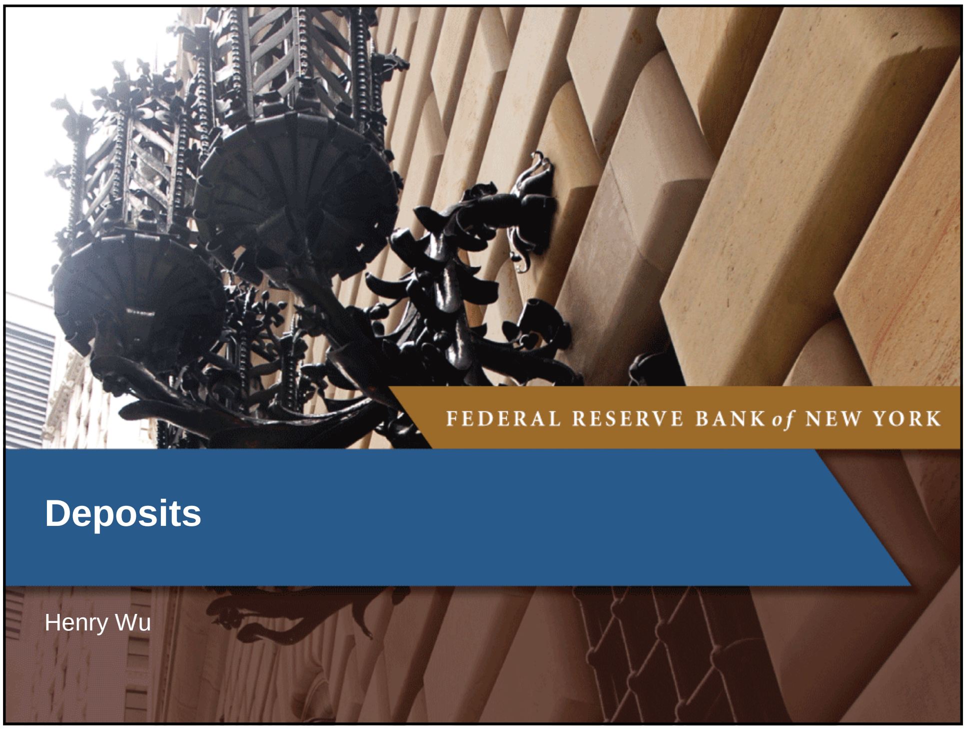

FEDERAL RESERVE BANK of NEW YORK
FFIEC 002 Reporting Seminar
Friday, November 8, 2013


FEDERAL RESERVE BANK of NEW YORK
Deposits
Henry Wu

Objectives

- Definition of Deposit
- Deposit vs. Borrowing
- FFIEC 002 vs. FR 2900
- Overdrafts
- Sweep Arrangements
- Credit Balances and Cash Collateral
- Other Issues

Definition of a Deposit

- Federal Deposit Insurance Act
- Federal Reserve Regulation D

Definition of a Deposit

- The unpaid balance of money or its equivalent received or held by a depository institution in the usual course of business and for which it has given or is obligated to give credit.

- Money received or held by a depository institution, or the credit given for money or its equivalent, received or held by the depository institution in the usual course of business.

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Definition of a Deposit

- Transaction Accounts
  - Demand deposits
  - NOW Accounts
  - Other

- ATS Accounts

- Telephone/Preauthorized Transfer Accounts

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Definition of a Deposit

- Nontransaction Accounts
  - Time deposits
  - Savings deposits

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Deposits vs. Borrowings

- Similarities
  - Major sources of funding for banking institutions
  - Liabilities on the balance sheet
- Differences
  - Legal and Regulatory
    - The underlying contractual agreement identifies the item as a deposit or borrowing
    - If a transaction is called a deposit it must be reported as a deposit

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Definitional Differences - FFIEC 002 vs. FR 2900

- Preparers should be aware of all definitional differences between FFIEC 002 and FR 2900
- A complete list of the legitimate reporting differences between the two reports can be found at the following link:
  - http://www.federalreserve.gov/reportforms/legitdifferences/LD_FR2900BA_201206.pdf

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Definitional Differences Suspense Accounts

- FFIEC 002
  - All suspense account items should be reported in their final disposition account type
- FR 2900
  - All suspense account items to be reported in other demand deposits, unless past experience supports a more accurate classification

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Definitional Differences ASC 825 Fair Value Option

- FFIEC 002
  - Upon adoption of ASC 825-10-25, “Financial Instruments: Overall: Recognition: Fair Value Option ” (formerly FAS 159) deposits (excluding demand deposits) may be measured at fair value
- FR 2900
  - Deposits reported based on contracted obligation, not fair value

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Overdrafts

- A depository institution honors a check or draft drawn against a deposit account in which insufficient funds are on deposit
  - Customer’s Overdrafts
  - Reporting Institution’s Overdrafts

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Overdrafts: Customer

- Overdrawn balance should be raised to zero (Schedule E), reported as a loan (Schedule C), and generally not netted against other deposit balances

- Customer overdrafts can be
  - Unplanned
    - No advance contractual agreement to honor the check or draft
    - Reported as "All other loans" on Schedule C - EXCEPT for overdrafts of foreign governments/official institutions and depository institutions (reported according to counterparty as 'Loans to depository institutions and acceptances of other banks'' and ''Loans to foreign governments and official institutions," respectively)

  - Planned
    - A contractual agreement has been made in advance to allow credit extensions
    - Reported as loans on Schedule C according to counterparty

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Overdrafts: Customer

- Overdrawn customer balances should generally not be netted against credit balances on Schedule E

  - Exception: Separate transaction accounts of a single depositor that are established under a bona fide cash management arrangement
    - Regarded as a single account
    - Overdraft in one of the accounts of a single customer netted against related transaction accounts of the customer and extension of credit arises only if the combined accounts of the customer are overdrawn

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Overdrafts: Reporting Institution

- Overdrafts on deposit accounts held with other depository institutions (e.g., “due from” accounts)
- Balance raised to 0 on Schedule A
- Reported as borrowings on Schedule P, according to counterparty

Overdrafts Summary

Type of Overdraft	Reporting Treatment
Customer Unplanned	“All other loans” on Schedule C, Line 8 (except for unplanned overdrafts of depository institutions, foreign governments and foreign official institutions, which are reported according to counterparty)
Customer Planned	Loans on Schedule C, according to counterparty
Reporting Institution	Borrowings on Schedule P, according to counterparty

Sweep Accounts

- Agreements where funds in excess of predetermined balances are "swept" into a higher-yielding investment or another deposit account
  - Swept balances should be reported based on the nature of the investment into which they are swept and counterparty
  - Funds swept back to the nontransaction account are subject to the six transfer rule as stated in Regulation D

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Credit Balances

- Credit balances are balances booked by the reporting institution and owed to third parties that are incidental to or arise from the exercise of banking powers.

- Reported by U.S. Agencies

- Reported as transaction accounts on the FFIEC 002, while on the FR 2900, they may be reported as transaction, savings, or time deposits.

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Cash Collateral

- Cash collateral received (e.g. in connection with loans or letters of credit) should be reported as a deposit or a credit balance
  - Report as a transaction or nontransaction account balance on Schedule E depending on the terms of the collateral agreement
- Cash collateral is NOT reported as “other borrowed money”

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Cash Collateral

- Example
  - A U.S. Branch of a Foreign Bank issues a commercial letter of credit of $100,000 in which $30,000 is fully collateralized
    - The non-collateralized portion ($70,000) should be reported on Schedule L, Line 4
    - The collateralized portion ($30,000) should be reported as a deposit on Schedule E, according to maturity and counterparty

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Other Issues

- Brokered Certificates of Deposit issued in $100,000 amounts under a master certificate of deposit
  - Included in Schedule O, Memorandum 1
  - Excluded from Schedule E, Memorandum 1.a or 1.c
- IBF deposit liabilities include deposits, placements and acknowledgements of advance, or similar instruments
  - ***Not*** issued in negotiable or bearer form
  - ***Are*** issued to other IBFs or to non-related non-U.S. addressees, including banks.

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Review

- Always distinguish between deposits and borrowings
- Overdrawn balances should not be netted against good balances (exception: separate transaction accounts of a single depositor that are established under a bona fide cash management arrangement)
- To keep good documentation of sweep activities
- Deposits (exception: deposits with demand features) are eligible for fair value reporting under the fair value option on the FFIEC 002 but not on the FR2900

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Loans

Zina Rakhovich

Objectives

- Overview
- Loan Classification
- General and Specific Reserves
- Allowance for Credit Losses
- Common Reporting Questions
- Summary

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Loan Overview

- Loans and leases held for trading purposes are reported as "Trading assets" at FV on Schedule RAL in Line 1.f
- Loans held for sale should be reported at the lower of cost or fair value (LOCOM) on Schedule C, as applicable
- All other loans should be reported at amortized cost on Schedule C, as applicable
  - Net of unearned income, specific reserves and unamortized loan fees
- Loans accounted for under a Fair Value Option and not held for trading should be reported at FV on Schedule C, as applicable

Loan Classification

- All loans are classified according to collateral, borrower or the purpose of the loan
  - Real estate
  - Borrower (securities broker dealer)
  - Primary business of counterparty

Loan Classification

- Real estate: Loans secured by real estate, whether originated or purchased (mortgages, construction and land development) except for loans to state and political subdivisions
  - Schedule C, Line 1, Memoranda 5 and 6
  - Schedule RAL, Line 1.f.(5), Memoranda 5 and 6

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Loan Classification

- Loans to purchase securities: Loans to brokers and dealers (not secured by real estate) and loans for the purpose of purchasing and carrying securities, except for loans to depository institutions
  - Schedule C, Line 7, Memoranda 5 and 6
  - Schedule RAL, Line 1.f.(5), Memoranda 5 and 6

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Loan Classification

- Counterparty: Loans not secured by real estate or for the purpose of purchasing and carrying securities should be classified according to the primary business of the counterparty
  - Schedule C, Lines 2, 3, 4, 6, 8 or 9 Memoranda 5 and 6
  - Schedule RAL, Line 1.f.(5), Memoranda 5 and 6

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General Allowance for Loan Losses ("General Reserves")

- General allowance for loan losses represents reserves that are maintained against the loan portfolio to absorb probable losses
- Branches and agencies are not required to hold general reserves at the branch or agency level (SR Letter 94-4)
- General reserves may still be maintained by an institution as part of its internal credit policy

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General Reserves

- Report General Reserves gross on Schedule M, Part I, Line 2.a, Column B, as "due to" and do not net against loans reported on Schedule C
  - Also report on Schedule M, Part IV, "Amount of allowance for loan losses" (Line 1)
- Provision should be included in the calculation of the bank's net income and reported on Schedule M, Part I, Line 2.a, Column A or B

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Specific Reserves - ASC 310-10-35, "Receivables: Overall: Subsequent Measurement"

- If an identified loss exists, the amount of the loss should be charged-off or a specific reserve should be established against the loan
  - Specific loan loss reserves are only maintained for identified losses

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Specific Reserves

- A full or partial write-down of a loan through a direct charge off/specific reserves, cannot be reversed at a later date (the cost basis cannot be "written-up")

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Specific Reserves

- The provision for specific loan loss reserve is reported in the same manner as the provision for general loan loss reserves on Schedule M, Part I, in Line 2.a

- Loans should be reported net of specific reserves for identified losses on Schedule C (and throughout the report)

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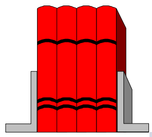
Allowance for Credit Losses

- The AICPA’s Audit Guide for Banks and Savings Institutions requires the allocation on the balance sheet of the allowance for credit losses



Allowance for Credit Losses

- Portion of the allowance related to trading assets should be reported in “Trading assets” on Schedule RAL, Line 1.f
- Portions of the allowance related to off-balance-sheet credit commitments should be reported in “Other liabilities” on Schedule RAL, Line 4.f

  Note: Since derivative products are reported at fair value, the credit reserve is part of the fair value reported on the balance sheet

Allowance for Credit Losses

- Allowance for credit losses is established to cover counterparty risk only
  - A separate valuation reserve is established to cover market losses associated with the trading account and should be excluded from credit reserves

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Common Reporting Questions

Question: Can Specific Reserve be reversed?

