

FEDERAL RESERVE BANK *of* NEW YORK

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ALEX SANTANA
ASSISTANT VICE PRESIDENT

July 19, 2019

To: The Individual Responsible for Filing the Consolidated Report of Condition and Income for Edge and agreement corporations (FR 2886b) located in the Second Federal Reserve District

Subject: Edge and agreement corporation reporting requirements for June 30, 2019

The report forms and instructions for the Consolidated Report of Condition and Income for Edge and agreement corporations (FR 2886b) for the quarter ending June 30, 2019, have been posted to the Federal Reserve Board's website at <https://www.federalreserve.gov/apps/reportforms/default.aspx>.

The supplemental instructions concerning accounting and reporting issues affecting the report are provided in Attachment 1. Clarifications were made to "Accounting for Leases" and a new entry was added for "Goodwill Impairment Testing". Changes to data edits impacting the FR 2886b for the June 30, 2019, report date is provided in a separate attachment.

On March 28, 2019, the Federal Reserve published a final notice in the *Federal Register*¹ to implement changes pertaining to Financial Accounting Standards Board's Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13) which introduced the current expected credit loss methodology (CECL) for estimating allowances for credit losses. As described more fully in the *Federal Register*, ASU 2016-13 broadens the scope of financial assets for which allowances for credit losses must be estimated. CECL is applicable to all financial instruments measured at amortized cost (including loans held for investment (HFI) and held to maturity (HTM) debt securities, investments in leases, and off-balance-sheet credit exposures). The reporting changes pertaining to CECL impacts the FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-7N, FR Y-8, FR Y-11, FR 2248, FR 2314, FR 2320, FR 2644 and the FR 2886b. An institution must apply ASU 2016-13 in its submissions in accordance with the applicable effective dates of the accounting standard. Because ASU 2016-13 sets three different effective dates and includes an option for early adoption, the revisions to these reports arising from the changes in credit loss accounting would begin to take effect March 31, 2019, but would not be fully phased in until December 31, 2022.

¹ See 84 FR 11783 (March 28, 2019).

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Also included in the final proposal and adopted by the Federal Reserve were the following changes:

- Approval of the reporting changes related to the final regulatory capital rule pertaining to the implementation and capital transition for CECL (CECL Rule)² by the Board, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) (collectively, the agencies).
- Approval of revisions to the FR Y-9C report to clarify the reporting of unrealized holding gains and losses on equity securities and revisions to the FR 2886b report to include updating references to applicable capital requirements and revising the eligibility criteria for reporting the trading schedule and the accounting treatment of equity securities.

Transmission through Reporting Central

The FR 2886b reports are now available to be transmitted through the Reporting Central application. For Edge and agreement corporations that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions. For Edge and agreement corporations that submit these reports electronically, they must maintain in their files a signed printout of the data submitted. Additional information about the Reporting Central application, including an online resource center, is available at <http://www.frb services.org/centralbank/reportingcentral/index.html>

One aspect of the transition to Reporting Central necessitates the Federal Reserve to modify its internal procedures for handling confidentiality requests for those Edge and agreement corporations that submit data electronically. Generally, individual respondent data reported on these reports are available to the public upon request on an individual basis. All data are published or provided to the public upon request, with the exception of items deemed confidential per the report's instructions, unless the individual respondent from which the data were collected has been granted confidential treatment or has a request pending. A respondent may request confidential treatment for the entire report or for specific items on the report. To better facilitate confidentiality requests and ensure the data are properly handled during the review of the request, the Federal Reserve strongly encourages Edge and agreement corporations that are of the opinion that disclosure of certain commercial or financial information in the report would likely result in substantial harm to its (or its subsidiaries') competitive position or that disclosure of the submitted personal information would result in unwarranted invasion of personal privacy to:

- (1) notify their Reserve Bank of their intent to request confidential treatment in advance of the written request and

² See <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20181221a.htm>.

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(2) send the confidentiality request in writing prior to data submission.

For Edge and agreement corporations that do not submit data electronically, written requests for confidentiality may be provided concurrently with the paper submission of the report.

For more information on confidentiality requests, please see the specific report General Instructions. Note: The information referenced above pertains to the existing manual process for submitting confidentiality requests. The final notice to add the confidentiality check box to the front page of the FR 2886b reporting forms was published in the Federal Register.³ However, the new confidentiality check box procedures has been postponed and Edge and agreement corporations will be provided with ample notice once the new implementation date has been determined so that they may prepare for submission of the new confidentiality check box requirements.

