

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

**RICHARD ROBERTS**

STATISTICS OFFICER

July 3, 2012

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 June 30, 2012 reporting date have been posted to the Federal Reserve Board's website at [www.federalreserve.gov](http://www.federalreserve.gov) under "Reporting Forms":

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002); and
- 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)
- The Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019)

There are revisions to the FFIEC 002 reporting form and instructions for the June 30, 2012 report date; however, there are no changes to the FFIEC 002S and FFIEC 019. A new item has been added on Schedule RAL, Assets and Liabilities, for "Other Securities" held for trading purposes (1.f.4), while "Other Trading Assets" has been renumbered as item 1.f.5. The FFIEC 002 instructions have been modified to include instructions for the new line item and to define "Other Trading Assets" to exclude all securities held for trading.

For more information on the June 2012 changes, please refer to the Federal Register notice published on March 9, 2012 (77 FR 14367). Note that the FFIEC and the Federal banking agencies are continuing to evaluate a proposed new schedule that would collect selected loan origination data in light of the comments received. Decisions regarding this proposed schedule will be the subject of one or more future Federal Register notices, and any resulting new reporting requirements will not take effect before the December 31, 2012, report date.

Copies of this notice and the FFIEC 002 and FFIEC 002S reporting forms and instructions are available on the FFIEC public website at [http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)

**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".

**Goodwill Impairment Testing**

In September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, "Testing Goodwill for Impairment," to address concerns about the cost and complexity of the existing goodwill impairment test in ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets"). The ASU's amendments to ASC Topic 350 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (i.e., for annual or interim tests performed on or after January 1, 2012, for branches and agencies with a calendar year fiscal year). Early adoption of the ASU is permitted. Branches and agencies should adopt ASU 2011-08 for FFIEC 002 reporting purposes in accordance with the standard's effective date and early adoption provisions.

Under ASU 2011-08, a branch or agency has the option of first assessing qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test described in ASC Topic 350. If, after considering all relevant events and circumstances, a branch or agency determines it is not more likely than not (that is, a likelihood of 50 percent or less) that the fair value of a reporting unit is less than its carrying amount (including goodwill), then the branch or agency does not need to perform the two-step goodwill impairment test. (In other words, if it is more likely than not - a likelihood of more than 50 percent - that the fair value of a reporting unit is greater than its carrying amount, a branch or agency would not have to test the unit's goodwill for impairment.) If the branch or agency instead concludes that the opposite is true (that is, it is more likely than not that the fair value of

July 3, 2012.

3

a reporting unit is less than its carrying amount), then it is required to perform the first step and, if necessary, the second step of the two-step goodwill impairment test. Under ASU 2011-08, a branch or agency may choose to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The ASU includes examples of events and circumstances that a branch or agency should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

For additional information, please refer to ASU 2011-08, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>

### **Accounting for Loan Participations**

Amendments to ASC Topic 860, Transfers and Servicing, resulting from Accounting Standards Update No. 2009-16 (formerly FASB Statement No. 166, “Accounting for Transfers of Financial Assets”) modified the criteria that must be met in order for a transfer of a portion of a financial asset, such as a loan participation, to qualify for sale accounting. These changes apply to transfers of loan participations on or after the effective date of amended ASC Topic 860 (January 1, 2010, for branches and agencies with a calendar year fiscal year), including advances under lines of credit that are transferred on or after the effective date even if the line of credit agreements were entered into before the effective date. Branches and agencies with a calendar year fiscal year must account for transfers of loan participations on or after January 1, 2010, in accordance with amended ASC Topic 860. In general, loan participations transferred before the effective date of amended ASC Topic 860 are not affected by this new accounting standard.

The Glossary entry for “Transfers of Financial Assets” in the FFIEC 002 instructions incorporates the provisions of amended ASC Topic 860 and addresses related reporting issues, including a discussion of the reporting treatment of loan participations in accordance with amended ASC Topic 860. In particular, the Glossary entry discusses the reporting of transfers of loans guaranteed by the Small Business Administration (SBA). It describes the SBA’s longstanding requirement obligating the transferor of the guaranteed portion of an SBA loan at a premium to refund the premium to the transferee if the loan is repaid within 90 days of the transfer. The Glossary entry notes that this premium refund obligation is a form of recourse, which causes the transferred guaranteed portion of the loan to not meet the definition of a “participating interest” for this 90-day period. As a result, the transfer must be accounted for as a secured borrowing during this period. Thereafter, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan now meet the definition of a

July 3, 2012.

4

"participating interest," the transfer of the guaranteed portion can be accounted for as a sale if all of the conditions for sale accounting in amended ASC Topic 860 are met.

Branches and agencies should note that the SBA recently eliminated its premium refund requirement for transfers of guaranteed portions of SBA loans at a premium effective for loan transfers settled on or after February 15, 2011. The elimination of this obligation removes the key factor preventing the guaranteed and unguaranteed portions of an SBA loan from meeting the definition of a "participating interest" in a transfer of the guaranteed portion at a premium. With the elimination of this obligation from transfers at a premium on or after February 15, 2011, the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan should now normally meet the definition of a "participating interest" on the transfer date. Assuming that is the case, the transfer of the guaranteed portion of an SBA loan should now be able to be accounted for as a sale on the transfer date, with immediate recognition of any gain or loss on the sale in earnings, if all of the conditions for sale accounting set forth in ASC Topic 860 are met.