Answer: Once a loan is written-down through a specific reserve or charge-off, a new cost basis for the loan is established. Changing the cost basis by re-booking or writing-up the loan is not permitted.

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Common Reporting Questions

Question: How should loans to nonbank financial institutions to purchase real estate (but not secured by real estate) and to refinance existing debt be reported on Schedule C?

Answer: Loans to nonbank financial institutions to purchase real estate (but not secured by real estate) should be reported in “All other loans” (Line 8.)

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Common Reporting Questions

Question: How should loans guaranteed by the Small Business Administration (SBA) and collateralized by real estate be reported on Schedule C?

Answer: All loans should be reported based on the collateral, borrower or the purpose of the loan. All loans that are secured by a lien on real property for which the lien is central to the extension of the credit, regardless of the purpose of the loan, should be reported on Schedule C, “Loan secured by real estate” (Line 1) as appropriate.

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Common Reporting Questions

Question: How should a loan purchased at a premium or discount be reported?

Answer: A loan purchased at a premium or discount should be reported net of the premium or unearned income (discount) to the extent possible, or deducted from total loans in line 10, “Less: Any unearned income on loans reflected in items 1-8 above”. The premium or discount should be deferred and amortized/accreted respectively over the life of the related loan as an adjustment to the yield.

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Common Reporting Questions

Question: How is a guarantee issued by a related party for a loan made by the reporting institution reported?

Answer: The loan to the non-related party should be reported on Schedule C as appropriate and the guarantee received on Schedule M, Part V, “All other off-balance-sheet contingent claims (assets) greater than or equal to ½ of total claims on nonrelated parties as reported on Schedule RAL, item 1i” (Line 8).

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Key Points

- Loan classification
  - Secured by real estate
  - Purchase or carry securities
  - Primary business of counterparty
- Loans should be reported at
  - FV, LOCOM or amortized cost
  - Reserves should not be established for FVO loans
- Allowance for Credit Losses should be allocated on Schedule RAL as appropriate

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Reporting of Off-Balance-Sheet Items

FASB website references for the financial instruments and leases project:

WWW.FASB.ORG

Reporting of Off-Balance-Sheet Items

- Reporting of derivative contracts
- ASC 815, Derivatives and Hedging, (FAS 133)
- Examples of derivative contracts
- Reporting of other off-balance sheet commitments and contingencies

Definitions

What is a “derivative”?

- A derivative instrument is a financial instrument or other contract with all of the following characteristics:
  - It has (1) one or more underlying and (2) one or more notional amounts or payment provisions or both
  - Requires little or no initial net investment
  - Its terms require or permit net settlement

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Reporting of Derivative Contracts

- Balance Sheet Reporting (Schedule RAL)
- Income Statement Effect (Schedule M, Part I, Line 2.a)
- Schedule L and M, Part V (Disclosures and Fair Value Examples)

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Schedules L & M, Part V Disclosures and Fair Value Examples

Schedules L and M Part V Disclosures

- Notional Value
  - Risk characteristics
  - Purpose
- Fair Values
  - Risk characteristics
  - Purpose
- Credit Derivatives

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Schedules L & M, Part V Disclosures and Fair Value Examples

Schedules L and M Part V Disclosures

- Schedule L includes off-balance sheet transactions with nonrelated institutions and related non-depository institutions
- Schedule M, Part V, includes off-balance sheet transactions with related depository institutions

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Reporting of Notional Values

- The notional value to be reported for an off-balance sheet derivative contract is the underlying <u>or contractual amount specified at the inception of the contract upon which the exchange of funds is based.</u>

Reporting of Notional Values

- For example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5.0% and LIBOR has an effective notional amount of $1,000,000

Reporting of Notional Values

- Contracts with multiple risk characteristics should be classified based upon the predominant risk characteristic

- Report in Line 9 the notional amount of all outstanding futures and forward contracts, exchange-traded and over-the counter option contracts, and swap contracts, as appropriate based on the predominant risk characteristic

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Gross Positive and Negative Fair Value

- Report the gross positive and negative fair values of derivative contracts held for trading on Line 12a and FAS 133 Hedging on Line 12b

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Reporting of Derivative Contracts on Balance Sheet & Income Statement

- The FV of derivative contracts held for trading should be reported gross (unless ASC 210-20-45, "Balance Sheet Offsetting: Other Presentation Matters", (also known as FIN 39 applies) on Schedule RAL, Line 1.f(5), "Trading assets" or in Line 4.e, "Trading liabilities" and in Schedule RAL Memoranda items 10 and 11.

- The gain/loss should be reported as a part of the calculation of unremitted profit/loss on Schedule M, Part I, Line 2.a

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ASC 815 (FAS 133) – Derivatives & Hedging

- ASC 815 – Derivatives & Hedging
  - Accounting and reporting standards for derivative instruments and hedging activities
  - Cash flow hedging/Fair value hedging
  - Embedded derivatives

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ASC 815 – Derivatives & Hedging

- Types of hedges
  - The fair value of all FAS 133 Hedging derivatives will be reported on "Other assets" Line 1h or "Other liabilities" Line 4f.
  - For depository institutions, the two predominate types of hedges are
    - Fair Value
    - Cash Flow

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ASC 815 – Derivatives & Hedging

- Fair Value Hedges
  - The hedged items are reported at fair value for the portion of the risk being hedged
  - The mark-to-market gains and losses are reported in earnings along with those of the hedging contract
  - To the extent the hedging relationship is effective net earnings will be unaffected

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ASC 815 – Derivatives & Hedging

- Cash Flow Hedges
  - Cash Flow Hedges apply to hedging the risk of changes in cash flows for variable rate assets and liabilities

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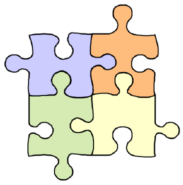
ASC 815 – Derivatives & Hedging

- The difference between a Cash Flow and Fair Value hedge
  - The hedged item is not reported at fair value under a cash flow hedge



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ASC 815 – Derivatives & Hedging

- Reporting on the FFIEC 002
  - The mark-to-market gains and losses from fair value and cash flow hedges should be reported in the institution's "Net unremitted profit/(loss)," Schedule M, Part I, Line 2.a

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ASC 815 – Derivatives & Hedging

- Intercompany transactions
  - Derivatives with the parent bank or another subsidiary of the reporting branch's or agency's parent bank may qualify for hedge accounting provided
    - The counterparty (e.g., the other member of the consolidated group) has entered into a contract with an unrelated party that offsets the inter-company derivative completely

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ASC 815-15-25, “Derivatives & Hedging: Embedded Derivatives: Recognition”

Definition

- *Embedded derivatives* are implicit or explicit terms that effect the cash flows or value of other exchanges required by a contract in a manner similar to derivative
- The combination of the *host contract* and an embedded derivative is referred to as a *hybrid contract*
- Examples of hybrid contracts
  - Structured notes
  - Convertible securities

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ASC 815-15-25, “Derivatives & Hedging: Embedded Derivatives: Recognition”

Structured Notes

- Hybrid securities that attempt to change their risk profile by including additional modifying structures.
  - Host Contract - the debt obligation
  - Embedded Derivative – Option (modifying structure)
  - Example: A two year 100% principal protected bond tied together with an option contract linked to gold, available in US Dollars/Euros or Sterlings. At maturity, the investor receives 100% of the principal investment, and has the potential to get higher returns subject to the favorable movement in the price of gold over the two-year term.

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ASC 815-15-25, “Derivatives & Hedging: Embedded Derivatives: Recognition”

Convertible Security (CV)

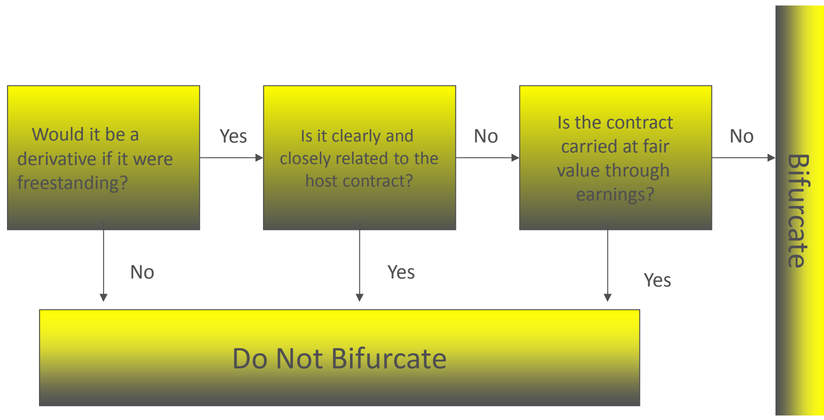
- A security that, at the option of the holder, may be exchanged for another asset, generally a fixed number of shares of common stock.
  - Host Contract - Security (Bond)
  - Embedded Derivative – Conversion Option
  - Example: The holder of the CV exercises the conversion option and exchanges the bond into a predetermined amount of shares in the company.

ASC 815-15-25, “Derivatives & Hedging: Embedded Derivatives: Recognition”

Embedded Derivatives - Bifurcate:

- Not **“clearly and closely related”** economically to host contract
- The hybrid instrument is not remeasured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings
- A separate instrument with the same terms as the embedded derivative instrument would be a derivative instrument subject to the requirements of SFAS No. 133

Embedded Derivatives When Does a Contract Have an Embedded Derivative Subject to Bifurcation?



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ASC 815-15-25, "Derivatives & Hedging: Embedded Derivatives: Recognition"

- **Embedded Derivatives**
  Clearly and Closely Related – General
- Clearly and closely related refers to:
  - Economic characteristics
  - Risks
- Factors to be considered:
  - The type of host
  - The underlying

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ASC 815-15-25, "Derivatives & Hedging: Embedded Derivatives: Recognition"

Embedded Derivatives

Clearly and Closely Related - Equity Host

- An option to convert preferred stock (not mandatorily redeemable) to common is clearly and closely related to the equity host, and therefore is not subject to bifurcation.

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ASC 815-15-25, "Derivatives & Hedging: Embedded Derivatives: Recognition"

Embedded Derivatives Debt Hosts - Embedded Derivatives That Are Not Clearly And Closely Related

The underlying is interest rates and *either*:

- The investor may not recover substantially all of its initial investment, or
- The investor's yield may increase to twice the market rate or more and at least twice the initial rate

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Examples of Types of Derivatives

- Options
- Swaptions
- Swaps

Options

- Options transfer the right but not the obligation to buy or sell an underlying asset, instrument, or index on or before the option's exercise date at a specified price (the strike price)

Options

Fair value

- For an exchange-traded option, the change in the price of the contract is the fair value
- For an over-the-counter option, the change in the price as determined by an option pricing model (e.g., Black-Sholes) is the fair value.

