter 7 bankruptcy should be on accrual status. These instructions also address the restoration of nonaccrual assets, including any loans identified as TDRs that are in nonaccrual status, to accrual status.

Consistent with GAAP and regulatory guidance, institutions are expected to follow revenue recognition practices that do not result in overstating income. For a secured consumer loan discharged in a Chapter 7 bankruptcy, whether or not it is a TDR, placing the loan on nonaccrual when payment in full of principal and interest is not expected is one appropriate method to ensure income is not overstated.

Charge-off Treatment

GAAP states that loans shall be charged off in the period in which the loans are deemed uncollectible. Because of heightened risk that loans discharged through bankruptcy may be uncollectible, the interagency *Uniform Retail Credit Classification and Account Management Policy*[3] (Uniform Retail Credit Policy) requires such loans to be charged down to collateral value (less costs to sell) within 60 days of notification from the bankruptcy court unless the institution can clearly demonstrate and document that repayment is likely to occur. To assess whether such a loan should be deemed uncollectable, a holding company should perform a credit analysis at the time a borrower whose loan is current completes Chapter 7 bankruptcy (hereafter, a post-discharge analysis). If the post-discharge analysis indicates repayment of principal and interest is likely to continue, then immediate charge down to collateral value and full application of payments to reduce the recorded investment in the loan is not required.

If a credit analysis does not support that repayment of principal and interest is likely to continue, the loan should be charged down to the collateral's fair value (less costs to sell). Any balance not charged off should be placed on nonaccrual when full collection of principal and interest is not expected. The Uniform Retail Credit Policy can be accessed at http://fedweb.frb.gov/fedweb/bsr/srltrs/SR0008.htm.

As is discussed in the Uniform Retail Credit Policy, evaluating the quality of a retail credit portfolio on a loan-by-loan basis is inefficient and burdensome for the institution being examined and for examiners given the generally large number of relatively small-balance loans in a retail credit portfolio. Therefore, the type of credit analysis that is performed to assess whether repayment is likely to continue may vary depending on whether the loans are managed individually or on a homogenous pool basis.

For loans managed in pools, holding companies may choose to evaluate the likelihood of continued repayment on a pool basis. In order for a pool analysis to be used, a holding company must identify various credit risk indicators that signify likelihood of continuing repayment. Such indicators might include measures of historical payment performance, loan structure, lien position, combined loan-to-value ratios, amounts paid over the minimum payment due and other pertinent factors that have been associated with payment performance in the past. Such credit

[3] While the terms of the revised policy apply only to federally insured depository institutions, the Federal Reserve believes the guidance is broadly applicable to holding companies and their nonbank lending subsidiaries. Refer to the Bank Holding Company Supervision Manual (Section 2241.0) for details.

risk indicators should then be considered as a whole when determining whether objective evidence supports the likelihood of continuing repayment. A holding company using pool-based analysis should also conduct ongoing monitoring to ensure the appropriateness of the credit risk indicators used to support the likelihood of continuing repayment.

For all loans managed individually and any loans managed on a pool basis where the pool analysis does not support likelihood of continuing repayment, a loan-level, post-discharge credit analysis would be necessary to support likelihood of continuing repayment. A loan-level, post-discharge analysis should demonstrate and document structured orderly collection, post-discharge repayment capacity, and sustained payment performance. If likelihood of continuing repayment cannot be supported, the loan should be deemed uncollectable and charged down to collateral value (less costs to sell) within 60 days of notification from the bankruptcy court.

Bank Subsidiary Reporting Differences

Generally, the FR Y-9C reports should reflect the same accounting practices as those used in its subsidiary depository institutions' Reports of Condition and Income (Call Reports). However, if a company adopts accounting practices for purposes of its published consolidated GAAP financial statements that are different from those used in subsidiary depository institution Call Reports, it should use those practices in preparation of the FR Y-9C. For example, if a holding company's depository institution subsidiary charges down certain discharged secured consumer debt for Call Report purposes but not for purposes of its published consolidated GAAP financial statements, it should not charge down those loans for purposes of preparing the FR Y-9C. In this situation, the holding company should explain differences in reporting between the subsidiary and the holding company in the FR Y-9C "Notes to the Income Statement – Other" and "Notes to the Balance Sheet – Other" report sections.