### **Troubled Debt Restructurings and Current Market Interest Rates**

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

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

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

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

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

A branch or agency that restructures a loan to a borrower experiencing financial difficulties at a rate below a market interest rate has granted a concession to the borrower that result in the restructured loan being a TDR. (As noted above, other types of concessions could

also result in a TDR.) In the FFIEC 002 report, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported in the appropriate loan category in Schedule C, Part I, and in Schedule N, as necessary. In addition, a loan restructured in a TDR is an impaired loan. Thus, all TDRs must be measured for impairment in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, “Accounting by Creditors for Impairment of a Loan,” as amended).

### **Troubled Debt Restructurings and Accounting Standards Update No. 2011-02**

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring,” to provide additional guidance to help creditors determine whether a concession has been granted to a borrower and whether a borrower is experiencing financial difficulties. The guidance is also intended to reduce diversity in practice in identifying and reporting TDRs. This ASU is effective for public companies for interim and annual periods beginning on or after September 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption for purposes of identifying TDRs. The measurement of impairment for any newly identified TDRs resulting from retrospective application will be applied prospectively in the first interim or annual period beginning on or after September 15, 2011. Nonpublic companies should apply the new guidance for annual periods ending after December 15, 2012, including interim periods within those annual periods. Early adoption of the ASU is permitted for both public and nonpublic entities, with nonpublic entities that adopt early subject to a retrospective identification requirement.

Branches and agencies are expected to continue to follow the accounting and reporting guidance on TDRs in the preceding section of these Supplemental Instructions and in the FFIEC 002 Instructions. To the extent the guidance in the ASU differs from a branch or agency’s existing accounting policies and practices for identifying TDRs, the branch or agency will be expected to apply the ASU for FFIEC 002 reporting purposes in accordance with the standard’s effective date and transition provisions, which are outlined above. To the extent that a branch or agency’s existing accounting policies and practices are consistent with guidance in the ASU, the branch or agency should continue to follow its existing policies and practices.

ASU 2011-02 reiterates that the two conditions mentioned in the preceding section on “Troubled Debt Restructurings and Current Market Interest Rates” must exist in order for a loan modification to be deemed a TDR: (1) a company must grant a concession to the borrower as part of the modification and (2) the borrower must be experiencing financial difficulties. The ASU explains that a company may determine that a borrower is experiencing financial difficulties if it is probable that the borrower will default on any of its debts in the foreseeable future. The borrower does not have to be in default at the time of the modification. Other

July 3, 2012.

7

possible factors that should be considered in evaluating whether a borrower is experiencing financial difficulties is if the borrower has declared (or is in the process of declaring) bankruptcy, the creditor does not expect the borrower's cash flows to be sufficient to service its debt under the existing terms, or there is substantial doubt about an entity's ability to continue as a going concern.

Another important aspect of the ASU is that it prohibits financial institutions from using the effective interest rate test included in the TDR guidance for borrowers in ASC Subtopic 470-60, Debt – Troubled Debt Restructurings by Debtors, when determining whether the creditor has granted a concession as part of a loan modification. However, as explained in ASU 2011-02, if a borrower does not have access to funds at a market rate of interest for similar debt, the rate on the modified loan is considered to be a below-market rate and may be an indicator that the company has granted a concession to the borrower.

Furthermore, the ASU provides new guidance regarding insignificant delays in payment as part of loan modification. If, after analysis of all facts and circumstances, a creditor determines that a delay in payment is insignificant, the creditor has not granted a concession to the borrower. This determination requires judgment and should consider many factors, including, but not limited to, the amount of the delayed payments in relation to the loan's unpaid principal or collateral value, the frequency of payments due on the loan, the original contractual maturity, and the original expected duration of the loan.

For additional information, branches and agencies should refer to ASU 2011-02, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Reporting Data for Term Deposits**

The Term Deposit Facility (TDF) is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions. A term deposit is a deposit with a specific maturity date. For FFIEC 002 reporting purposes, term deposits offered through the TDF should be treated as balances due from a Federal Reserve Bank. Accordingly, term deposits should be reported in Schedule RAL, Assets and Liabilities, Line 1.a., "Cash and balances due from depository institutions", and in Schedule A, Cash and Balances Due From Depository Institutions, Line 5, "Balances due from Federal Reserve Banks", on the FFIEC 002 report. The earnings on these term deposits should be reported in Schedule M, Due from/Due to Related Institutions in the U.S. and in Foreign Countries, Part I, Line 2.a, "Head office of parent bank".