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Options

Hedging Market Risk

Example

On January 1, 2004,GHI Company purchases equity securities in MBI and will hedge the market risk with an at-the-money put option

- Equity securities price: $50 per share (100 shares)
- Premium of put option: $600 (strike price $65)

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Options

Option from inception to maturity

	12/31/04	12/31/05	12/31/06
MBI shares	$6500	$6000	$5700
Put option			
Time value	600	350	0
Intrinsic value	0	500	800
	$600	$850	$800

GHI Company exercises the option prior to the option's expiration on December 31, 2006

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Options

- **Time value** – The difference between the total premium for an option and the option's intrinsic value, effected by length of exercise period and volatility of the underlying.
- **Intrinsic value** – The amount of advantage, if any, that would be realized by exercising an option rather than buying or selling the underlying security in the cash market. Only in-the-money options have intrinsic value (exercise price - market price of the underlying security)

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Options

	Debit	Credit
January 1, 2004		
All other securities (Line 1.c(4))	$5000	
Cash and balances due from depository inst. (Line 1.a)		$5000
(To record purchase of MBI shares)		
December 31, 2004		
All other securities (Line 1.c(4))	$1500	
Net due to/from Head Office (Schedule M, Part I, 2.a)		$1500
(To record appreciation of MBI shares)		
Other assets (Line 1.h)	$600	
Cash and balances due from depository inst. (Line 1.a)		$600
(To record the purchase of the put option)		

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Options

	Debit	Credit
December 31, 2005		
Other assets (Line 1.h)	$500	
Net due to/from Head Office (Sch. M, Part I, 2.a)		$500
(To record the increase in the intrinsic value of the option)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$500	
All other securities (Line 1.c(4))		$500
(To record the decrease in the fair value of the MBI shares)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$250	
Other assets (Line 1.h)		$250
(To record the ineffective portion of the change in FV of the option)		

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Options

	Debit	Credit
December 31, 2006		
Other assets (Line 1.h)	$300	
Net due to/from Head Office (Sch. M, Part I, 2.a)		$300
(To record the increase in the intrinsic value of the option)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$300	
All other securities (Line 1.c(4))		$300
(To record the decrease in the fair value of MBI shares)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$350	
Other assets (Line 1.h)		$350
(To record the ineffective portion of the change in FV of the option)		
Cash and balances due from depository inst. (Line 1.a)	$6500	
Other assets (Line 1.h)		$800
All other securities (Line 1.c(4))		$5700
(To record the exercise of the option on 12/31/06 by delivering shares.)		

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Swaptions

- An option that gives the holder the right, but not the obligation, to execute a swap contract at a future date
- Whether the option is exercised depends on some future event or time

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Swaps

Fair Value

- The fair value of a swap contract is the net present value of the future cash flows (e.g., net settlement amount)
  - Only the change in the net settlement amount from quarter to quarter should be used as the fair value to calculate the revaluation gain or loss

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Swaps

Swaps held for purposes other than trading
(e.g., hedging contracts marked-to-market)

- The FV of hedging contracts should be reported on Schedule RAL, Line 1.h, “Other assets” or in Line 4.f, Other liabilities” and on Schedule M, Part I, in Line 2.a
- These should only include those contracts meeting hedge effectiveness test under FAS 133
- All other contracts should be reported in trading

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Multiple Risk Contracts

- Derivative contracts that contain two or more risk characteristics
- Contracts should be classified on Schedule L, line 9, of the FFIEC 002 by their predominant risk characteristics at the origination of the derivative (i.e., interest rate, foreign exchange, equity or commodity).
- Example of this type of contract is a cross- currency interest rate swaps which contains both interest rate risk and FX risk. Whichever risk is more predominant, is where the contract will be classified.

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Reporting of Credit Derivatives

Reporting of credit derivatives is addressed in
SR 96-17 (GEN) and ASC 815-10, "Derivatives and Hedging"

- Credit derivatives are off-balance sheet arrangements that allow one party (the "beneficiary") to transfer credit risk of a specific asset to another party (the "guarantor")
  - Allow the beneficiary to mitigate its credit risk concentration to a particular borrower
  - Guarantor assumes the credit risk associated with the asset without directly purchasing it and receives periodic payments in return.

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Reporting of Credit Derivatives

- Certain financial guarantees are subject to ASC 460-10, "Guarantees", if these provide for payments to the guaranteed party for a loss incurred because the debtor defaults on a payment when payment is due.
  - However, financial guarantees (e.g., credit derivatives) are subject to ASC 815-10 if the contract is indexed to the credit worthiness of the borrower

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Reporting of Credit Derivatives

- Credit derivatives subject to ASC 815, Derivatives and Hedging should be reported:
  - On the balance sheet in the same manner as any other derivative product (classify as trading or other assets or liabilities)
  - Schedule L, Line 6, breakout by:
    - Line 6a – Notional amount by type of contract (credit default swap, TROR swap, etc.)
    - Line 6b – Gross fair value, positive and negative
  - Schedule M, Part V, line 6

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Two Common Types of Credit Derivatives

(1) Credit Default Swaps

- The beneficiary agrees to pay guarantor a fixed payment (i.e., a certain number of basis points either quarterly or annually)
- In return the guarantor agrees to pay the beneficiary an agreed upon amount if there is a default

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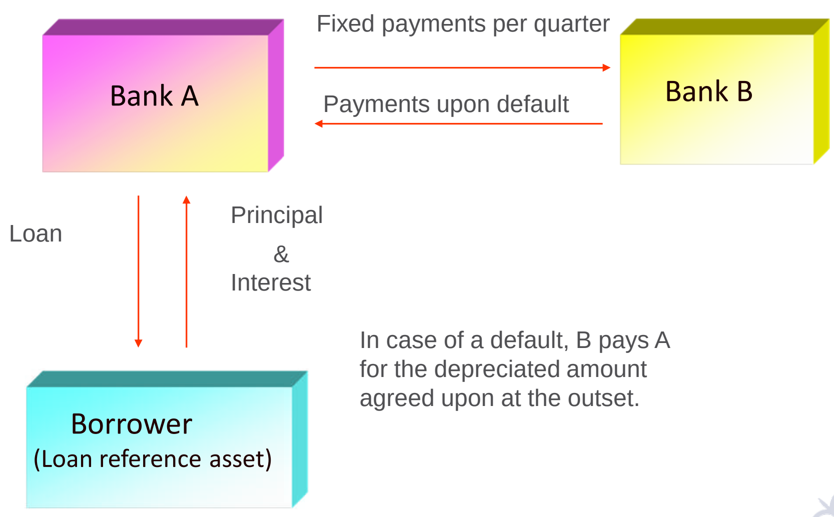
Credit Default Swap Structure



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Two Common Types of Credit Derivatives

(2) Total Rate of Return Swaps (TROR)

- The beneficiary agrees to pay the guarantor the total return (e.g., principal and interest as well as any appreciation in the market value of the asset)
  - The guarantor agrees to pay spread over funding costs plus any depreciation in the value of the asset

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Two Common Types of Credit Derivatives

- The guarantor in a TROR could be viewed as having "synthetic ownership" of the asset since it assumes the risk and rewards of the asset over the agreement period

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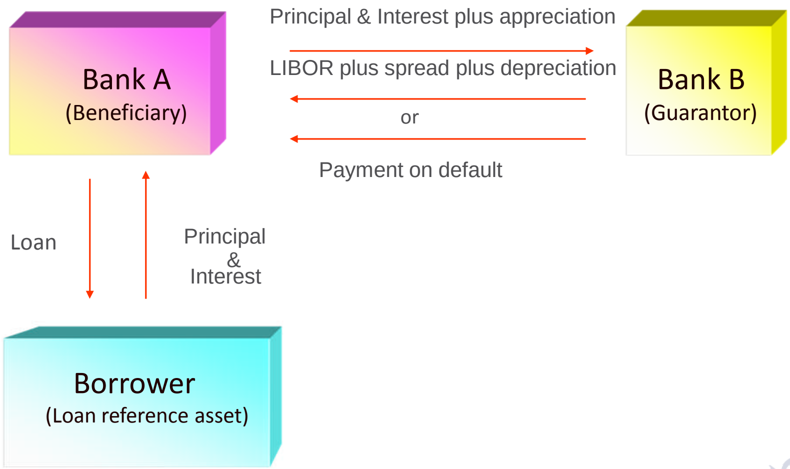
Total Rate of Return Swaps Structure



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Other Off-Balance Sheet Reporting Issues

- Commitments for Syndicated Loans or Participated Loans (line 1)
  - Report only the branch or agency's proportional share of the commitment.
- Standby letters of Credit (LOCs) (Line 3(a))
  - Report the total amount outstanding and unused as of report date.
  - Include those standby LOCs that are collateralized by cash on deposit and those in which participations have been conveyed to others.

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Other Off-Balance Sheet Reporting Issues

- Contingent liabilities, Line 7
  - Commitments to accept and place deposits
  - Purchases of risk participations in acceptances of other banking institutions
  - Securities borrowed against collateral other than cash
  - Commitments to purchase when-issued securities that are excluded from ASC 815

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Other Off-Balance Sheet Reporting Issues

- Contingent Assets, Line 8
  - Securities lent against collateral other than cash
  - Sales of risk participation in loans
  - Commitments to sell when-issued securities that are excluded from ASC 815, Derivatives and Hedging

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Securities

Suzhia Klein

Agenda

- Overview of ASC Topic 320-10-25, “Investments in Debt and Equity Securities: Overall: Recognition”
- Reporting securities on Schedule RAL of the FFIEC 002
- Frequently asked questions relating to securities

Securities

- ASC 320-10-25 "Investments in Debt and Equity Securities" (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities")
  - Held-to-maturity securities (HTM)
  - Available-for-sale securities (AFS)
  - Trading securities

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Securities

- Held-to-maturity securities
  - Debt securities
    - Positive intent and ability to hold to maturity
    - Definition of maturity (ASC 320-10-25-14)
    - Carried at amortized cost on Schedule RAL, Lines 1.b and 1.c
    - RAL Memoranda Line 1 (Fair value) and Line 2 (Amortized cost)

Memoranda			
1. Fair value of held-to-maturity securities	1771	1771	M.1.
2. Amortized cost of held-to-maturity securities	1754	1754	M.2.
3. Fair value of available-for-sale securities	1773	1773	M.3.
4. Amortized cost of available-for-sale securities	1772	1772	M.4.

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Securities

- Some circumstances when the sale or transfer from the held-to-maturity classification is considered consistent with ASC 320-10-25-6
  - Evidence of a significant deterioration in the issuer's creditworthiness
  - A change in tax law that eliminates or reduces the tax exempt status of interest on the debt security
  - A major business combination or major disposition
  - A change in statutory or regulatory requirements

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Securities

- Circumstances when the sale or transfer from the held-to-maturity classification is not considered "consistent" with ASC 320-10-25-5
  - Changes in foreign currency risk
  - Changes in market interest rates
  - Changes in available alternative investments
  - Changes in funding sources and terms
  - Changes in the security's prepayment risk
  - Changes in the marginal tax rate
  - A liquidity need

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Securities

- Available-for-sale securities
  - Debt or equity securities
  - The institution does not have the intent and ability to hold to maturity
  - The institution does not intend to actively trade the security
  - Reported at fair value on Schedule RAL, Lines 1.b and 1.c
  - Disclosed on Schedule RAL, Memoranda Line 3 (Fair Value) and Line 4 (Amortized cost)

Memoranda			
1. Fair value of held-to-maturity securities	1771	1771	M.1.
2. Amortized cost of held-to-maturity securities	1754	1754	M.2.
3. Fair value of available-for-sale securities	1773	1773	M.3.
4. Amortized cost of available-for-sale securities	1772	1772	M.4.

