

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

SCOTT SMENTEK
ASSISTANT VICE PRESIDENT

April 16, 2018

To: The Chief Executive Officer of Each U.S Branch and Agency of a Foreign Bank
Located in the Second Federal Reserve District

The following report forms and instructions for the March 31, 2018, reporting date have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms":

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002);
- Supplemental Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or agency of a Foreign (Non-U.S.) Bank (FFIEC 002S); and
- The Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019)

There are no changes to the FFIEC 002, FFIEC 002S or FFIEC 019 reporting forms for the March 31, 2018 report date. The Federal Financial Institutions Examination Council (FFIEC) has given initial approval to proposed revisions to the FFIEC 002 and FFIEC 002S that were published for public comment in the *Federal Register* on December 27, 2017 (82 FR 61294). The reporting changes will take effect for the June 30, 2018, report date, subject to approval by the U.S. Office of Management and Budget.

The proposed revisions to the FFIEC 002 and FFIEC 002S delete or consolidate certain items, establish certain reporting thresholds, make instructional clarifications, and address changes in accounting for equity securities and other equity investments under Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-01. All revisions are consistent with those previously made to or currently proposed for the Consolidated Reports of Condition and Income filed by banks and savings associations.

Although the proposed revisions will not take effect until June 30, 2018, institutions that apply ASU 2016-01 in the first quarter of 2018 will need to report their holdings of equity investments in accordance with this accounting standard within the existing structure of the FFIEC 002 for March 31, 2018. Interim reporting guidance to institutions that have adopted ASU 2016-01 for the FFIEC 002 and FFIEC 002S is as follows:

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Interim guidance pertaining to the Accounting Standards Update (ASU) 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” for the FFIEC 002

In January of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” In its summary of this ASU, the FASB described how one of the main provisions of the ASU differs from current U.S. generally accepted accounting principles (GAAP) as follows:

The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity’s equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update.

For branches and agencies that are public business entities, as defined in U.S. GAAP, ASU 2016-01 is effective for fiscal years beginning after December 31, 2017. For all other branches and agencies, the ASU is effective for fiscal years beginning after December 31, 2018. Therefore, branches and agencies that are public business entities must report their holdings of equity securities and other equity investments in accordance with the ASU within the existing structure of the FFIEC 002 beginning with the March 31, 2018, report date. As a result, the Board is providing interim guidance for the March 31, 2018, report date advising branches and agencies that have adopted the ASU on how to properly report equity securities and other equity investments within these reports. Please see the interim guidance below for FFIEC 002.

- (a) Continue to report the fair value and historical cost of their holdings of equity securities with readily determinable fair values not held for trading (which were reportable as available-for-sale equity securities prior to the adoption of ASU 2016-01) in existing Memorandum items 3 and 4 (fair value and amortized cost of available-for-sale securities, respectively) of Schedule RAL (Assets and Liabilities);
- (b) Measure their holdings of equity securities and other equity investments without readily determinable fair values not held for trading in accordance with the ASU and continue to report them in Schedule RAL, item 1.h (Other assets including other claims on nonrelated parties);

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- (c) Report Schedule K (Quarterly Averages), item 5 (Total claims on nonrelated parties), consistent with the measurement of Schedule RAL, item 1.i (Total claims on nonrelated parties), except that all debt securities not held for trading should be measured on an amortized cost basis;
- (d) Report Schedule O (Other Data for Deposit Insurance Assessments), item 4 (Average consolidated total assets for the calendar quarter), consistent with the measurement of Schedule RAL, item 3 (Total assets), except that all debt securities not held for trading should be measured at amortized cost; and
- (d) Continue to report the amount from Memorandum item 3 of Schedule RAL in Schedule Q (Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis), item 1 (Available-for-sale securities), column A.

Supplemental instructions concerning current accounting and reporting issues affecting the FFIEC 002, FFIEC 002S, and FFIEC 019 reports are provided in Attachment 1.

Transition to Reporting Central

The Country Exposure report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019) has migrated to Reporting Central as of the March 30, 2014 report date. This report will be available electronically by manual data entry into the Reporting Central application and file uploads will not be accepted at this time. For institutions that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions.

The Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) and the Report of Assets and Liabilities of Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S) has migrated to Reporting Central, as of the June 30, 2014 report date. Both file uploads and manual data entry into the Reporting Central application are accepted. For institutions that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions. The Federal Reserve developed Reporting Central to enhance the overall reporting functionality of the Federal Reserve Banks' data collection and processing activities. These enhancements will allow for a more secure, technically advanced, and efficient system that will encompass a single point of entry for electronic submission and file uploads. Financial and nonfinancial institutions will access Reporting Central via the FedLine[®] Web access solution to submit reports and gain access to electronic reporting applications, report forms, and instructions. Additional information about the Reporting Central application, including an online resource center, is available at: <http://www.frbervices.org/centralbank/reportingcentral/index.html>. If you have any questions regarding these changes please contact your Reporting and Reserves

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District Contact.

Subscription Service

We offer a subscription service which enables you to receive recent news and updates on our reporting forms and instructions and upcoming Bank events. You can sign up for this service at the following website:

<http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK8>

Reports Monitoring

Please note that the timeliness of receipt of each of these reports will be monitored and the submission of initial data via facsimile, even if prior to the deadline, does not constitute timely filing.

The completed FFIEC 002 and FFIEC 002S report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than **April 30, 2018**. Any FFIEC 002/002S report received after 5:00p.m.on **April 30, 2018**, will be considered late unless postmarked by **April 27, 2018**, or sent overnight service by **April 29, 2018**.

An original and one copy of the completed FFIEC 019 report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than **May 15, 2018**. Any FFIEC 019 report received after 5:00 p.m. on **May 15, 2018** will be considered late unless postmarked by **May 12, 2018** or sent overnight service by **May 14, 2018**. Reporting institutions have the option to electronically submit the completed FFIEC 019 report(s) using the Federal Reserve System's Reporting Central Application by no later than **May 15, 2018**.

**Federal Reserve Bank of New York
Data and Statistics Function
33 Liberty Street, 6th Floor
New York, NY 10045**

We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the March 31, 2018 report date. The staff of this Reserve Bank will monitor whether branches and agencies are meeting their basic reporting requirements through the use of "validity edits."

FEDERAL RESERVE BANK *of* NEW YORK

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Website

The FFIEC 002/002S and FFIEC 019 forms and instructions are available on the FFIEC website at [www.ffiec.gov/ffiec reportforms.htm](http://www.ffiec.gov/ffiec%20reportforms.htm). In addition, attached are validity edit checks for the FFIEC 002.

Questions regarding the FFIEC 002 and FFIEC 002S reports should be directed to Molly Florio, Regulatory Data Manager, at (212) 720-8125.

Questions regarding the FFIEC 019 report should be directed to Mohammed Ali, Reports Analyst in the Financial Flows Division at (212) 720-8082, Joe Hernandez, Reports Analyst in the Financial Flows Division at (212) 720-1362, or Jamie Ferkov, Regulatory Data Manager at (212) 720-1862.

Sincerely,

Scott Smentek
Assistant Vice President

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ATTACHMENT 1**Supplemental Instructions****Credit Losses on Financial Instruments**

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, “Measurement of Credit Losses on Financial Instruments,” which introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses. Under CECL, the allowance for credit losses is a valuation account, measured as the difference between the financial assets’ amortized cost basis and the net amount expected to be collected on the financial assets (i.e., lifetime credit losses). To estimate expected credit losses under CECL, branches will use a broader range of data than under existing U.S. generally accepted accounting principles (GAAP). These data include information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets.

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

The ASU also modifies the treatment of credit impairment on available-for-sale (AFS) debt securities.

For additional information, institutions should refer to the agencies’ Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses, which were most recently updated on September 6, 2017, the agencies’ June 17, 2016, Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses, and ASU 2016-13, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168232528&acceptedDisclaimer=true

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Accounting for Hedging Activities

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities.” This ASU amends Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, to “better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.”

For branches that are public business entities, as defined under U.S. generally accepted accounting principles (GAAP), the ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application of the ASU is permitted for all branches in any interim period or fiscal year before the effective date of the ASU. Further, the ASU specifies transition requirements and offers transition elections for hedging relationships existing on the date of adoption (i.e., hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or for which the institution has not removed the designation of the hedging relationship). These transition requirements and elections should be applied on the date of adoption of the ASU and the effect of adoption should be reflected as of the beginning of the fiscal year of adoption (i.e., the initial application date). Thus, if a branch early adopts the ASU in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes the interim period of adoption, e.g., as of January 1 for a calendar year institution.

For additional information, branches should refer to ASU 2017-12, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176169282347&acceptedDisclaimer=true.

