FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Alex Santana
ASSISTANT VICE PRESIDENT

October 22, 2019

To: The Individuals Responsible for Preparing the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Bank (FFIEC 002) Located in the Second Federal Reserve District

The following report forms and instructions for the September 30, 2019, 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 September 30, 2019 report date.

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

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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.frbservices.org/centralbank/reportingcentral/index.html. If you have any questions regarding these changes please contact your Reporting and Reserves 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=USFRBNEWYORK_8

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 **October 30, 2019**. Any FFIEC 002/002S report received after 5:00p.m.on **October 30, 2019,** will be considered late unless postmarked by **October 25, 2019,** or sent overnight service by **October 29, 2019.** Reporting institutions have the option to electronically submit the completed FFIEC 002/002S report(s) using the Federal Reserve System's Reporting Central Application by no later than **October 30, 2019**.

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 **November 14, 2019**. Any FFIEC 019 report received after 5:00 p.m. on **November 14, 2019** will be considered late unless postmarked by **November 08, 2019** or sent overnight service by **November 13, 2019**. 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 **November 14, 2019.**

For institutions that do not choose to file this report electronically, the completed report should be submitted to:

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 September 30, 2019 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."

Website

The FFIEC 002/002S and FFIEC 019 forms and instructions are available on the FFIEC website at www.ffiec.gov/ffiec reportforms.htm.

Questions regarding the submission of the FFIEC 002 and submission/ reporting requirements of the FFIEC 002S reports should be directed to Robert Diakun, Reports Associate at (212) 720-2327 or Jessica Smith, Manager, at (212) 720-1360.

Questions regarding the reporting requirements of the FFIEC 002 report should be directed to Alan Cardoso, Reports Associate at (212) 720-1410, or Jessica Crawford-Eka, Manager at (212) 720-5862.

Questions regarding the FFIEC 019 report should be directed to Violeta Yushvah, Regulatory Data Associate at (212) 720-2280, Jorge Mancebo, Regulatory Data Senior Analyst at (212) 710-2158, Sowmya Gadiraju, Regulatory Data Analyst (212) 720-7945 or Edward Sapozhnikov, Regulatory Data Manager at (212) 720-6455.

Sincerely,

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). 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, institutions 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.

If an institution chooses to establish allowances for credit losses, institutions should apply ASU 2016-13 for FFIEC 002 purposes in accordance with the effective dates set forth in the ASU subject to any amendments that may be made by the FASB

For additional information, refer to the agencies' Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses, which were most recently updated on April 3,
2019; 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. Since the issuance of ASU 2016-13, the FASB has published the following amendments to the new credit losses accounting standard: ASU 2018-19, "Codification Improvements
to Topic 326, Financial Instruments—Credit Losses," which is available at https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176171644373&acceptedDisclaimer=true; 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.

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.

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 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 institution'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 an institution to present separately in other comprehensive income (OCI) 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 institution has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Until an institution adopts the own credit risk provisions of the ASU, U.S. GAAP requires the institution 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). An institution 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 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.

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 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 Sales of OREO

As stated in the preceding section, Topic 610 applies to an institution'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 institution will recognize the entire gain, if any, and derecognize the OREO at the time of sale if the transaction meets the requirements of Topic 606. Otherwise, an institution 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 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. For additional information, please refer to the Glossary entry for "Foreclosed Assets" in the FFIEC 002 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 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 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 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 may not derecognize the OREO asset or recognize revenue (gain or loss) as an accounting sale has not occurred. In contrast, if the institution 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 institution obtains the right to receive payment for the property and transfers legal title to the buyer. However, an institution must consider all relevant facts and circumstances to determine whether control of the OREO has transferred.

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 below market terms on the financing. In this situation, the contract amount should be adjusted for the time value by using as the discount rate a market rate of interest considering the credit characteristics of the buyer and the terms of the financing.

As stated in the preceding section, for FFIEC 002 purposes, branches must 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, holding companies 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 (i.e., as of January 1, 2019, for an institution that is a private company with a calendar year fiscal year that did not early adopt the new standard).

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 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: https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176167904031&d=&pagename=FASB%2FFASBContent_C%2FCompletedProjectPage, which includes a link to the new accounting standard.

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".