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Securities

- Trading securities
  - Debt or equity securities
  - The institution holds to capitalize on the short term movement in price
  - Revaluation gains/losses on derivatives contracts
  - Reported at fair value Schedule RAL, Lines 1.f

f. Trading assets:			
(1) U.S. Treasury and Agency securities	K479	K479	1.f.(1)
(2) Mortgage-backed securities:			
(a) Issued or guaranteed by U.S. Government agencies	K298	K298	1.f.(2)(a)
(b) Other	3536	3536	1.f.(2)(b)
(3) Other asset-backed securities	K299	K299	1.f.(3)
(4) Other securities	L193	L193	1.f.(4)
(5) Other trading assets	K302	K302	1.f.(5)

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Types of Securities

- U.S. Treasuries Securities
  - Treasury Bills (T-Bills)
  - Treasury Notes (T-Notes)
  - Treasury Bonds (T-Bonds)

- U.S. Government Agency obligations (excluding mortgage-backed securities - "MBS")
  - Export-Import Bank
  - Small Business Administration (SBA)
  - Federal Housing Administration (FHA)
  - Government National Mortgage Associations (GNMA)

- HTM and AFS reported on RAL Line 1.b.(1) and 1.b.(2)
- Trading reported on RAL Line 1.f.(1)

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Types of Securities

- Securities of foreign governments and official institutions (*excluding MBS*)
  - International Bank for Reconstruction and Development (World Bank)
  - Inter-American Development Bank
  - Foreign Central Banks and Development Banks
  - Nationalized Banks

- HTM and AFS reported on RAL Line 1.c.(1)
- Trading reported on RAL Line 1.f.(4)

- www.ustreas.gov/tic

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Types of Securities

- Mortgage-Backed Securities issued or guaranteed by U.S. Government agencies
  - FNMA
  - FHLMC
  - GNMA
  - REMICs issued by the VA

- AFS and HTM reported on RAL Line 1.c.(2).(a)
- Trading reported on RAL Line 1.f.(2).(a)

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Types of Securities

- Other Mortgage-Backed Securities
  - Non-U.S.-government issuers
  - Other depository institutions
  - Insurance companies
  - State and local housing authorities in the U.S.

- AFS and HTM reported on RAL Line 1.c.(2).(b)
- Trading reported on RAL Line 1.f.(2).(b)

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Types of Securities

- Other Asset-Backed Securities (ABS)
  - Asset-backed commercial paper
  - ABS collateralized by credit card receivables, HELOCs, non-mortgage loans (consumer, auto, commercial and industrial, etc.)
  - SLM Corporation (*issued* after December 2004)
- AFS and HTM reported on RAL Line 1.c.(3)
- Trading reported on RAL Line 1.f.(3)

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Types of Securities

- All other securities
  - Commercial paper (non asset-backed)
  - Equity securities with readily determinable fair values (ASC 320-10-15-5)
  - Corporate obligations
  - Common stock of FNMA, FHLMC
  - Municipal securities
  - All other bonds, notes and debentures
- HTM and AFS reported on RAL Line 1.c.(4)

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Types of Securities

- Other securities (trading)
  - Municipal securities
  - Securities of foreign governments and official institutions
  - All other bonds, notes and debentures

- Reported on RAL Line 1.f.(4)

- Other trading assets
  - Certificates of deposit
  - Commercial paper (non asset-backed)
  - Bankers acceptances
  - Loans and derivatives with a positive fair value

- Reported on RAL Line 1.f.(5)

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Securities - FAQ

- **Trade date/Settlement date accounting:**
  Preferred method is trade date accounting; however, settlement date accounting may be used if not materially different.

  Method should be applied consistently

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Reporting of Securitization and Asset Sale Activities

Susan Jessop

Objectives

- What is a securitization?
- What are the major components in a securitization?
- What is reported on Schedule S?

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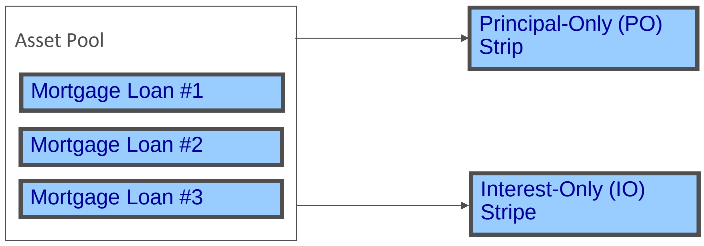
Definition

- Securitization is the process of converting financial assets into negotiable securities.

Example (Stripped Mortgage-Backed Security)



Key Terms

- Credit Enhancement
  - Financial protection against credit losses on securitized assets.
  - It reassures a borrower’s creditworthiness.
  - An arrangement where the sponsoring institution accepts in form or substance any risk of credit loss.

Key Terms

- Credit Enhancement
  - Common sources of Credit Enhancement
    - Excess Spread Accounts
    - Overcollateralization
    - Letter of Credit
    - Cash Collateral Account
    - Credit Derivatives
    - Senior-Subordinate Structure

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Key Terms

- Liquidity Facility
  - An arrangement in which the financial institution is obligated to provide funding to a securitization structure to ensure investors of timely payments.

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Key Terms

- Credit Enhancement vs Liquidity Facility
  - Credit Enhancements act as buffers to absorb permanent losses
  - Liquidity Facilities act to smooth temporary timing difference from payments or market disruptions
    - Advances are repaid with subsequent collections
    - Advances that are NOT subordinated to other claims on the underlying assets are classified as a liquidity facility

      Note: Advances that are subordinated to other claims on the underlying assets should be classified as a credit enhancement

Key Terms

- Seller's Interest (retained interest)
  - The financial institutions ownership interest in assets that have been securitized.
  - Reportable on Schedule RAL as well

Schedule S - Securitization & Asset Sale Activities

- Securitization Activities by Reporting Institution
  - Line items 1. through 7.b

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Schedule S—Servicing, Securitization, and Asset Sale Activities

Dollar Amounts in Thousands	(Column A) 1-4 Family Residential Loans	(Column B) Home Equity Lines	(Column C) Credit Card Receivables	(Column D) Auto Loans	(Column E) Other Consumer Loans	(Column F) Commercial and Industrial Loans	(Column G) All Other Loans, All Leases, and All Other Assets	
	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	
Securitization Activities								
1. Outstanding principal balance of assets sold and securitized by the reporting institution with servicing retained or with recourse or other seller-provided credit enhancements	RCFD B705	RCFD B706	RCFD B707	RCFD B708	RCFD B709	RCFD B710	RCFD B711	1.
2. Maximum amount of credit exposure arising from recourse or other seller-provided credit enhancements provided to structures reported in item 1 in the form of:								
a. Retained interest-only strips (included in Schedule RAL)	RCFD B712	RCFD B713	RCFD B714	RCFD B715	RCFD B716	RCFD B717	RCFD B718	2.a.
b. Subordinated securities and other residual interests	RCFD C393	RCFD C394	RCFD C395	RCFD C396	RCFD C397	RCFD C398	RCFD C399	2.b.
c. Standby letters of credit and other enhancements	RCFD C400	RCFD C401	RCFD C402	RCFD C403	RCFD C404	RCFD C405	RCFD C406	2.c.
3. Reporting institution's unused commitments to provide liquidity to structures reported in item 1	RCFD B726	RCFD B727	RCFD B728	RCFD B729	RCFD B730	RCFD B731	RCFD B732	3.
4. Past due loan amounts included in item 1:								
a. 30-89 days past due	RCFD B733	RCFD B734	RCFD B735	RCFD B736	RCFD B737	RCFD B738	RCFD B739	4.a.
b. 90 days or more past due	RCFD B740	RCFD B741	RCFD B742	RCFD B743	RCFD B744	RCFD B745	RCFD B746	4.b.
5. Not applicable.								
6. Amount of ownership (or seller's) interests carried as:								
a. Securities (included in Schedule RAL)		RCFD B761	RCFD B762			RCFD B763		6.a.
b. Loans (included in Schedule C)		RCFD B500	RCFD B501			RCFD B502		6.b.
7. Past due loan amounts included in interests reported in item 6.a:								
a. 30-89 days past due		RCFD B764	RCFD B765			RCFD B766		7.a.
b. 90 days or more past due		RCFD B767	RCFD B768			RCFD B769		7.b.
8. Not applicable.								

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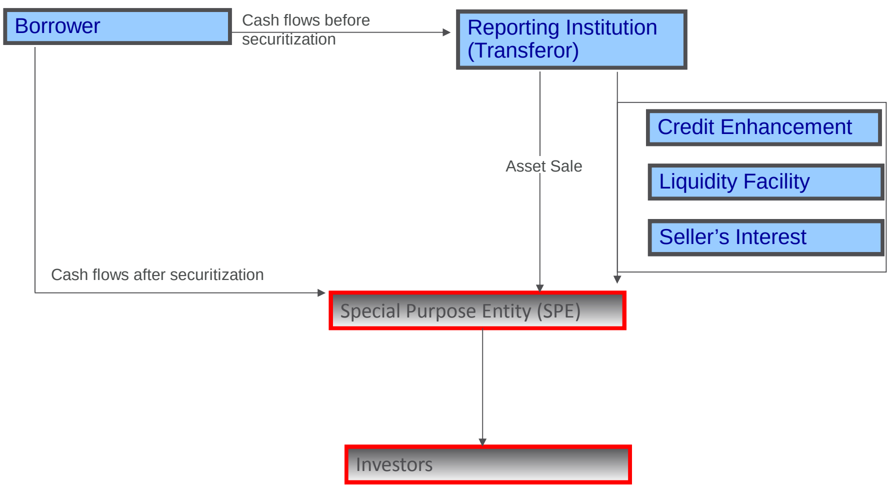
Securitization Activities (Items 1-7)



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Schedule S - Securitization & Asset Sale Activities

- Securitization Facilities Sponsored By Others
  - Credit exposure, Line 9
  - Unused commitments, Line 10
- Assets Sales
  - Line 11, and Line 12

Schedule S—Continued

Dollar Amounts in Thousands	(Column A) 1-4 Family Residential Loans	(Column B) Home Equity Lines	(Column C) Credit Card Receivables	(Column D) Auto Loans	(Column E) Other Consumer Loans	(Column F) Commercial and Industrial Loans	(Column G) All Other Loans, All Leases, and All Other Assets	
	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	
For Securitization Facilities Sponsored By or Otherwise Established By Other Institutions								
9. Maximum amount of credit exposure arising from credit enhancements provided by the reporting institution to other institutions' securitization structures in the form of standby letters of credit, purchased subordinated securities, and other enhancements....	RCFD B776	RCFD B777	RCFD B778	RCFD B779	RCFD B780	RCFD B781	RCFD B782	9.
10. Reporting institution's unused commitments to provide liquidity to other institutions' securitization structures	RCFD B783	RCFD B784	RCFD B785	RCFD B786	RCFD B787	RCFD B788	RCFD B789	10.
Asset Sales								
11. Assets sold with recourse or other seller provided credit enhancements and not securitized by the reporting institution ..	RCFD B790	RCFD B791	RCFD B792	RCFD B793	RCFD B794	RCFD B795	RCFD B796	11.
12. Maximum amount of credit exposure arising from recourse or other seller provided credit enhancements provided to assets reported in item 11	RCFD B797	RCFD B798	RCFD B799	RCFD B800	RCFD B801	RCFD B802	RCFD B803	12.