Regulatory Capital Treatment of Certain Centrally-Cleared Derivative Contracts

On August 14, 2017, the banking agencies issued supervisory guidance on the regulatory capital treatment of certain centrally-cleared derivative contracts in light of recent changes to the rulebooks of certain central counterparties. Under the previous requirements of these central counterparties’ rulebooks, variation margin transferred to cover the exposure that arises from marking cleared derivative contracts, and netting sets of such contracts, to fair value was considered collateral pledged by one party to the other, with title to the collateral remaining with the posting party. These derivative contracts are referred to as collateralized-to-market contracts. Under the revised rulebooks of certain central counterparties, variation margin for certain

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centrally-cleared derivative contracts, and certain netting sets of such contracts, is considered a settlement payment for the exposure that arises from marking these derivative contracts and netting sets to fair value, with title to the payment transferring to the receiving party. In these circumstances, the derivative contracts and netting sets are referred to as settled-to-market contracts.

Under the agencies' regulatory capital rules, in general, an institution must calculate the trade exposure amount for a cleared derivative contract, or a netting set of such contracts, by using the methodology described in section 34 of the rules to determine (i) the current credit exposure and (ii) the potential future exposure of the derivative contract or netting set of such contracts for purposes of the standardized approach risk-based capital calculation and the supplementary leverage ratio calculation. The risk-weighted asset calculations under the advanced approaches capital framework have similar requirements. Current credit exposure is determined by reference to the fair value of each derivative contract as measured under U.S. GAAP. Potential future exposure is determined, in part, by multiplying each derivative contract's notional principal amount by a conversion factor. The conversion factors vary by the category (for example, interest rate, equity) and remaining maturity of the derivative contract. The regulatory capital rules provide that, for a derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the fair value of the contract is zero, the remaining maturity equals the time until the next reset date.

For the purpose of the regulatory capital rules, the August 2017 supervisory guidance states that if, after accounting and legal analysis, an institution determines that (i) the variation margin payment on a centrally cleared settled-to-market contract settles any outstanding exposure on the contract, and (ii) the terms are reset so that the fair value of the contract is zero, the remaining maturity on such a contract would equal the time until the next exchange of variation margin on the contract. In conducting its legal analysis to determine whether variation margin may be considered settlement of outstanding exposure under the regulatory capital rules, an institution should evaluate whether the transferor of the variation margin has relinquished all legal claims to the variation margin and whether the payment of variation margin constitutes settlement under the central counterparty's rulebook, any other applicable agreements governing the derivative contract, and applicable law. Among other requirements, a central counterparty's rulebook may require an institution to satisfy additional obligations, such as payment of other expenses and fees, in order to recognize payment of variation margin as satisfying settlement under the rulebook. The legal and accounting analysis performed by the institution should take all such requirements into account.

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Branches should refer to the supervisory guidance in its entirety for purposes of determining the appropriate regulatory capital treatment of settled-to-market contracts under the regulatory capital rules. This guidance is available at <https://www.fdic.gov/news/news/financial/2017/fil17033a.pdf>.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-08, “Premium Amortization on Purchased Callable Debt Securities.” This ASU amends Accounting Standards Codification (ASC) Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs (formerly FASB Statement No. 91, “Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases”), by shortening the amortization period for premiums on callable debt securities that have explicit, non-contingent call features and are callable at fixed prices and on preset dates. Under existing U.S. generally accepted accounting principles (GAAP), the premium on such a callable debt security generally is required to be amortized as an adjustment of yield over the contractual life of the debt security. Under the ASU, the excess of the amortized cost basis of such a callable debt security over the amount repayable by the issuer at the earliest call date (i.e., the premium) must be amortized to the earliest call date (unless the institution applies the guidance in ASC Subtopic 310-20 that allows estimates of future principal prepayments to be considered in the effective yield calculation when the institution holds a large number of similar debt securities for which prepayments are probable and the timing and amount of the prepayments can be reasonably estimated). If the call option is not exercised at its earliest call date, the institution must reset the effective yield using the payment terms of the debt security.

The ASU does not change the accounting for debt securities held at a discount. The discount on such debt securities continues to be amortized to maturity (unless the Subtopic 310-20 guidance mentioned above is applied).

For public business entities, as defined under U.S. GAAP, the new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Early application of the new standard is permitted for all branches, including adoption in an interim period of 2017 or a subsequent year before the applicable effective date for a branch. If a branch early adopts the ASU in an interim period, the cumulative-effect adjustment shall be reflected as of the beginning of the fiscal year of adoption.

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A branch must apply the new standard on a modified retrospective basis as of the beginning of the period of adoption. Under the modified retrospective method, a branch should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the fiscal year the new standard is adopted. The cumulative-effect adjustment to retained earnings for this change in accounting principle should be reported in FFIEC 002 report outside of earnings in other comprehensive income as reflected in net due from/due to.