"Purchased" Loans Originated By Others

When acquiring loans originated by others, institutions should consider whether the transaction should be accounted for as a purchase of the loans or as a secured borrowing in accordance with ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended). For the transaction to qualify for sale accounting:

- First, unless the transfer is of an entire financial asset, the transferred portion of the financial asset must meet the definition of a participating interest.
- Second, the transfer must meet all of the conditions set forth in Subtopic 860-10 to demonstrate that the transferor has surrendered control over the transferred financial assets.

For example, some institutions have entered into various residential mortgage loan purchase programs. These programs often function like traditional warehouse lines of credit; however, in some cases, the mortgage loan transfers are legally structured as purchases by the institution rather than as pledges of collateral to secure the funding. Under these programs, an institution provides funding to a mortgage loan originator while simultaneously obtaining an interest in the mortgage loans subject to a takeout commitment. A takeout commitment is a written commitment from an approved investor (generally, an unrelated third party) to purchase one or more mortgage loans from the originator.

Although the facts and circumstances of each program must be carefully evaluated to determine the appropriate accounting, an institution should generally account for a mortgage purchase program with continuing involvement by the originator, including takeout commitments, as a secured borrowing with pledge of collateral, i.e., a loan to the originator secured by the residential mortgage loans, rather than a purchase of mortgage loans.

When loans obtained in a mortgage purchase program do not qualify for sale accounting, the financing provided to the originator (if not held for trading purposes) should be reported in FR Y-9C Report Schedule HC-C, part I, item 9.a, “Loans to nondepository financial institutions,” and on the balance sheet in Schedule HC, item 4.a, “Loans and leases held for sale,” or item 4.b, “Loans and leases, net of unearned income,” as appropriate. For risk-based capital purposes, a loan to a mortgage loan originator secured by residential mortgages that are reported in Schedule HC-C, part I, item 9.a, should be assigned a 100 percent risk weight and included in column F of Schedule HC-R, item 38 or 39, based on its balance sheet classification.

In situations where the transaction between the mortgage loan originator and the transferee (acquiring) institution is accounted for as a secured borrowing with pledge of collateral, the transferee (acquiring) institution’s designation of the financing provided to the originator as held for sale is appropriate only when the conditions in ASC Subtopic 310-10, Receivables – Overall (formerly AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others") and the 2001 Interagency Guidance on Certain Loans Held for Sale have been met. In these situations, the mortgage loan originator’s planned sale of the pledged collateral (i.e., the individual residential mortgage loans) to a takeout investor is not relevant to the transferee institution’s designation of the loan to the originator as held for investment or held for sale. In situations where the transferee institution simultaneously extends a loan to the originator and transfers an interest (for example, a participation interest) in the loan to the originator to another party, the transfer to the other party also should be evaluated to determine whether the conditions in ASC Topic 860 for sale accounting treatment have been met. If this transfer qualifies to be accounted for as a sale, the portion of the loan to the originator that is retained by the transferee institution should be classified as held for investment when the transferee has the intent and ability to hold that portion for the foreseeable future or until maturity or payoff (which is generally in the near term).

True-up Liability under an FDIC Loss-Sharing Agreement

As discussed above, an institution that acquires a failed insured institution may enter into a loss-sharing agreement with the FDIC under which the FDIC agrees to absorb a portion of the losses on a specified pool of the failed institution's assets during a specified time period. The acquiring institution typically records an indemnification asset representing its right to receive payments from the FDIC for losses during the specified time period on assets covered under the loss-sharing agreement.

Since 2009, most loss-sharing agreements have included a true-up provision that may require the acquiring institution to reimburse the FDIC if cumulative losses in the acquired loss-share portfolio are less than the amount of losses claimed by the institution throughout the loss-sharing period. Typically, a true-up liability may result because the recovery period on the loss-share assets (e.g., eight years) is longer than the period during which the FDIC agrees to reimburse the acquiring institution for losses on the loss-share portfolio (e.g., five years).

Consistent with U.S. GAAP and the Glossary entry for "Offsetting" in the FR Y-9C instructions, institutions are permitted to offset assets and liabilities recognized in the Report of Condition when a "right of setoff" exists. Under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts"), in general, a right of setoff exists when a reporting institution and another party each owes the other determinable amounts, the reporting institution has the right to set off the amounts each party owes and also intends to set off, and the right of setoff is enforceable at law. Because the conditions for the existence of a right of offset in ASC Subtopic 210-20 normally would not be met with respect to an indemnification asset and a true-up liability under a loss-sharing agreement with the FDIC, this asset and liability should not be netted for FR Y-9C reporting purposes. Therefore, institutions should report the indemnification asset gross (i.e., without regard to any true-up liability) in item 6 of Schedule HC-F, Other Assets, and any true-up liability in item 4 of Schedule HC-G, Other Liabilities.