Memorandum

Dollar Amounts in Thousands	RCFD	Bil	Mil	Thou	
1. Asset-backed commercial paper conduits:					
a. Maximum amount of credit exposure arising from credit enhancements provided to conduit structures in the form of standby letters of credit, subordinated securities, and other enhancements:					
(1) Conduits sponsored by the reporting institution or related institution	B806				M.1.a.(1)
(2) Conduits sponsored by other unrelated institutions	B807				M.1.a.(2)
b. Unused commitments to provide liquidity to conduit structures:					
(1) Conduits sponsored by the reporting institution or related institution	B808				M.1.b.(1)
(2) Conduits sponsored by other unrelated institutions	B809				M.1.b.(2)

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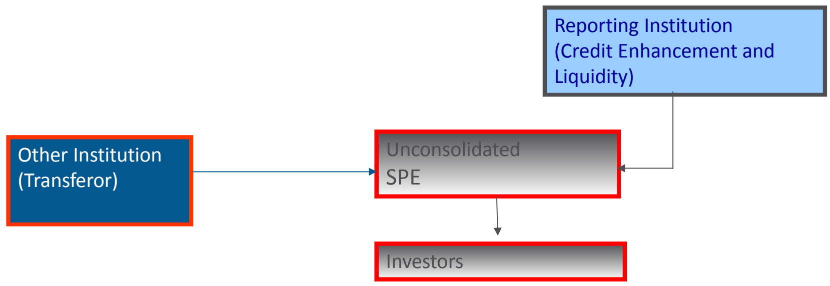
Securitization Facilities Sponsored By Other Institutions (Items 9-10)



1. Reporting institution provides credit enhancements to SPE.

- The reporting institution reports the credit enhancement or liquidity on Schedule S items 9 -10 based on credit enhancement or liquidity is provided.
- Do not include credit enhancements or liquidity to asset-backed CP conduit.

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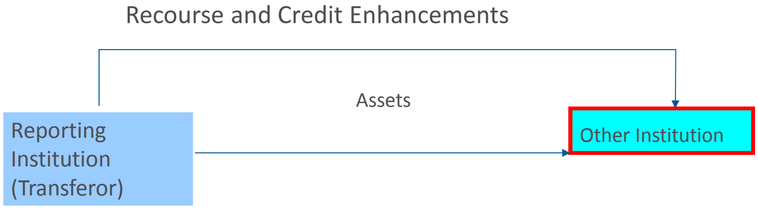
Asset Sales (Items 11-12)



1 . Reporting institution sells assets to another institution.

2. If the reporting institution retains recourse or provides credit enhancements, the amount of the outstanding principal balance is reported on Schedule S item 11.

3. The maximum amount of the credit exposure due to credit enhancements or recourse is reported on Schedule S item 12.

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Schedule S - Securitization & Asset Sale Activities Example

- A U.S. branch of a FBO securitized $450 million in loans on 9/8/2013. It retained 10% interest and agreed to provide $100 million in credit enhancement to the SPE. How should these be reported on Schedule S of the FFIEC 002?

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Schedule S - Securitization & Asset Sale Activities

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Schedule S—Servicing, Securitization, and Asset Sale Activities

Dollar Amounts in Thousands	(Column A) 1-4 Family Residential Loans	(Column B) Home Equity Lines	(Column C) Credit Card Receivables	(Column D) Auto Loans	(Column E) Other Consumer Loans	(Column F) Commercial and Industrial Loans	(Column G) All Other Loans, All Leases, and All Other Assets	
	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	
Securitization Activities								
1. Outstanding principal balance of assets sold and securitized by the reporting institution with servicing retained or with recourse or other seller-provided credit enhancements	RCFD B705	RCFD B706	RCFD B707 405000	RCFD B708	RCFD B709	RCFD B710	RCFD B711	1.
2. Maximum amount of credit exposure arising from recourse or other seller-provided credit enhancements provided to structures reported in item 1 in the form of:								
a. Retained interest-only strips (included in Schedule RAL)	RCFD B712	RCFD B713	RCFD B714	RCFD B715	RCFD B716	RCFD B717	RCFD B718	2.a.
b. Subordinated securities and other residual interests	RCFD C393	RCFD C394	RCFD C395	RCFD C396	RCFD C397	RCFD C398	RCFD C399	2.b.
c. Standby letters of credit and other enhancements	RCFD C400	RCFD C401	RCFD C402 100000	RCFD C403	RCFD C404	RCFD C405	RCFD C406	2.c.
3. Reporting institution's unused commitments to provide liquidity to structures reported in item 1	RCFD B726	RCFD B727	RCFD B728	RCFD B729	RCFD B730	RCFD B731	RCFD B732	3.
4. Past due loan amounts included in item 1:								
a. 30-89 days past due	RCFD B733	RCFD B734	RCFD B735	RCFD B736	RCFD B737	RCFD B738	RCFD B739	4.a.
b. 90 days or more past due	RCFD B740	RCFD B741	RCFD B742	RCFD B743	RCFD B744	RCFD B745	RCFD B746	4.b.
5. Not applicable.								
6. Amount of ownership (or seller's) interests carried as:								
a. Securities (included in Schedule RAL)		RCFD B761	RCFD B762 45000			RCFD B763		6.a.
b. Loans (included in Schedule C)		RCFD B500	RCFD B501			RCFD B502		6.b.
7. Past due loan amounts included in interests reported in item 6.a:								
a. 30-89 days past due		RCFD B764	RCFD B765			RCFD B766		7.a.
b. 90 days or more past due		RCFD B767	RCFD B768			RCFD B769		7.b.
8. Not applicable.								

Schedule S - Securitization and Asset Sale Activities Example

- A U.S. branch of a FBO agreed to provide a credit enhancement of $250 million in the form of a standby letter for loans it sold to a nonrelated third party which the third party securitized. In addition, the U.S. branch offered $150 million loans recourse if there is any default. How should these be reported on Schedule S of the FFIEC 002?

Schedule S - Securitization and Asset Sale Activities

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Schedule S—Continued

Dollar Amounts in Thousands	(Column A) 1-4 Family Residential Loans (Bil, Mil, Thou)	(Column B) Home Equity Lines (Bil, Mil, Thou)	(Column C) Credit Card Receivables (Bil, Mil, Thou)	(Column D) Auto Loans (Bil, Mil, Thou)	(Column E) Other Consumer Loans (Bil, Mil, Thou)	(Column F) Commercial and Industrial Loans (Bil, Mil, Thou)	(Column G) All Other Loans, All Leases, and All Other Assets (Bil, Mil, Thou)	
For Securitization Facilities Sponsored By or Otherwise Established By Other Institutions								
9. Maximum amount of credit exposure arising from credit enhancements provided by the reporting institution to other institutions' securitization structures in the form of standby letters of credit, purchased subordinated securities, and other enhancements....	RCFD B776	RCFD B777	RCFD B778	RCFD B779	RCFD B780	RCFD B781	RCFD B782	9.
10. Reporting institution's unused commitments to provide liquidity to other institutions' securitization structures	RCFD B783	RCFD B784	RCFD B785	RCFD B786	RCFD B787	RCFD B788	RCFD B789	10.
Asset Sales								
11. Assets sold with recourse or other seller provided credit enhancements and not securitized by the reporting institution ..	RCFD B790 250000	RCFD B791	RCFD B792	RCFD B793	RCFD B794	RCFD B795	RCFD B796	11.
12. Maximum amount of credit exposure arising from recourse or other seller provided credit enhancements provided to assets reported in item 11	RCFD B797 150000	RCFD B798	RCFD B799	RCFD B800	RCFD B801	RCFD B802	RCFD B803	12.

Memorandum

Dollar Amounts in Thousands	RCFD	Bil	Mil	Thou	
1. Asset-backed commercial paper conduits:					
a. Maximum amount of credit exposure arising from credit enhancements provided to conduit structures in the form of standby letters of credit, subordinated securities, and other enhancements:					
(1) Conduits sponsored by the reporting institution or related institution	B806				M.1.a.(1)
(2) Conduits sponsored by other unrelated institutions	B807				M.1.a.(2)
b. Unused commitments to provide liquidity to conduit structures:					
(1) Conduits sponsored by the reporting institution or related institution	B808				M.1.b.(1)
(2) Conduits sponsored by other unrelated institutions	B809				M.1.b.(2)

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Asset Backed Commercial Paper

- An ABCP conduit is a SPE that issues commercial paper and uses the proceeds to purchase trade receivables, credit card receivables, auto and equipment leases, and other types of assets
- The payments that are collected from the purchased assets are used to redeem the commercial paper at maturity

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Memorandum Item 1

Asset-backed commercial paper conduits

- Maximum amount of credit exposure arising from credit enhancements provided to conduit structures
  - Report according to entity type sponsoring the conduit
- Unused commitments from liquidity facilities provided to conduit structures
  - Report according to entity type sponsoring the conduit

Reporting Issues

Objectives

- Offsetting –balance sheet
- Resale and Repurchase Agreements
- Other assets and Other Liabilities

Offsetting

- Regulatory reports generally require reporting on a gross basis
- ASC 210-20, "Balance Sheet: Offsetting" (also known as FIN 39) & ASC 815-10-45, "Derivatives and Hedging: Overall: Other Presentation Matters"
  - Allows offsetting of certain contracts when a "right of setoff" exists

Offsetting

ASC 210-20-45 Offsetting Criteria

- There are two parties to the transaction, each owes the other determinable amounts
- Reporting party has the right to set off the amount owed by the other
- Reporting party intends to set off
- Right of setoff is enforceable by law

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Offsetting Under Master Netting Agreement

- Fair value of derivative contracts reported on the balance sheet that fall under a contractual agreement providing for the net settlement through a single payment can be reported net under ASC-210-20-45

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Offsetting

ASC 815-10-45, "Derivatives and Hedging: Overall: Other Presentation Matters",(FIN 39) Amendment

- Allows for netting of cash collateral from derivative contracts accounted for at fair value with the same counterparty under a master netting agreement

Offsetting

ASC 815-10-45 (FIN 39) Amendment

- A reporting entity's choice to offset fair value amounts or not must be applied consistently
- A reporting entity may not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral

Offsetting

ASC 815-10-45-7 - (FIN 39) Amendment

- Offsetting of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against derivative positions is not allowed if:
  - Those amounts were not valued at fair value or,
  - Arose from instruments in a master netting agreement that are not eligible for offset

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Offsetting

- ASC 210-20-45-11, "Balance Sheet: Offsetting: Other Presentation Matters: Repurchase and Reverse Repurchase Agreements" (formerly FIN 41)
  - Allows netting of repurchase and reverse repurchase agreements that meet the legal right of setoff

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Offsetting

ASC 210-20-45-11 (FIN 41) Offsetting Criteria

- The offsetting Agreements must be executed with the same counterparty
- The transaction must have the same explicit settlement date at the inception of agreement
- The offsetting must be executed in accordance with a Master Netting Agreement

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Offsetting

ASC 210-20-45-11 (FIN 41) Offsetting Criteria

- The securities underlying the agreements must exist in “book entry” form
- The agreements must be settled on a securities transfer system

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Offsetting

ASC 210-20-45-11 (FIN 41) Offsetting Criteria

- Institutions intend to use same account at clearing bank for cash inflows and cash outflows resulting from settlement of these agreements
  - Netting of repurchase agreements under ASC 210-20 (FIN 41) should also be reflected in reporting of quarterly averages on Schedule K and related transactions on Schedule M

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Offsetting

ASC 210-20-45-11 Offsetting Criteria

- Institution meeting the criteria for offsetting should have policies and procedures in place for reviewing the transactions and supporting documentation to ensure compliance with ASC 210-20-45-11 (FIN 39 and FIN 41)

