

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

RICHARD ROBERTS
STATISTICS OFFICER

December 27, 2012

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 December 31, 2012

Enclosed is a copy of the reporting form for the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) for the quarter ending December 31, 2012. There are no changes to the FR 2886b reporting form and instructions for December 31, 2012. Supplemental instructions concerning current accounting and reporting issues affecting are provided in this letter.

Indemnification Assets and Accounting Standards Update No. 2012-06

In October 2012, the FASB issued Accounting Standards Update (ASU) No. 2012-06, "Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution," to address the subsequent measurement of an indemnification asset recognized in an acquisition of a financial institution that includes a loss-sharing agreement. This ASU amends ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations").

Under the ASU, when an institution experiences a change in the cash flows expected to be collected on a loss-sharing indemnification asset because of a change in the cash flows expected to be collected on the assets covered by the loss-sharing agreement, the institution should account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in the value of the indemnification asset should be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets.

The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2012. For institutions with a calendar year fiscal year, the ASU takes effect January 1, 2013. Early adoption of the ASU is permitted. The ASU's provisions should be applied prospectively to any new indemnification assets acquired after the

date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. Institutions with indemnification assets arising from loss-sharing agreements are expected to adopt ASU 2012-06 for FR 2886b reporting purposes in accordance with the effective date of this standard.

For additional information, institutions should refer to ASU 2012-06, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

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 edge and agreement corporations with a calendar year fiscal year). Early adoption of the ASU is permitted. Edge and agreement corporations should adopt ASU 2011-08 for FR 2886b reporting purposes in accordance with the standard’s effective date and early adoption provisions.

Under ASU 2011-08, an edge and agreement corporation 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, an edge and agreement corporation 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 edge and agreement corporation 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, an edge and agreement corporation would not have to test the unit’s goodwill for impairment.) If the edge and agreement corporation instead concludes that the opposite is true (that is, it is more likely than not that the fair value of 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, an edge and agreement corporation 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 an edge and agreement corporation 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>

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 a concession was made 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 on the FR 2886b report.

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 June 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 June 15, 2011. 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.

Edge and agreement corporations are expected to continue to follow the accounting and reporting guidance on TDRs in the FR 2886b Instruction book. To the extent the guidance in the ASU differs from an edge or agreement corporation’s existing accounting policies and practices for identifying TDRs, edges and agreement corporations will be expected to apply the ASU for FR 2886b reporting purposes in accordance with the standard’s effective date and transition provisions, which are outlined above. To the extent that an edge or agreement corporation’s existing accounting policies and practices are consistent with guidance in the ASU, edge and agreement corporations 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 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, edge and agreement corporations 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 FR 2886b 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 RC, Balance Sheet, item 1.b, "Cash and balances due from depository institutions: Interest bearing balances". The earnings on these term deposits should be reported in Schedule RI, item 1.a.(2), "Interest on balances due from depository institutions".

Reporting Defined Benefit Postretirement Plans

ASC Subtopic 715-20, Compensation-Retirement Benefits - Defined Benefit Plans-General (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158)) requires an edge and agreement corporation that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the funded status of each such plan on its balance sheet. An overfunded plan is recognized as an asset while an underfunded plan is recognized as a liability. As of the end of the fiscal year when an edge and agreement corporation initially applied former

FAS 158, the previously recognized postretirement plan amounts must be adjusted to recognize gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in the net periodic benefit cost of its plans. These adjustment amounts are recognized directly in equity capital as components of the ending balance of accumulated other comprehensive income (AOCI), net of tax. Thereafter, an edge and agreement corporation must recognize certain gains and losses and prior service costs or credits that arise during each reporting period, net of tax, as a component of other comprehensive income (OCI) and, hence, AOCI. Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of the plans' net periodic benefit cost. For further information on accounting for defined benefit postretirement plans, edge and agreement corporation should refer to FAS 158; FASB Statement No. 87, Employers' Accounting for Pensions; and FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions all of which are codified in ASC Topic 715, Compensation-Retirement Benefits.

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.

An original and one copy of the completed FR 2886b report must be returned to this Bank, by mail or messenger, no later than **January 30, 2013**. Any FR 2886b report received after 5:00 p.m. on **January 30, 2013** will be considered late unless postmarked by **January 25, 2013** or sent by overnight service by **January 29, 2013**.

December 27, 2012

7

Electronic Submission Option

Electronic submission of the FR 2886b report is now available to all edge and agreement corporations. We encourage you to take advantage of this method of report submission. Submitting reports electronically 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 FR 2886b report electronically, please contact Gloria Scott at 212-720-7348.

The completed report should be submitted to:

**Federal Reserve Bank of New York
Statistics Function
33 Liberty Street, 4th Floor
New York, NY 10045**

We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the December 31, 2012 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".

Website

The FR 2886b forms and instructions are available on the FFIEC website at:

www.federalreserve.gov/boarddocs/reportforms/

Questions regarding the FR 2886b should be directed to Gloria Scott, Financial Reports Associate at (212) 720-7348, or Geraldine Bitton, Team Leader in the Regulatory Reports Division at (212) 720-8478.

Sincerely,

- *Signed by Richard Roberts* -

Richard Roberts
Statistics Officer