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:

https://public.govdelivery.com/accounts/USFRBNEWYORK/subscriber/new?topic_id=USFRBNEWYORK_8

Reports Submission

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

The completed FR 2886b report must be returned to this bank, by mail or messenger, no later than **July 30, 2019**. Any FR 2886b report received after 5:00 p.m. on **July 30, 2019** will be considered late unless postmarked by **July 25, 2019** or sent by overnight service by **July 29, 2019**. Reporting institutions have the option to electronically submit the completed FR 2886b report using the Federal Reserve System's Reporting Central Application by no later than **July 30, 2019**.

For Edge and agreement corporations that do not choose to file this report electronically, the completed report should be submitted to:

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**Federal Reserve Bank of New York
Data & 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 June 30, 2019 report date. The staff of this Reserve Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of "validity edits".

Questions regarding the FR 2886b should be addressed to Carolyn Polite, Analyst, at (212) 720-5415 or Jessica Smith, Manager, at (212) 720-1360.

Sincerely,

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ATTACHMENT 1**Supplemental Instructions:****Goodwill Impairment Testing**

In January 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-04, “Simplifying the Test for Goodwill Impairment,” to address concerns over the cost and complexity of the two-step goodwill impairment test in Accounting Standards Codification (ASC) Subtopic 350-20, Intangibles–Goodwill and Other – Goodwill, that applies to an entity that has not elected the private company alternative for goodwill (which is discussed in the Glossary entry for “Goodwill” in the FR 2886b instructions). Thus, the ASU simplifies the subsequent measurement of goodwill by eliminating the second step from the test, which involves the computation of the implied fair value of a reporting unit’s goodwill. Instead, under the ASU, when an entity tests goodwill for impairment, which must take place at least annually, the entity should compare the fair value of a reporting unit with its carrying amount. In general, the entity should recognize an impairment charge for the amount, if any, by which the reporting unit’s carrying amount exceeds its fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This one-step approach to assessing goodwill impairment applies to all reporting units, including those with a zero or negative carrying amount. An entity retains the option to perform the qualitative assessment for a reporting unit described in ASC Subtopic 350-20 to determine whether it is necessary to perform the quantitative goodwill impairment test.

For an institution that is a public business entity and is also a U.S. Securities and Exchange Commission (SEC) filer, as both terms are defined in U.S. generally accepted accounting principles (GAAP), the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019. For a public business entity that is not an SEC filer, the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2020. For all other institutions, the ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. For FR 2886b purposes, an institution should apply the provisions of ASU 2017-04 to goodwill impairment tests on a prospective basis in accordance with the applicable effective date of the ASU. An institution that early adopts ASU 2017-04 for U.S. GAAP financial reporting purposes should early adopt the ASU in the same period for FR 2886b purposes.

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

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 generally includes the no 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.

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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 Edge and agreement corporation adopts the new accounting standard. For Edge and agreement corporations that are public business entities, as defined by U.S. generally accepted accounting principles (GAAP), ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For Edge and agreement corporations 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 Edge and agreement corporations. An Edge and agreement corporation that early adopts the new standard must apply it in its entirety to all lease-related transactions. If an Edge and agreement corporation chooses to early adopt the new standard for financial reporting purposes, the Edge and agreement corporation should implement the new standard in its FR 2886b report for the same quarter-end report date.

Under ASU 2016-02, an institution must apply the new leases standard on a modified retrospective basis for financial reporting purposes. Under the modified retrospective method, an institution should apply the leases standard and the related cumulative-effect adjustments to affected accounts existing as of the beginning of the earliest period presented in the financial statements. However, as explained in the “Changes in accounting principles” section of the Glossary entry for “Accounting Changes” in the FR 2886b instructions, when a new accounting standard (such as the leases standard) requires the use of a retrospective application method, institutions should instead report the cumulative effect of adopting the new standard on the amount of retained earnings at the beginning of the year in which the new standard is first adopted for FR 2886b purposes (net of applicable income taxes, if any) as a direct adjustment to equity capital in the FR 2886b. For the adoption of the new leases standard, the cumulative-effect adjustment to bank equity capital for this change in accounting principle should be reported in Schedule HI-A, item 2. In July 2018, the FASB issued ASU 2018-11, “Targeted Improvements,” which provides an additional and “optional transition method” for comparative reporting purposes at adoption of the new leases standard. Under this optional transition method, an institution initially applies the new leases standard at the adoption date (e.g., January 1, 2019, for a public business entity with a calendar year fiscal year) and, for FR 2886b purposes, the institution should recognize and report a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with the Glossary instructions described above

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For FR 2886b purposes, all ROU assets for operating leases and finance leases, including ROU assets for operating leases recorded upon adoption of ASU 2016-02, should be reflected in Schedule HC, item 6, “Premises and fixed assets.”