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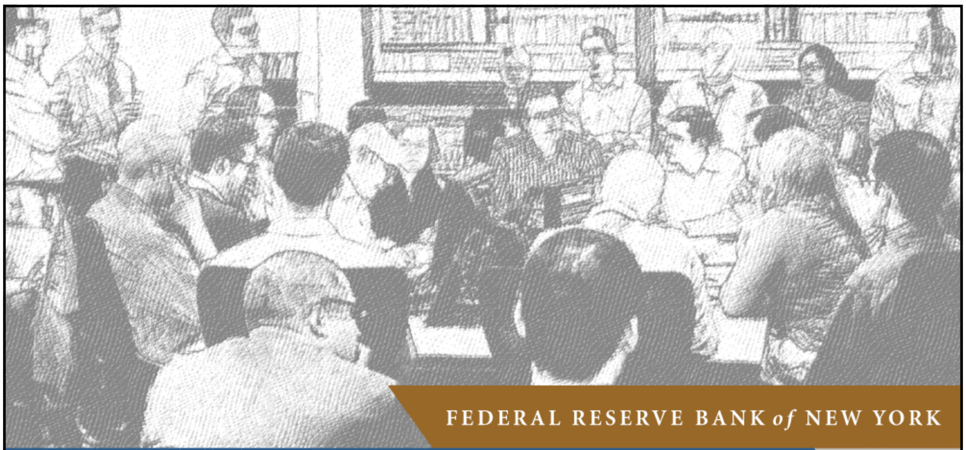

Reporting of Federal Funds and Resale and Repurchase Agreements

Federal Funds

Federal funds sold/purchased are immediately available funds which may be secured by cash collateral (except by securities) or unsecured that mature in one business day or roll over under a continuing contract.

Exclude:

- Federal Home Loan Bank
- Federal Reserve Bank
  - Balances due from - Schedule A
  - Balances due to - Schedule P

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Term Federal Funds

- Term fed funds are loans of immediately available funds that mature in more than one business day.
  - Term federal funds sold
    - Schedule C
  - Term federal funds purchased
    - Schedule P

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Resale/Repurchase Agreements

Securities sold/purchased under agreement to repurchase/resell are immediately available funds which require the reporting institution to deliver the identical security (or a security that meets the definition of substantially the same) regardless of the maturity of the agreement

Exclude: FHLB & FRB other borrowings
Assets other than securities

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Resale/Repurchase Agreements

- Securities sold or purchased against cash collateral
  - Do not meet ASC 860-10-40, “Transfers and Servicing: Overall: Derecognition: Conditions for a Sale of Financial Assets”

Resale/Repurchase Agreements

- Financial assets (other than securities) purchased under agreements to resell if maturity is greater than one business day or is not in immediately available funds or without a continuing contract
  - Loans
  - Borrowings

FEDERAL RESERVE BANK *of* NEW YORK

Reporting of Other Assets and Other Liabilities

Reporting of Other Assets

- Example

  Bank A sells a security to a foreign central bank. Bank A uses trade date accounting to record its sales and purchases of securities. The transaction will be recorded as follows:

  Dr   Accounts Receivable

  Cr Securities

- Accounts receivables generated from the sale are reported as “Other Assets”, Line 1.h

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Reporting of Other Assets

- If a right of setoff exists under ASC 210-20-45 (FIN 39) the receivable and payable from securities purchases and sales can be reported net

Reporting of Other Assets

Example A

- On settlement date, the receipt of funds is recorded as follows:

Dr Cash

Cr Accounts Receivable

Reporting of Other Assets

- In-substance foreclosures (ISFs) should be reported as loans until the lender has taken possession (e.g., loan title or control) of the collateral
  - Once possession is taken, the FV of collateral should be reported as OREO
  - Until this occurs, ISFs should be reported as loans

Reporting of Other Assets

- Income earned or accrued but not collected on loans, securities, and other interest-bearing assets should be reported in other assets
- Receivables from deferred payment for letter of credit

Reporting of Other Assets

- Positive FV of derivative contracts designated as hedges under ASC 815-20, "Derivatives and Hedging: Hedging – General" (FAS 133)
  - If you choose to exclude accrued interest receivable from the fair value calculation, report as a separate accrual. Methodology should be applied consistently.

Reporting of Other Assets

- Balances held in margin accounts should be reported as "Other Assets".
- Credit balances with broker dealers should be reported as "Other liabilities".

Reporting of Other Liabilities

- Accounts payable should be reported gross in other liabilities rather than netted against accounts receivable
- Interest accrued and unpaid on deposits

Reporting of Other Liabilities

- Bank's liability for deferred payment letters of credit
- Negative FV of derivative contracts designated as hedges under ASC 815-20 (FAS 133)
  - If you choose to exclude accrued interest payable from the FV calculation, report as a separate accrual. Methodology should be applied consistently.

Reporting of Other Liabilities

Exclude from Other Liabilities

- Short sales (Report on Schedule RAL, “Trading liabilities”)
- Reserves established for assets that are reported at fair value are included as part of the fair value of the asset

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Reporting of Other Liabilities

Exclude from Other Liabilities

These should be reported as “deposit liabilities” on Schedule E, as appropriate

- Mortgage and escrow funds (funds received for payment of taxes, insurance, etc.)
- Proceeds from the sale of savings bonds
- Withheld taxes, social security taxes, sales taxes, and similar items

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Reporting of Suspense Accounts

- Suspense accounts

  Temporary holding accounts where items are carried until they can be identified and posted to the proper account

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Reporting of Suspense Accounts

- Suspense accounts should be reviewed prior to the submission of the FFIEC 002 and reported in the appropriate account

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Schedule M

Martin Milanovich

Agenda

- Instruction changes effective 6/30/2013
- Background and overview of FFIEC 002 Schedule M *“Due from/Due to Related Institutions in the U.S. and in Foreign Countries”*
- Components of Schedule M
- Reporting criteria of each section
- Funding types/sources and how they are reported on Schedule M

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Report Form and Instruction Changes 06/30/2013

- No report form changes for Schedule M

- Instructions have been updated to incorporate clarifications on the reporting of contingent liabilities on Schedule M Part V issued by the reporting branch or agency to related depository institutions that insure the timely payment of principal and interest on debt issuances, such as:
  - Item 3, "*Total standby letters of credit*"
  - Item 7 "*All other off-balance sheet contingent liabilities*"

- See 6/30/2013 transmittal letter and updated FFIEC 002 Instructions

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Schedule M Background and Overview

- Collects transaction data of the reporting branch and related domestic and foreign institutions such as:
  - Unremitted profits/losses
  - Capital contributions
  - General allowance for loan and lease losses
  - Provision for income tax (if branch pays on behalf of parent)
  - Funding sources
  - Off-balance sheet activity

- For purposes of Schedule M Puerto Rico and other U.S. territories and possessions are considered non-U.S. domiciled

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Schedule M Background and Overview

- **Composed of five sections:**
  - **Part I**: Includes due from/to relationships of the reporting branch (including its IBF) with related *depository* institutions
  - **Part II**: Only includes the IBF's due from/to relationships with related depository institutions
  - **Part III**: Includes due from/to relationships of the reporting branch (including its IBF) with related *nondepository* institutions
  - **Part IV**: General allowance for loan and losses
  - **Part V**: Off-balance sheet items with related *depository* institutions

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Related Institutions

- **Related institutions reported on Schedule M Part I, II, V**
  1. Head office of the foreign bank including its branches, agencies and IBFs (foreign or domestic)
  2. Any depository institutions (including their branches, agencies, and IBFs) majority-owned by the foreign bank parent or foreign bank holding company or their majority-owned subsidiaries, including:
     1. Edge and Agreement corporations (including their branches, agencies, and IBFs) majority-owned by the head office or other related depository institutions
     2. Nondepository institutions consolidation by related U.S. banks

Related nondepository institutions are treated as third parties and are excluded from Schedule M Part I, II or IV

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Related Institutions

- **Related parties reported as "third parties" (included on Part III)**
  1. Foreign or domestic nondepository institutions majority-owned by the foreign parent bank or foreign bank holding company *(excluding related nondepository institutions consolidated by related U.S. banks, which are reported on Parts I, II and/or V)*

- **Related parties reported as "third parties" (Excluded from Sch. M)**
  1. Holding companies of the foreign bank parent
  2. Non majority-owned subsidiaries of the foreign parent bank or foreign bank holding company or their subsidiaries

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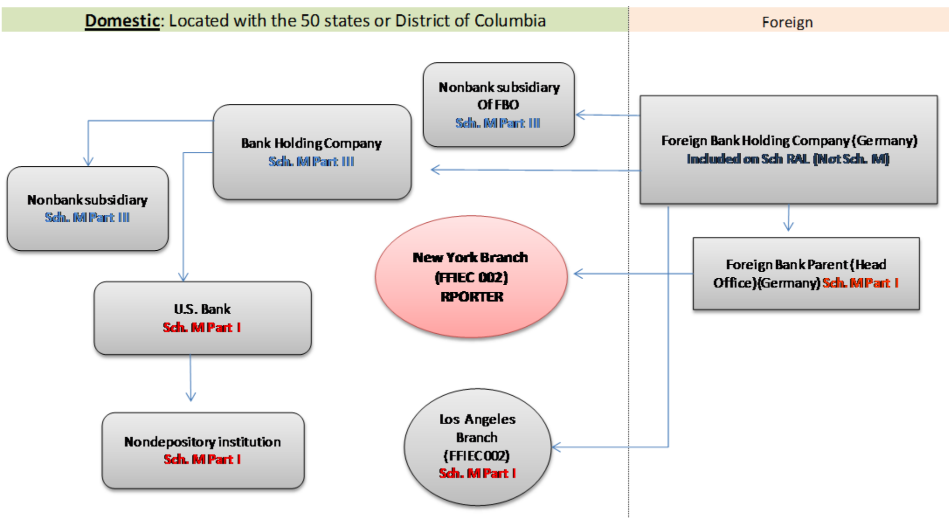
Transactions of the Reporting Branch with Related Domestic Organizations



*Blue arrows indicate ownership structure

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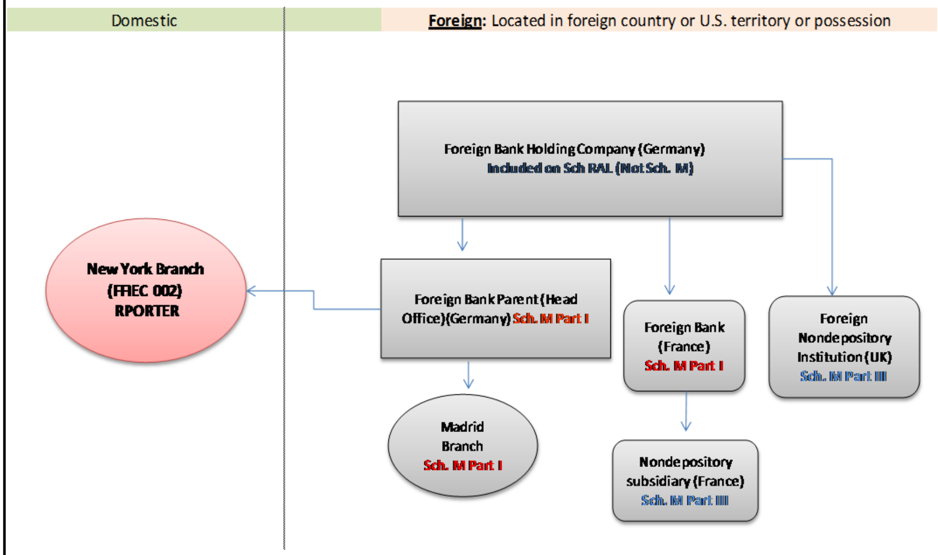
Transactions of the Reporting Branch with Related Foreign Organizations