For additional information, institutions should refer to ASU 2017-08, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168934053&acceptedDisclaimer=true.

Recognition and Measurement of Financial Instruments: Investments in Equity Securities

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

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

For public business entities, as defined under U.S. GAAP, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application of the ASU is permitted for all non public business entities as of the fiscal

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years beginning after December 15, 2017, including interim periods within those fiscal years. Branches must apply ASU 2016-01 for FFIEC 002 purposes in accordance with the effective dates set forth in the ASU.

With the elimination of AFS equity securities upon a branches adoption of ASU 2016-01, the amount of net unrealized gains (losses) on these securities, net of tax effect, that is included outside of earnings in other comprehensive income as reflected in net due from/due to on the FFIEC 002 report balance sheet. Thereafter, changes in the fair value of (i.e., the unrealized gains and losses on) an holding company's equity securities that would have been classified as AFS under existing U.S. GAAP will be recognized through net income rather than other comprehensive income. For branches and agencies holdings of equity securities without readily determinable fair values as of the adoption date, the measurement provisions of the ASU are to be applied prospectively to these securities.

For additional information, institutions should refer to ASU 2016-01, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true.

Recognition and Measurement of Financial Instruments: Fair Value Option Liabilities

In addition to the changes in the accounting for equity securities discussed in the preceding section of these Supplemental Instructions, ASU No. 2016-01 requires a branch to present separately in net due from/due to the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk ("own credit risk") when the branch has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Until a branch adopts the own credit risk provisions of the ASU, U.S. GAAP requires the branch to report the entire change in the fair value of a fair value option liability in earnings. The ASU does not apply to other financial liabilities measured at fair value, including derivatives. For these other financial liabilities, the effect of a change in an entity's own credit risk will continue to be reported in net income.

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

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The effective dates of ASU 2016-01 are described in the preceding section of these Supplemental Instructions. Notwithstanding these effective dates, early application of the ASU's provisions regarding the presentation of changes due to own credit risk on fair value option liabilities is permitted for all branches for financial statements of fiscal years or interim periods that have not yet been issued or made available for issuance, and in the same period for FFIEC 002 report purposes.

When a branch with a calendar year fiscal year adopts the own credit risk provisions of ASU 2016-01, the accumulated gains and losses as of the beginning of the fiscal year due to changes in the instrument-specific credit risk of fair value option liabilities, net of tax effect, are reflected in other comprehensive income in net due from/due to. If a branch with a calendar year fiscal year chooses to early apply the ASU's provisions for fair value option liabilities in an interim period after the first interim period of its fiscal year, any unrealized gains and losses due to changes in own credit risk and the related tax effects recognized in the FFIEC 002 Schedule M statement during the interim period(s) before the interim period of adoption should be reclassified from P&L to other comprehensive income in net due from/due to.

For additional information, institutions should refer to ASU 2016-01, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true.

Accounting for Measurement-Period Adjustments Related to a Business Combination

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." Under Accounting Standards Codification (ASC) Topic 805, Business Combinations (formerly FASB Statement No. 141(R), "Business Combinations"), if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports provisional amounts in its financial statements for the items for which the accounting is incomplete. During the measurement period, the acquirer is required to adjust the provisional amounts recognized at the acquisition date, with a corresponding adjustment to goodwill, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. At present under Topic 805, an acquirer is required to retrospectively adjust the provisional amounts recognized at the acquisition date to reflect the new information. To simplify the accounting for the adjustments made to provisional amounts, ASU 2015-16 eliminates the requirement to retrospectively account for the adjustments. Accordingly, the ASU amends Topic 805 to require an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period

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in the reporting period in which adjustment amounts are determined. Under the ASU, the acquirer also should recognize in the financial statements for the same reporting period the effect on earnings, if any, resulting from the adjustments to the provisional amounts as if the accounting for the business combination had been completed as of the acquisition date.

In general, the measurement period in a business combination is the period after the acquisition date during which the acquirer may adjust provisional amounts reported for identifiable assets acquired, liabilities assumed, and consideration transferred for the acquiree for which the initial accounting for the business combination is incomplete at the end of the reporting period in which the combination occurs. Topic 805 provides additional guidance on the measurement period, which shall not exceed one year from the acquisition date, and adjustments to provisional amounts during this period.