The agencies have received questions from institutions concerning the reporting of lease liabilities for operating leases by a bank lessee. These institutions indicated that reporting operating lease liabilities as other liabilities instead of other borrowings would better align the reporting of the single noninterest expense item for operating leases (required by the standard and discussed below) with their balance sheet classification and would be consistent with how these institutions report these lease liabilities internally. The Federal Reserve plans to request public comment on this proposed change in reporting. However, until that process is complete, the Federal Reserve will permit institutions to report the lease liability for operating leases in either Schedule RC, item 18, “Other liabilities,” or Schedule RC, item 15, “Other borrowed money.” An institution may choose to amend the reporting of operating lease liabilities in its FR 2886b for March 31, 2019, consistent with this supplemental instruction.

In the FR 2886b report income statement, for an operating lease, a lessee should report a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, in Schedule RI, item 7a(2), “Expenses of premises and fixed assets.” For a finance lease, a lessee should report interest expense on the lease liability separately from the amortization expense on the ROU asset. The interest expense should be reported on Schedule RI in item 2 “Interest expense”, on the FR 2886b report. The amortization expense should be reported on Schedule RI in item 7a(2), “Expenses of premises and fixed assets”.

The agencies have also received questions regarding how lessee institutions should treat ROU assets under the agencies’ regulatory capital rules (12 CFR Part 3 (OCC); 12 CFR Part 217 (Board); and 12 CFR Part 324 (FDIC)). Those rules require that most intangible assets be deducted from regulatory capital. However, some institutions are uncertain whether ROU assets are intangible assets. The agencies are clarifying that, to the extent an ROU asset arises due to a lease of a tangible asset (e.g., building or equipment), the ROU asset should be treated as a tangible asset not subject to deduction from regulatory capital. An ROU asset not subject to deduction must be risk weighted at 100 percent under Section 32(1) (5) of the agencies’ regulatory capital rules and included in a lessee institution’s calculations of total risk-weighted assets. In addition, such an asset must be included in a lessee institution’s total assets for leverage capital purposes. The agencies believe this treatment is consistent with the current treatment of capital leases under the rules, whereby a lessee’s lease assets under capital leases of tangible assets are treated as tangible assets, receive a 100 percent risk weight, and are included in the leverage ratio

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denominator. This treatment is also consistent with the approach taken by the Basel Committee on Banking Supervision (<https://www.bis.org/press/p170406a.htm>).

For additional information on ASU 2016-02, Edge and agreement corporations 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.

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, Edge and agreement corporations 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 and held-to-maturity debt securities, as well as trade receivables, reinsurance receivables and receivables that relate to repurchase agreements and securities lending agreements) a lessor's net investments in leases, and off-balance-sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credit, and financial guarantees. The new standard does not apply to trading assets, loans held for sale, financial assets for which the fair value option has been elected, or loans and receivables between entities under common control.

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

For entities that are public business entities and are also U.S. Securities and Exchange Commission (SEC) filers, as both terms are defined in U.S. GAAP, the ASU is effective for fiscal

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years beginning after December 15, 2019, including interim periods within those fiscal years. For public business entities that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For Edge and agreement corporation that are not public business entities (i.e., that are private companies), the FASB issued ASU 2018-19 in November 2018 to amend the effective date of ASU 2016-13. As amended, ASU 2016-13 is effective for such entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all edge and agreement corporations, early application of the new standard is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Institutions must apply ASU 2016-13 for reporting purposes in accordance with the effective dates set forth in the ASU as amended. An institution that early adopts ASU 2016-13 for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for reporting purposes.

The Federal Reserve revised several Federal Reserve reports and schedules as of the March 31, 2019, report date in response to the revised accounting for credit losses under ASU 2016-13.) The FR2886b report revisions also include reporting changes to the regulatory capital schedule (Schedule HC-R) related to the agencies' final rule on the implementation and capital transition for the current expected credit losses methodology in ASU 2016-13.