*Blue arrows indicate ownership structure

Part I

Transactions of reporting institutions (including its IBF) with related depository institutions

- Reported in net due from/to on Schedule RAL item 2.a and 5.a; column A
- Excludes transactions of reporting branch and its own IBF (included on Part II, item 2)
- Reportable transactions with related depository institution's includes:
  - Deposits, loans, borrowings, overdrafts, fed funds, repurchase/resale agreements, and gross unremitted profits/losses, etc.
- Related parties that are reported on the section include:
  - Other domestic or foreign branches of the head office
  - Foreign banks of the foreign parent
  - Domestic banks and its consolidated subsidiaries (including nondepository subsidiaries)

Part II

Transactions of reporting institution's IBF with related depository institutions

- Is separated into three sections:
  - Item 1 deals with transactions with related depository institutions *other than the establishing entity*
  - Item 2 only includes transactions *with the establishing entity* (i.e., the reporting institutions)
    - This is the only item on the FFIEC 002 report where transactions between the reporting branch and its own IBF are reported
  - Item 3 includes the sum of amounts reported in items 1 and 2 described above

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Part III

Transactions of the reporting institution (including its IBF) with related nondepository majority-owned subsidiaries

- These transaction are reported on individual line items of Schedule RAL and excluded from the net due from/to figures reported in item RAL 2.a and 5.a
- The gross due from/to transactions with related nondepository institutions are required to be reported by location of counterparty (U.S. or foreign)
- Related parties that are reported on the section include:
  - Nondepository institutions of the head office or foreign parent

Excludes balances with nondepository subsidiaries consolidated by U.S. banks

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Part IV Loan Information

- **Part IV collects information related to the branch's allowance for loan and lease losses (including its IBF's)**
  - Branches and agencies have the option of carrying a general allowance for loan and lease losses on their books (*reported on Part IV*)
  - The head office may opt to hold a reserve on the branches' behalf (*reported on Part I item 2.a*)
  - Specific reserves for loans should not be reported in this section *(specific reserves are netted against individual loans)*
  - Part IV also includes foreclosed real estate reported as other real estate owned at book value (net)
    - May include property formerly used for banking proposes

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Part V Derivatives and Off-Balance Sheet

- Includes derivative transactions with related depository institutions
- Excludes commitments not yet drawn down:
  - Retail credit cards, check credit, and related plans;
  - Contingencies arising in connection with litigation
- Excludes all derivative transactions with unrelated parties(*reported on Schedule L*) such as:
  - Unrelated depository institutions
  - Related nondepository institutions
- Reporting of derivative products such as interest rate, foreign exchange, equity derivatives and commodity contracts is done on the same basis as Schedule L, *Derivatives and Off-Balance Sheet Items;*
  - The intent of Schedule M part V is to capture off-balance sheet activity with related depository institutions

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Funding Sources of Reporting Branch (and its IBF)

- Transactions on Part I, II and III are reported on a gross basis (no netting) by location and type of related institution (not by claim or liability type) and includes (not limited to):
  - Deposits
  - Loans and borrowings
  - Accounts receivables/ payable
  - Accrued interest (receivable or payable)
  - Overdrafts
  - Federal funds (purchased or sold)
  - Repurchase/resale agreements
  - Capital contributions
  - Net unremitted profits/losses
  - Fair value of derivatives
  - Claims resulting from:
    - Clearing activities
    - Foreign exchange transactions
    - Bankers acceptances

> Reporting of the *gross* due from items and the *gross* due to items *must* be such that their *net* amount as calculated and reported on item 4 of Part I column A and B **equals** Schedule RAL item 2(a), column A, or item 5(a), column A

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Overview

- ASC 820-10-35, “Fair Value Measurement: Overall: Subsequent Measurement” (FAS 157)
- ASC 825-10-25, “Financial Instruments: Overall: Recognition: Fair Value Option” (FAS 159)
- Fair Value on the FFIEC 002: Schedule Q, “Financial Assets and Liabilities Measured at Fair Value”

ASC 820-10-35: Fair Value Measurement

- Defines fair value for financial reporting
- Establishes a framework for measuring fair value
- Enhances disclosures surrounding fair value measurements of assets and liabilities (Schedule Q)

Fair Value Definition

- **Price** that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.
  - Price
    - Exit price (not entry price)
    - No incremental direct costs
  - Orderly Transaction
    - Principal market
    - Most advantageous market
  - Market participants
    - Independent of reporting entity

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ASC 820-10-20, "Fair Value Measurement: Overall: Glossary"

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets/liabilities that the reporting entity has the ability to assess at the measurement date

- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset/liability either directly or indirectly (e.g. yield curves, interest rates…etc)

- Level 3 inputs are unobservable inputs for the asset/liability. The inputs reflect the reporting entity's own assumptions about the assumptions a market participant would make in pricing the exit price of an asset/liability

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Level 1 Measurement Definition and Types of Products and Instruments

- Level 1 fair value measurement inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Typical Products:
  - U.S. Treasury securities
  - U.S. Government agency MBS
  - Equity securities
  - Exchange-traded derivatives, futures
  - Physical commodities
  - Fund investments

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Level 2 Measurement Definition

- Level 2 fair value measurement inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- This includes:
  - Observed market prices for similar instruments
  - Relevant broker quotes
  - Discounted cash flows

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Level 2 Measurement Definition

- If the asset or liability has a specified contractual term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Depending on the specific factors related to an asset or a liability, certain adjustments to Level 2 inputs may be necessary to determine the fair value of the asset or liability. If those adjustments are significant to the asset or liability's fair value in its entirety, the adjustments may render the fair value measurement to a Level 3 measurement.

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Level 2 Products and Instruments

- Level 2 products and instruments capture the majority of assets and liabilities measured at fair value on the balance sheet.
- Typical Products:
  - Securities financing agreements
  - Conforming residential mortgages held for sale
  - Plain vanilla options
  - Interest rate, foreign exchange, and credit default swaps

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Level 3 Measurement Definition and Products and Instruments

- Level 3 fair value measurement inputs are unobservable inputs that are significant to the fair value measurement of the asset or liability.
- Typical Products:
  - Mortgage Servicing Rights
  - Private equity investments
  - CDOs and CLOs
  - Structured credit derivatives
  - Long-dated equity and exotic options

Common Reporting Errors – Level Classification

- Assets and liabilities should be classified by individual instruments rather than by instrument classes
- Level classification methodology should be well documented

ASC 825-10-25, Financial Instruments, Fair Value Option

- ASC 825-10-25 discusses the “the fair value option” which allows the reporting entity to elect fair value measurement to an asset or liability in the balance sheet.
- The accounting treatment dictates that the elected asset or liability is measured at fair value on the balance sheet and changes to fair value are realized through the income statement.

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Schedule Q, Financial Assets and Liabilities Measured at Fair Value

- Schedule Q captures financial assets and liabilities measured at fair value on a recurring basis, i.e. annually or more frequently
- It is to be completed by branches and agencies that:
  - Have reported total assets of $500 million of greater as of the preceding December 31; or
  - Have reported total assets less than $500 million as of the preceding December 31 and either:
    - Have elected the fair value option; or
    - Reported trading assets of $2 million or more in any of the four preceding calendar quarters

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Schedule Q, Financial Assets and Liabilities Measured at Fair Value

- Column A, Total Fair Value Reported on Schedule RAL
  - Report the total fair value of those assets and liabilities reported on Schedule RAL reported at fair value on a recurring basis or that the branch has elected to report at fair value under a fair value option
  - Amounts reported on Column A should equal amounts for these items included within Schedule RAL

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Schedule Q, Financial Assets and Liabilities Measured at Fair Value

- Columns C, D, E, Fair Value Measurements
  - Report in Columns C, D, and E the fair value amounts which fall in Levels 1, 2, and 3, respectively
  - Amounts reported in these columns are reported gross

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Schedule Q, Financial Assets and Liabilities Measured at Fair Value

- Column B, Amounts Netted in the Determination of Total Fair Value
  - Report any netting adjustments (ASC 210-20, "Balance Sheet: Offsetting") (FIN 39), Offsetting of Amount Related to Certain Contracts, and FAS 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements) related to the gross amounts reported in Columns C, D, and E separately in a manner consistent with industry practice.
  - The amounts reported in the three levels should match the total amount report in Column A, less netted amounts in Column B for each instrument type.
  - Column A = Columns C+D+E – Column B

Common Reporting Errors - Netting

- Netted amounts should not be reported in columns C, D, or E
- The gross fair values reported on Schedule Q, columns C, D, or E should be reconciled with the gross fair values reported on Schedule L "Derivatives and Off-Balance Sheet Items"

Schedule L (gross)		Schedule Q	
+ FV of IR trading derivatives	$ 500	Trading derivative assets, column C	$450
+ FV of FX trading derivatives	150	Trading derivative assets, column D	150
+ FV of Equity trading derivatives	0	Trading derivative assets, column E	100
+ FV of Other* trading derivatives	50	Total gross trading derivative assets	$700
Total + FV trading derivatives	$700		

*Other trading derivatives includes Commodities and Credit Derivatives

- Values reported in column A should be reconciled with the sum of the values reported in column C, D, E less column B.

Reporting of Assets and Liabilities on Schedule Q

Securities

- All securities within the scope of ASC 320, “Investments - Debt & Equity Securities” (FAS 115), that a bank has elected to report at fair value under the fair value option should be classified as trading securities even if the securities were not acquired principally for the purpose of trading
  - Schedule Q, Line 5(b): Report as “Other trading assets”
  - Breakout in Line 5(b)(1), “Nontrading securities at fair value with changes in fair value reported in current earnings (included in Schedule Q, Line 5(b))
- Available-for-sale securities for which the fair value option has not been elected

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Common Reporting Errors - Securities

- Schedule RAL, Memoranda Line 3 “Fair value of AFS securities” should equal Schedule Q, Line 1, Column A “Total fair value of AFS securities reported on Schedule RAL”

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Reporting of Assets and Liabilities on Schedule Q

Loans

- Loans held for trading should be reported on Line 5(b), "Other Trading Assets"
- Loans held for sale for which the fair value option was elected should be reported on Line 3, "Loans held for sale "
- Loans held for investment for which the fair value option was elected should be reported on Line 4, "Loans held for investment"
- Loans held for sale or investment for which the fair value option was not elected but are measured at fair value on a recurring basis should be reported on Line 6, "All other assets" (i.e. hedged loans fair valued under ASC 815)

Reporting of Assets and Liabilities on Schedule Q

Trading Assets and Liabilities

- The positive and negative fair value of trading derivatives should be reported on Line 5(a) or Line 10(a) respectively
- Other trading assets or liabilities should be reported on Line 5(b) or Line 10(b) respectively, and includes items such as:
  - Loans held for trading
  - Nontrading securities under a fair value option
- The amount of nontrading securities reported on Line 5(b) should also be disclosed on Line 5(b)(1)
- Amounts reported should continue to equal amounts reported on Schedule RAL

Common Reporting Errors - Trading

- The sum of Schedule RAL, Lines 1.f (1) to (5) "Trading assets" less Memoranda Line 10 "Derivatives with a positive fair value held for trading purposes" should equal Schedule Q, Line 5.b, Column A "Total fair value of other trading assets"

- The sum of Schedule RAL, Lines 4.e "Trading liabilities" less Memoranda Line 11 "Derivatives with a negative fair value held for trading purposes" should equal Schedule Q, Line 10(b), Column A "Total fair value of other trading liabilities"

- Gross fair values of derivatives reported on Schedule L should equal the gross fair values of derivatives reported on Schedule Q.