In addition, an institution should not continue to report assets covered by loss-sharing agreements in Schedule HC-M, item 6 (and in Schedule HC-N, item 12, if appropriate) after the expiration of the loss sharing period even if the terms of the loss-sharing agreement require reimbursements from the institution to the FDIC for certain amounts during the recovery period.

Troubled Debt Restructurings and Current Market Interest Rates

Many institutions are restructuring or modifying the terms of loans through workout programs, renewals, extensions, or other means to provide payment relief for those borrowers who have suffered deterioration in their financial condition. Such loan restructurings may include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date. Modifications may be executed at the original contractual interest rate on the loan, a current market interest rate, or a below-market interest rate. Many of these loan modifications meet the definition of a troubled debt restructuring (TDR).

The TDR accounting and reporting standards are set forth in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). This guidance specifies that a restructuring of a debt constitutes a TDR if, at the date of restructuring, the creditor for economic or legal reasons related to a debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The creditor's concession may include a restructuring of the terms of a debt to alleviate the burden of the debtor's near-term cash requirements, such as a modification of terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor.

The stated interest rate charged the borrower after a loan restructuring may be greater than or equal to interest rates available in the marketplace for similar types of loans to nontroubled borrowers at the time of the restructuring. Some institutions have concluded that these restructurings are not TDRs; however, this conclusion may be inappropriate. In reaching this conclusion, these institutions may not have considered all of the facts and circumstances associated with the loan modification besides the interest rate. An interest rate on a modified loan greater than or equal to those available in the marketplace for similar credits does not in and of itself preclude a modification from being designated as a TDR. Rather, when evaluating a loan modification to a borrower experiencing financial difficulties, an analysis of all facts and circumstances is necessary to determine whether the holding company has made a concession to the borrower with respect to the market interest rate or has made some other type of concession that could trigger TDR accounting and disclosure (for example, terms or conditions outside of the holding company's policies or common market practices) If TDR accounting and disclosure is appropriate, the holding company must determine how the modified or restructured loan should be reported.

Generally, a restructured loan yields a current market interest rate if the restructuring agreement specifies an interest rate greater than or equal to the rate that the institution was willing to accept at the time of the restructuring for a new loan with comparable risk. A restructured loan does not yield a market interest rate simply because the interest rate charged under the restructuring agreement has not been reduced. In addition, when a modification results in an increase (either temporary or permanent) in the contractual interest rate, the increased interest rate cannot be presumed to be an interest rate that is at or above market. Therefore, in determining whether a loan has been modified at a market interest rate, an institution should analyze the borrower's current financial condition and compare the rate on the modified loan to rates the institution would charge customers with similar financial characteristics on similar types of loans. This determination requires the use of judgment and should include an analysis of credit history and scores, loan-to-value ratios or other collateral protection, the borrower's ability to generate cash flow sufficient to meet the repayment terms, and other factors normally considered when underwriting and pricing loans.

Likewise, a change in the interest rate on a modified or restructured loan does not necessarily mean that the modification is a TDR. For example, a creditor may lower the interest rate to maintain a relationship with a debtor that can readily obtain funds from other sources. To be a TDR, the borrower must also be experiencing financial difficulties. The evaluation of whether a borrower is experiencing financial difficulties is based upon individual facts and circumstances and requires the use of judgment when determining if a modification of the borrower's loan should be accounted for and reported as a TDR.

An institution that restructures a loan to a borrower experiencing financial difficulties at a rate below a market interest rate has granted a concession to the borrower that result in the restructured loan being a TDR. (As noted above, other types of concessions could also result in a TDR.) In the FR Y-9C report, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported the appropriate loan category in Schedule HC-C, items 1 through 9, and in the appropriate loan category in:

- Schedule HC-C, Memorandum item 1, if it is in compliance with its modified terms, or
- Schedule HC-N, Memorandum item 1, if it is not in compliance with its modified terms.