For institutions that are public business entities, as defined under U.S. GAAP, ASU 2015-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For institutions that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The ASU's amendments to Topic 805 should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the ASU. Thus, institutions with a calendar year fiscal year that are public business entities were required to apply the ASU to any adjustments to provisional amounts that occur after January 1, 2016, beginning with their FFIEC 002 report for March 30, 2016. Institutions with a calendar year fiscal year that are private companies should apply the ASU to any adjustments to provisional amounts that occur after January 1, 2017, beginning with their FFIEC 002 report for December 31, 2017. Early application of ASU 2015-16 is permitted in FFIEC 002 reports that have not been submitted.

For additional information, institutions should refer to ASU 2015-16, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Accounting for Sales of OREO

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

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The following paragraphs highlight key aspects of Topic 610 that will apply to seller-financed sales of OREO once the new standard takes effect. When implementing the new standard, an institution will need to exercise judgment in determining whether a contract (within the meaning of Topic 606) exists for the sale or transfer of OREO, whether the institution has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss.

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

If the five contract criteria in Topic 606 have not been met, the institution generally may not derecognize the OREO asset or recognize revenue (gain or loss) as an accounting sale has not occurred. In contrast, if an institution determines the contract criteria in Topic 606 have been met, it should then determine whether it has satisfied its performance obligations as identified in the contract by transferring control of the asset to the buyer, indicators of which are identified in the new standard. For seller-financed sales of OREO, the transfer of control generally occurs on the closing date of the sale when the institution obtains the right to receive payment for the property and transfers legal title to the buyer. However, an institution should consider all relevant facts and circumstances to determine whether control of the OREO has transferred.

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

For FFIEC 002 purposes, a branch or agency should apply the new standard on a modified retrospective basis. To determine the cumulative-effect adjustment for the change in accounting for seller-financed OREO sales, an institution should measure the impact of applying Topic 610 to the outstanding seller-financed sales of OREO currently accounted for under Subtopic 360-20 using the installment, cost recovery, reduced-profit, or deposit method as of the beginning of the fiscal year the new standard is adopted.

Accounting for Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which added Topic 842, Leases, to the ASC.

This guidance, once effective, supersedes ASC Topic 840, Leases.

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

The most significant change that Topic 842 makes is to lessee accounting. Under existing accounting standards, lessees recognize lease assets and lease liabilities on the balance sheet for capital leases, but do not recognize operating leases on the balance sheet. The lessee accounting model under Topic 842 retains the distinction between operating leases and capital leases, which the new standard labels finance leases. However, the new standard requires lessees to record a right-of-use (ROU) asset and a lease liability on the balance sheet for operating leases. (For finance leases, a lessee’s lease asset also is designated an ROU asset.) In general, the new standard permits a lessee to make an accounting policy election to exempt leases with a term of one year or less at their commencement date from on-balance sheet recognition. The lease term

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generally includes the non-cancellable period of a lease as well as purchase options and renewal options reasonably certain to be exercised by the lessee, renewal options controlled by the lessor, and any other economic incentive for the lessee to extend the lease. An economic incentive may include a related-party commitment. When preparing to implement Topic 842, lessees will need to analyze their existing lease contracts to determine the entries to record on adoption of this new standard.

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

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

For institutions that are public business entities, as defined under U.S. GAAP, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For institutions that are not public business entities, the new standard is effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early application of the new standard is permitted for all institutions. An institution that early adopts the new standard should apply it in its entirety to all lease-related transactions. If an institution chooses to early adopt the new standard for financial reporting purposes, the institution should implement the new standard in its FFIEC 002 Report for the same quarter-end report date.

For FFIEC 002 purposes, a branch or agency should apply the new standard on a modified retrospective basis. Under the modified retrospective method, an institution should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the fiscal year the new standard is adopted.

For additional information on ASU 2016-02, institutions should refer to the FASB's website at: http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FCompletedProjectPage&cid=1176167904031, which includes a link to the new accounting standard.

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Reporting of Specific Reserves

Once a loan is written-down through a specific reserve or charge-off, a new cost basis for the asset is established. Changing this cost basis by re-booking or writing-up the loan is not permitted. Under Accounting Standard Codification (ASC) 310-10-35-37, after the initial measurement of impairment, if there is a significant change in the amount or timing of an impaired loan's expected future cash flow, the change should be applied by adjusting the valuation allowance.

On the FFIEC 002, loans that are written down through the application of a specific reserve are treated in an identical manner as loans that are partially or wholly charged-off. Therefore, recoveries on loans for which there is a specific reserve should be accounted for on a cash basis by reducing the expense account (i.e. the provision for loan losses) for the amount of the recovery, and reported as part of the calculation for profit or loss, in Schedule M, Part I, Line 2.a, "Gross due from/to head office of parent bank".