Reporting of Assets and Liabilities on Schedule Q

All Other Assets and Liabilities

- Report all other assets or liabilities that are measured at fair value on a recurring basis or under a fair value option not included elsewhere on Schedule Q on Line 6 or Line 13
- This includes (among others):
  - Positive and negative fair values of Nontrading derivatives
  - Interest only strips receivables
  - Positive and negative fair values of Loan Commitments
- In addition, any component exceeding $25,000 and more than 25% of the amount reported in Line 6 or 13 should be itemized on Memoranda Line M1 or Line M2, in items (a) through (f)

Common Reporting Errors – All Other Assets/Liabilities

- Assets or liabilities greater than $25,000 and exceeding 25% of all other assets or liabilities should be reported in the memoranda section:
  - The sum of Schedule Q Memoranda Items 1.b and 2.b, Columns C, D, and E "Nontrading derivative assets/liabilities," respectively, should equal the Sum of the positive and negative fair values of derivatives held for purposes other than trading on Schedule L, respectively.

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Reporting of Assets and Liabilities on Schedule Q

- Review and reassess Schedule Q reporting criteria and Schedule Q memoranda reporting threshold
- Include items measured at fair value on a recurring basis as well as those under a fair value option
- Confirm instruments are reported in the appropriate fair value measurement level
- Verify amounts reported on Schedule Q match those reported elsewhere on the report

- On the Horizon: FASB's Proposed ASU 825-10 "*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities—Proposed Amendments to the* FASB Accounting Standards Codification®."

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Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N/NS)

Nikkie Christy

Quarterly Reporting: Who is Required to File?

- Quarterly Reporting:
  - Filed by each top-tier foreign banking for each of its U.S. nonbank subsidiaries that is not regulated by a primary U.S. regulator other than the Federal Reserve and meets *any one* of the following criteria:
  - (a) total assets equal to or greater than $1 billion; or
  - (b) total off-balance-sheet activities equal to or greater than $5 billion

Filing Criteria – Frequency of Reporting

- Once a nonbank subsidiary satisfies the criteria to file the FR Y-7N quarterly report for any quarter during the calendar year, it must continue to file the quarterly report for the remainder of the calendar year (even if it no longer meets the reporting thresholds)

- EXAMPLE:

	Total Assets*	Report Filed
March 31, 2013:	$500 million	N/A
June 30, 2013:	$600 million	N/A
September 30, 2013:	$1.5 billion	Quarterly FR Y-7N
December 31, 2013:	$900 million	Quarterly FR Y-7N

**For this example, the reporting institution does not have any off-balance-sheet activity*

Annual Reporting

- **Annual Reporting – Detailed (FR Y-7N)**
  - Filed by each top-tier foreign banking organization for each U.S. nonbank subsidiary with total assets greater than $250 million (but less than $1 billion) that is not regulated by a primary U.S. regulator other than the Federal Reserve
- **Annual Reporting – Abbreviated (FR Y-7NS)**
  - Filed by each top-tier foreign banking organization for each U.S. nonbank subsidiary with total assets greater than $50 million (but less than $250 million) that is not regulated by a primary U.S. regulator other than the Federal Reserve

Exemptions from Reporting

- Who is exempt?
  - Nonbank subsidiaries functionally supervised by a regulatory agency other than the Federal Reserve
    - (e.g., SEC, CFTC, State Insurance Commissioners, or State Securities Departments)
  - Subsidiaries holding shares as a result of debts previously contracted ("DPC" assets)
  - Subsidiaries that are considered a merchant banking investment
    - Shares are held pursuant to section 4(k)4(H) of the BHC Act
  - Subsidiaries of U.S. commercial banks

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Multiple FBO Ownership

- If the subsidiary is owned by multiple FBOs – majority owner FBO should submit the report

- If the subsidiary is owned equally by multiple FBOs – largest FBO, based on consolidated assets, should submit the report

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Reporting Method

- Calendar year reporting only
  - No fiscal year reporting
- Signatures
  - Reports must be signed by an officer of the FBO
  - If the top tier holding company is domiciled outside the U.S., the holding company may authorize an officer of the nonbank subsidiary to sign the report

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Common Reporting Errors: Reporting Method

- Reports should not be consolidated
  - Separate report for each legal entity that is a subsidiary of the FBO (directly or indirectly owned) and that meets the reporting criteria
  - Each FBO should separately assess whether a VIE meets the definition of a subsidiary and determine if any such entity meets the criteria for filing the report.
  - A subsidiary for purposes of this report is defined by Section 225.2 of Federal Reserve Regulation Y, which generally includes companies 25 percent or more owned or controlled by another company.

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Common Reporting Errors: Reporting Method

- Equity method accounting for all subsidiaries of the reporting entity

  - Income Statement – net income of reporter's sub:

    "Equity in undistributed income" (Line 11)

  - Balance Sheet – investment balance of reporter's sub:
    - "Balances due from related institutions – gross" (Line 9) if positive
    - "Balances due to related institutions – gross" (Line 16) if negative

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Common Reporting Errors: Reporting Method

- OCI, including the cumulative translation adjustment pertaining to the subsidiaries of the reporting entity, is included as part of the net income of the subsidiary, and should be reported in Schedule IS, "Equity in undistributed income" (Line 11)

  - Note: Accumulated OCI of the reporter's subsidiaries should be reported on Schedule BS, "Balances due from related institutions" (Line 9)

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Common Reporting Errors: Related Parties

- Related Parties
  - Reported Gross on Schedule BS, Line 9 (Due from) and Line 16 (Due to) and Includes:
    - Balances with the top tier bank holding company or banking organization and its subsidiary bank holding companies;
    - Balances with subsidiary banks (or their branches);
    - Balances with other subsidiaries (including those of the parent and the reporting nonbank subsidiaries;
    - Investment in all subsidiaries and associated companies (whether consolidated or unconsolidated) are reported as "Balances due from related institutions gross" (Line 9)

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Common Reporting Errors: Fair Value Option

- Nonbank subsidiaries that have elected to account for financial instruments or servicing assets and liabilities at fair value under a fair value option (FVO) with changes in fair value recognized in earnings
  - Assets and liabilities elected to report under the FVO are reported at fair value on Schedule, BS
  - The total fair value of assets and liabilities (with third parties and related institutions) accounted for under the FVO are disclosed on Memoranda, Line 1.a and 1.b respectively.

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Common Reporting Errors: Fair Value Option

- Income Statement: Schedule IS, Memoranda Line 1
  - Revaluation adjustments to the carrying value of assets and liabilities reported at fair value under a FVO resulting from the periodic marking of such assets and liabilities are reported on:
    - “Trading revenue”, Line 5.a(3) for assets/liabilities that were transferred to the trading account as a result of a reporting at fair value as a result of a FVO
    - “Net servicing fees”, Line 5.a(6) for servicing assets/liabilities reported at fair value under a FVO
    - “Other noninterest income”, Line 5.a(10) for all other assets/liabilities reported at fair value under a FVO
  - The net change in fair values of financial instruments accounted for under a FVO should also be reported on Schedule IS, Memorandum, Line 1, “Net change in fair values of financial instruments accounted for under a fair value option”
- **The memo excludes revaluation adjustments of trading assets and liabilities that were not reported at FV under a FVO

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Common Reporting Errors: ALLL

- Allowance for Loan and Lease Losses (ALLL) must be reported on a standalone basis for each legal entity
  - ALLL cannot be reported at the parent bank level or at another subsidiary level
  - ALLL should exclude reserves for credit risk on off balance sheet items. These should be reported in “Other liabilities”, Line 14 on Schedule BS and in “Noninterest expense”, Line 7 on Schedule IS
- Specific Reserves
  - Loans are to be reported net of specific reserves (exclude specific reserves from ALLL)

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Common Reporting Errors: Past Due & Nonaccrual Loans - TDRs

- *Schedule BS-A, Line 7.d:*

  Loans restructured in TDRs include those loans that have been restructured or renegotiated to provide a reduction of either interest or principal due to deterioration in the financial position of the borrower.
    - A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is <u>not</u> considered a TDR.
    - Should exclude leases
    - For further information, see the FR Y-9C Glossary entry for "troubled debt restructurings" and ASC 310-40, Troubled Debt Restructurings by Creditors

217

Common Reporting Errors: Assets & Liabilities

- Deferred Tax Assets and Liabilities
  - Income taxes are reported on a stand-alone basis
  - Deferred tax assets and liabilities must be reported net for each tax jurisdiction on Schedule BS, "Other assets" Line 7 and "Other liabilities" Line 14 respectively.
- Repurchase agreements and Resale Agreements
  - Repurchase agreements and FFPs are reported as "Other borrowed money" on Schedule BS, Line 12.
  - Resale agreements and FFS are reported as "Loans" on Schedule BS, Line 3.a.

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Common Reporting Errors: Assets & Liabilities

- Goodwill
  - Goodwill is reported as “All other assets” on Schedule BS, Line 7
    - Impairments to goodwill are reported as “noninterest expense” on Schedule IS, Line 7

- Other Assets & Other Liabilities
  - Other assets reported on Schedule BS-M, Line 3 should be equal to or less than balances reported on Schedule BS “All other assets” Line 7
  - Other liabilities reported on Schedule BS-M, Line 6 must be equal to or less than balances reported on Schedule BS “Other liabilities” Line 14

219

Common Reporting Errors: Off-Balance Sheet Items

- Derivatives and Off-balance Sheet items reported on Schedule BS, Lines 20 – 30 include transactions with related and nonrelated institutions.

- Notional Value of foreign exchange spot contracts are reported with foreign exchange futures and forwards on Schedule BS, Line 24

220

Common Reporting Errors: Off-Balance Sheet Items

- Derivatives
  - Accrued interest receivable and payable from derivative contracts excluded from the calculation of fair value should be reported separately on Schedule BS, "All other assets" Line 7 and "All other Liabilities " Line 14 respectively. (Methodology should be applied consistently)
  - Unrealized gains and losses from derivative contracts held for trading with nonrelated institutions are reported net on Schedule IS, "Trading Revenue" Line 5.a (3)

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Common Reporting Errors: Off-Balance Sheet Items

- Derivatives
  - Fair Value of Derivatives held for purposes other than trading
    - Derivatives held for purposes other than trading that do not qualify for hedge accounting under ASC 815-20 must be reported as held for trading
    - Fair Value of derivatives that do qualify for hedge accounting are reported in "All other assets" (Line 7), if a positive fair value or "Other liabilities" (Line14), if a negative fair value.

222

Common Reporting Errors: Off-Balance Sheet Items

- ALL credit derivatives, including contracts where the reporter is the beneficiary should be reported in:
  - "All Other Off Balance Sheet Liabilities", (Line 30)
- All securities borrowed/lent against collateral other than cash (i.e.. against other securities) should be reported in:
  - "All Other Off Balance Sheet Liabilities", (Line 30)

223

Common Reporting Errors: LLCs

- In general, the presentation of the equity section of an LLC's financial statements should be similar to that of a partnership (see ASC Topic 272, Limited Liability Entities)
  - Equity issued by an LLC should be reported on "General and limited partnership shares and interests" (Schedule BS, Line 18.e).

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