**Reporting Purchased Subordinated Securities in Schedule S**

In Schedule S, Servicing, Securitization, and Asset Sale Activities, Line 9, the Federal Reserve collects data on the maximum amount of branches and agencies' credit exposures arising from credit enhancements they provide to other institutions' securitization structures, including those used in structured finance programs (other than asset-backed commercial paper programs, which are covered in Memorandum Line 1 of the schedule). The types of credit enhancements to be reported in Line 9 include purchased subordinated securities. Examples of purchased subordinated securities include, but are not limited to, the mezzanine and subordinate tranches of private-label mortgage-backed securities and collateralized debt obligations. A so called senior tranche of a securitization or structured finance program is not a subordinated security provided it cannot absorb credit losses prior to another designated senior tranche. Branches and agencies' should ensure they report in Schedule S, Line 9, the carrying value of their holdings of purchased subordinated securities issued in connection with other institutions' securitization and structured finance transactions (other than asset-backed commercial paper programs). Holdings of purchased subordinated securities that serve as credit enhancements for asset-backed commercial paper programs should be reported in Memorandum Line 1 of Schedule S.

**Prepaid Deposit Insurance Assessments**

On November 12, 2009, the FDIC Board of Directors adopted a final rule requiring insured depository institutions (except those that are exempted) to prepay an FDIC-determined estimate of their quarterly risk-based deposit insurance assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009. Each institution's regular risk-based deposit insurance assessment for the third quarter of 2009, which is paid in arrears, was also payable on December 30, 2009. The original full amount of each institution's prepaid assessment was included on its Quarterly Certified Statement Invoice for the third quarter 2009 Insurance Period, which was available on FDICconnect, the FDIC's e-business portal, as of December 15, 2009.

The branch or agency should record the estimated expense for its regular quarterly risk-based assessment for each calendar quarter through a charge to expense during that quarter and a corresponding credit to its prepaid assessments asset (or to an accrued expense payable if it has no prepaid assessments asset). As a result of the interaction between the prepaid assessments and the regularly quarterly assessments, the amount of the prepaid assessments asset that a branch or agency should report as a prepaid expense in its June 30, 2012 FFIEC 002 report should be:



July 3, 2012.

9

- The remaining balance of “Prepaid Assessments Credits” shown on the Summary Statement of Assessment Credits page of the Quarterly Certified Statement Invoice for the January 1 through March 31, 2012, Insurance Period, which was available on FDICconnect as of June 15, 2012;
- Less the estimated amount of the regular quarterly assessment for the second quarter of 2012 (which should have been accrued as a charge to expense during the first quarter of 2012). The quarterly assessment for the second quarter of 2012 should be estimated based on the provisions of the FDIC’s February 2011 final rule that redefined the deposit insurance assessment base for all insured institutions and revised the assessment system for large institutions. For further information on this final rule, see FDIC Financial Institution Letter FIL-8-2011 dated February 9, 2011, which can be accessed at: <http://www.fdic.gov/news/news/financial/2011/fil11008.html>

This prepaid expense asset should be reported in Schedule RAL, Line 1.h, “Other assets”. The year-to-date deposit insurance assessment expense for 2012 should be reported as a component of gross unremitted profits in Schedule M, Line 4, “Net due from head office and other related depository institutions”.

For further information on the FDIC’s prepaid assessments final rule, refer to FDIC Financial Institution Letter (FIL) 63-2009 at: <http://www.fdic.gov/news/news/financial/2009/fil09063.html>

For further guidance on reporting regular quarterly deposit insurance assessments, refer to the Call Report Supplemental Instructions for September 30, 2009, at: [http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200909.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200909.pdf)

## **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>

FEDERAL RESERVE BANK *of* NEW YORK

July 3, 2012.

10

## 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.

An original and one copy of the completed FFIEC 002 and FFIEC 002S report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than **July 30, 2012**. Any FFIEC 002/002S report received after 5:00 p.m. on **July 30, 2012** will be considered late unless postmarked by **July 27, 2012** or sent overnight service by **July 28, 2012**.

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 **August 14, 2012**. Any FFIEC 019 report received after 5:00 p.m. on **August 14, 2012** will be considered late unless postmarked by **August 11, 2012** or sent overnight service by **August 13, 2012**.

### Federal Reserve Bank of New York

#### Statistics Function

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We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the June 30, 2012 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."

## Electronic Submission Option

Electronic submission of the FFIEC 002/002S reports is available to all branches and agencies. We encourage you to take advantage of this method of reporting submission. Vendors

FEDERAL RESERVE BANK *of* NEW YORK

July 3, 2012.

11

have developed a software package that provides the means to submit the FFIEC 002/002S electronically. Submitting reports electronically using the software package provides the following benefits:

- A timely and efficient alternative to sending the report forms by mail; and
- A printed report is generated that can serve as your institution's permanent record of the report.

For information on filing the FFIEC 002/002S report electronically, please contact Oscar Torres at (212) 720-6796.

**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_reportforms.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 Oscar Torres, Senior Reports Analyst in the Regulatory Reports Division at (212) 720-6796, or Geraldine Bitton, Team Leader in the Division at (212) 720-8478.

Questions regarding the FFIEC 019 report should be directed to Eric Darlow, Senior Reports Analyst in the International Reports Division at (212) 720-1917, or Nicolas Lucente, Team Leader in the Division at (212) 720-6966.

Sincerely,

-- Signed by Richard Roberts --

Richard Roberts  
Statistics Officer