For additional information, institutions should refer to the agencies' Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses which was recently updated on April 3, 2019 and 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. Institutions also may refer to ASU 2018-19, which is available at https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176171644373&acceptedDisclaimer=true.

Since the issuance of ASU 2016-13 and ASU 2018-19, the FASB has published the following additional amendments to the new credit losses accounting standard: ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,” which is available at https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176172541591&acceptedDisclaimer=true; and ASU 2019-05, “Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief,” which is available at https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176172668879&acceptedDisclaimer=true

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Accounting and Reporting Implications of the New Tax Law

On January 18, 2018, the banking agencies issued an Interagency Statement on Accounting and Reporting Implications of the New Tax Law which was enacted on December 22, 2017, and is commonly known as the Tax Cuts and Jobs Act (the Act). U.S. GAAP requires the effect of changes in tax laws or rates to be recognized in the period in which the legislation is enacted. Thus, in accordance with Accounting Standards Codification (ASC) Topic 740, Income Taxes, the effects of the Act would be recorded in an Edge and agreement corporation's FR 2886b Report for December 31, 2017, because the Act was enacted before year-end 2017. Changes in deferred tax assets (DTAs) and deferred tax liabilities (DTLs) resulting from the Act's lower corporate income tax rate and other applicable provisions of the Act would be reflected in an institution's income tax expense in the period of enactment, i.e., the year-end 2017 FR 2886b report. Edge and agreement corporations should refer to the Interagency Statement for guidance on the remeasurement of DTAs and DTLs, assessing the need for valuation allowances for DTAs, the effect of the remeasurement of DTAs and DTLs on amounts recognized in accumulated other comprehensive income (AOCI), the use for FR 2886b purposes of the measurement period approach described in the Securities and Exchange Commission's Staff Accounting Bulletin No. 118 and a related FASB Staff Q&A, and regulatory capital effects of the new tax law.

The Interagency Statement notes that the remeasurement of the DTA or DTL associated with an item reported in AOCI, such as unrealized gains (losses) on available-for-sale (AFS) securities, results in a disparity between the tax effect of the item included in AOCI and the amount recorded as a DTA or DTL for the tax effect of this item. However, when the new tax law was enacted, ASC Topic 740 did not specify how this disproportionate, or "stranded," tax effect should be resolved.

On February 18, 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows institutions to eliminate the stranded tax effects resulting from the Act by electing to reclassify these tax effects from AOCI to retained earnings. Thus, this reclassification is permitted, but not required. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the ASU is permitted, including in any interim period, as specified in the ASU. An Edge and agreement corporation electing to reclassify its stranded tax effects for U.S. GAAP financial reporting purposes should also reclassify these stranded tax effects in the same period for FR 2886b Report purposes. For additional information, institutions should refer to ASU 2018-02, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176170041017&acceptedDisclaimer=true.

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An Edge and agreement corporation that elects to reclassify the disproportionate, or stranded, tax effects of items within AOCI to retained earnings should not report any amounts associated with this reclassification in the FR 2886b Report Schedule RI-A, Changes in Equity Capital, because the reclassification is between two accounts within the equity capital section of Schedule RC, Balance Sheet, and does not result in any change in the total amount of equity capital.

When discussing the regulatory capital effects of the new tax law, the Interagency Statement explains that temporary difference DTAs that could be realized through net operating loss (NOL) carrybacks are treated differently from those that could not be realized through NOL carrybacks (i.e., those for which realization depends on future taxable income) under the agencies' regulatory capital rules. These latter temporary differences DTAs are deducted from common equity tier 1 (CET1) capital if they exceed certain CET1 capital deduction thresholds. However, for tax years beginning on or after January 1, 2018, the Act generally removes the ability to use NOL carrybacks to recover federal income taxes paid in prior tax years. Thus, except as noted in the following sentence, for such tax years, the realization of all federal temporary difference DTAs will be dependent on future taxable income and these DTAs would be subject to the CET1 capital deduction thresholds. Nevertheless, consistent with current practice under the regulatory capital rules, when an Edge and agreement corporation has paid federal income taxes for the current tax year, if all federal temporary differences were to fully reverse as of report date during the current tax year and create a hypothetical federal tax loss that would enable the institution to recover federal income taxes paid in the current tax year, the federal temporary difference DTAs that could be realized from this source may be treated as temporary difference DTAs realizable through NOL carrybacks as of the regulatory capital calculation date.