However, for a loan that is a TDR (for example, because of a modification that includes a reduction in principal), if the restructuring agreement specifies an interest rate that is a market interest rate at the time of restructuring and the loan is in compliance with its modified terms, the loan need not continue to be reported as a TDR in Schedule HC-C, Memorandum item 1, in calendar years after the year in which the restructuring took place. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

A loan restructured in a TDR is an impaired loan. Thus, all TDRs must be measured for impairment in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended), and the Glossary entry for "Loan Impairment." Consistent with ASC Subtopic 310-10, TDRs may be aggregated and measured for impairment with other impaired loans that share common risk characteristics by using historical statistics, such as average recovery period and average amount recovered, along with a composite effective interest rate. The outcome of applying such an aggregation approach must be consistent with the measurement methods prescribed in ASC Subtopic 310-10 and the "Loan Impairment" Glossary entry for loans that are individually considered impaired (i.e., the present value of expected future cash flows discounted at the loan's original effective interest rate or the loan's observable market price if the loan is not collateral dependent; the fair value of the collateral – less estimated costs to sell, if appropriate – if the loan is collateral dependent). Thus, an institution applying the aggregation approach to TDRs should not use the measurement method prescribed in ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies") for loans not individually considered impaired that are collectively evaluated for impairment. When a loan not previously considered individually impaired is restructured and determined to be a TDR, absent a partial charge-off, it generally is not appropriate for the impairment estimate on the loan to decline as a result of the change in impairment method prescribed in ASC Subtopic 450-20 to the method prescribed in ASC Subtopic 310-10.

For further information, see the Glossary entry for "Troubled Debt Restructurings" and the instructions for Schedules HC-C and HC-N.

Reporting Defined Benefit Postretirement Plans

HCs should continue to follow the guidance regarding the reporting of defined benefit postretirement plans that was included in the FR Y-9C Supplemental Instructions for June 30, 2013. These instructions can be accessed via the Federal Reserve's Web site (http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201306.pdf).

Goodwill Impairment Testing

HCs should continue to follow the guidance regarding reporting related to goodwill impairment testing 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).

Small Business Lending Fund

HCs 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).

Consolidated Variable Interest Entities

HCs should continue to follow the guidance on reporting and accounting for consolidated variable interest entities that was included in the FR Y-9C Supplemental Instructions for September 30, 2011. These instructions can be accessed via the Federal Reserve's Web site (http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201109.pdf).

Electronic Submission Option

We would like to make you aware that this Bank offers the option of submitting the FR Y-12 electronically using the Reporting Central application. In addition, the FR Y-11/ FR Y-11S and FR 2314/FR 2314S are migrated to the Reporting Central application, effective with the September 30, 2014 as of date.

Reporting Central is replacing the Internet Electronic Submission (IESUB) application. For institutions that do not choose to file one or more of these reports electronically, the Federal Reserve will continue to accept paper copy submissions of these reports. The Federal Reserve developed Reporting Central to enhance the overall reporting functionality of the Federal Reserve Banks' data collection and processing activities. These enhancements will allow for a more secure, technically advanced, and efficient system that will encompass a single point of entry for electronic submission and file uploads. Financial and nonfinancial institutions will access Reporting Central via the FedLine® Web access solution to submit reports and gain access to electronic reporting applications, report forms, and instructions. Additional information about the Reporting Central application, including an online resource center, is available at: http://www.frbservices.org/centralbank/reportingcentral/index.html. If you have any questions regarding these upcoming changes please contact your Reporting and Reserves District Contact.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11, FR 2314 and the FR Y-12 are available on the Federal Reserve Board's web site at **www.federalreserve.gov** under "Reporting Forms."

Questions regarding these reports should be addressed to Cheryl Skillman at (212) 720-8739. Questions regarding the capital adequacy guidelines should be directed to Scott Nagel in the Accounting and Capital Policy Department at (212) 720-1803.

Sincerely,

- *Signed by Patricia Selvaggi* -

Patricia Selvaggi
Assistant Vice President

ATTACHMENT

Revisions to the FR Y-9C for September 2014

Report Form

No changes

Instructions Only

(1) Schedule HC-S, item, 1. Clarified that pooled loans that have been guaranteed by GNMA should be included in Schedule HC-S, item (1).

(2) Schedule HI, item 11. Updated to include reference to FASB Standards Update (ASU) No. 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."

Revisions to the FR Y-9LP for September 2014

Report Form

No changes

Report Instructions

No changes

Revisions to the FR Y-11 and FR 2314 for September 2014

Report Form

No Changes

Report Instructions

No Changes.

Revisions to the FR Y-12 for September 2014

Report Form

No Changes

Report Instructions

No Changes