Presentation of Net Benefit Cost in the Income Statement

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires an employer to disaggregate the service cost component from the other components of the net benefit cost of defined benefit plans. In addition, the ASU requires these other cost components to be presented in the income statement separately from the service cost component, which must be reported with the other compensation costs arising during the reporting period.

For Edge and agreement corporations that are public business entities, as defined under U.S. GAAP, ASU 2017-07 is currently in effect. For Edge and agreement corporations that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption is permitted as described in the ASU. Refer to the Glossary entries for "public

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business entity” and “private company” in the FR 2886b Report instructions for further information on these terms.

For FR 2886b purposes, an Edge and agreement corporation should apply the new standard prospectively to the cost components of net benefit cost as of the beginning of the fiscal year of adoption. The service cost component of net benefit cost should be reported in Schedule RI, item 7.a, “Salaries and employee benefits.” The other cost components of net benefit cost should be reported in Schedule RI, item 7.d, “Other noninterest expense.”

For additional information, institutions should refer to ASU 2017-07, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168888120&acceptedDisclaimer=true.

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 edge and agreement corporations 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 Edge and agreement corporations 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 an Edge and agreement corporations early adopts the ASU in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes the interim period of adoption, e.g., as of January 1 for a calendar year institution. An edge and agreement corporations that early adopts ASU 2017-12 in an interim

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period for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for FR 2886b purposes.

The FR 2886b instructions, including the Glossary entry for “Derivative Contracts,” will be revised to conform to the ASU at a future date.

For additional information, Edge and agreement corporations 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

Edge and agreement corporations should continue to follow the guidance for Regulatory Capital Treatment of Certain Centrally-Cleared Derivative Contracts in the FR 2886b transmittal letter for June 30 2019. These instructions can be accessed via the Federal Reserve’s website (https://www.federalreserve.gov/reportforms/forms/FR_2886b20190731_i.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.

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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 an Edge and agreement corporations that are 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. Refer to the Glossary entries for “public business entity” and “private company” in the FR Y-9C instructions for further information on these terms.

Early application of the new standard is permitted for all Edge and agreement corporations, including adoption in an interim period of a year before the applicable effective date for an Edge and Agreement Corporation. If an Edge and agreement corporation 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.

An Edge and agreement corporation must apply the new standard on a modified retrospective basis as of the beginning of the period of adoption. Under the modified retrospective method, an Edge and agreement corporation 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 FR 2886b 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

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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 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 currently in effect. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application of the ASU is permitted for all edge and agreement corporation not public business entities as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Edge and agreement corporations must apply ASU 2016-01 for FR 2886b purposes in accordance with the effective dates set forth in the ASU.

With the elimination of AFS equity securities upon an Edge and agreement corporation 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 FR 2886b report balance sheet. Thereafter, changes in the fair value of (i.e., the unrealized gains and losses on) an Edge and agreement corporations' 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 Edge and agreement corporation's 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 an Edge and agreement corporation 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 edge and agreement corporation has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Until an Edge and agreement corporation adopts the own credit risk provisions of the ASU, U.S. GAAP requires the Edge and agreement corporation to report the entire change in the fair value of a fair value option liability in

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earnings. The ASU does not apply to other financial liabilities measured at fair value, including derivatives. For these other financial liabilities, the effect of a change in an entity's own credit risk will continue to be reported in net income.

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

The effective dates of ASU 2016-01 are described in the preceding section of these Supplemental Instructions. 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 edge and agreement corporations 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 FR 2886b report purposes.

When an Edge and agreement corporation 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 an Edge and agreement corporation 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 FR 2886b Schedule RC statement during the interim period(s) before the interim period of adoption should be reclassified from P&L to other comprehensive income.

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, FASB issued Accounting Standards Update (ASU) No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." Under Accounting Standards Codification 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

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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 in the reporting period in which adjustment amounts are determined. Under the ASU, the acquirer also must 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 Edge and agreement corporations 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 Edge and agreement corporations 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, Edge and agreement corporations 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 FR 2886b report for March 31, 2016. Edge and agreement corporations with a calendar year fiscal year that are private companies must apply the ASU to any FR 2886b Reports for December 31, 2017. Early application of ASU 2015-16 is permitted in FR 2886b reports that have not been submitted.

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

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Revenue Recognition: Accounting for Sales of OREO

As stated in the preceding section, Topic 610 applies to an Edge and agreement corporation's sale of repossessed nonfinancial assets, such as OREO. When the new standard becomes effective at the dates discussed above, Topic 610 will eliminate the prescriptive criteria and methods for sale accounting and gain recognition for dispositions of OREO currently set forth in ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the new standard, an Edge and agreement corporation 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 Edge and agreement corporation will record any payments received as a deposit liability to the buyer and continue reporting the OREO as an asset at the time of the transaction.

The following paragraphs highlight key aspects of Topic 610 that will apply to seller-financed sales of OREO once the new standard takes effect. When implementing the new standard, an Edge and agreement corporation 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 Edge and agreement corporation has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss. For additional information, please refer to the Glossary entry for “Foreclosed Assets” in the FR 2886b instructions, which has been updated this quarter to incorporate guidance on the application of the new standard to sales of OREO.

Under Topic 610, an Edge and agreement corporation'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, an Edge and agreement corporation must determine whether it is probable that it will collect substantially all of the consideration to which it is entitled in exchange for the transfer of the OREO, i.e., the transaction price. To make this determination, as well as the determination that the buyer of the OREO is committed to perform its obligations, an Edge and agreement corporation 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, and the cash flow from the property, and the selling Edge and agreement corporation's continuing involvement with the property following the transaction.

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If the five contract criteria in Topic 606 have not been met, the Edge and agreement corporation may not derecognize the OREO asset or recognize revenue (gain or loss) as an accounting sale has not occurred. In contrast, if an Edge and agreement corporation determines the contract criteria in Topic 606 have been met, it must then determine whether it has satisfied its performance obligations as identified in the contract by transferring control of the asset to the buyer, 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 Edge and agreement corporation obtains the right to receive payment for the property and transfers legal title to the buyer. However, an Edge and agreement corporation must consider all relevant facts and circumstances to determine whether control of the OREO has transferred.

When a contract exists and an Edge and agreement corporation has transferred control of the asset, the Edge and agreement corporation 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, the contract amount should be adjusted for the time value using as the discount rate a market rate of interest considering the credit characteristics of the buyer and the terms of the financing.

For FR 2886b purposes, a corporation 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 Edge and agreement corporation 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.

Debt Issuance Cost

Edge and agreement corporations should continue to follow the guidance for Debt Issuance Cost that was included in the FR 2886b Transmittal Letter for September 2016. These instructions can be accessed via the Federal Reserve's website (http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf)

Determining the Fair Value of Derivatives

Edge and agreement corporations should continue to follow the guidance in determining the fair value of derivatives that was included in the FR 2886b transmittal letter for June 30, 2014. These instructions can be accessed via the Federal Reserve's website:

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<http://www.newyorkfed.org/banking/regrept/2q14fr2886.pdf>.

“Purchased” Loans Originated By Others

Edge and agreement corporations should continue to follow the guidance for purchased loans originated by others that was included in the FR 2886b Supplemental Instructions for September, 2015. These instructions can be accessed via the Federal Reserve’s Web site (<https://www.federalreserve.gov/apps/reportforms/default.aspx>.)

Indemnification Assets and Accounting Standards Update No. 2012-06

Edge and agreement corporations should continue to follow the guidance for indemnification assets and Accounting Standards Update No. 2012-06 that was included in the FR 2886b transmittal letter for June 30, 2014. These instructions can be accessed via the Federal Reserve’s website: <http://www.newyorkfed.org/banking/regrept/2q14fr2886.pdf>.

Troubled Debt Restructurings, Current Market Interest Rates, and ASU No. 2011-02

Edge and agreement corporations should continue to follow the guidance regarding reporting troubled debt restructurings, current market interest rates, and ASU No. 2011-02 that was included in the FR 2886b transmittal letter for December 31, 2014. These instructions can be accessed via the Federal Reserve’s website:

<http://www.newyorkfed.org/banking/regrept/4q14fr2886.pdf>.

FEDERAL RESERVE BANK *of* NEW YORK

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ATTACHMENT 2

Revisions to the FR 2886b for June 30, 2019

Report form and Instructions

Not applicable this quarter