

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

SCOTT SMENTEK
ASSISTANT VICE PRESIDENT

January 20, 2017

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, 2016

The report forms and instructions for the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) for the quarter ending December 31, 2016, have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms."

There were no changes to the reporting forms and instructions for the FR 2886b.

Supplemental instructions concerning current accounting and reporting issues affecting the FR 2886b are provided in this letter.

Transmission through Reporting Central

The FR 2886b reports are now available to be transmitted through the Reporting Central application. For institutions that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions. For institutions 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.frbservices.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 institutions 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

January 20, 2017

2

request, the Federal Reserve strongly encourages institutions 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) send the confidentiality request in writing prior to data submission.

For institutions 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.¹ However, the new confidentiality check box procedures has been postponed and institutions 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.

Classification and Measurement of Financial Instruments: Fair Value Option Liabilities

On January 5, 2016, the Financial Accounting Standards Board (FASB) completed its Classification and Measurement of Financial Instruments project by issuing Accounting Standards Update (ASU) No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities."

This ASU makes targeted improvements to U.S. generally accepted accounting principles (GAAP). It includes requiring 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. Prior to the new ASU, U.S. GAAP required institutions to report the entire change in fair value of such an instrument in earnings. The effect of a change in an entity's own credit risk for other financial liabilities measured at fair value, including derivatives, will continue to be reported in net income.

¹ 80 FR 52282 (August 28, 2015)

January 20, 2017

3

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.

For public business entities, as defined under U.S. GAAP, the ASU 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 organizations that are not public business entities as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Additionally, early application of the provisions regarding the presentation in OCI of changes due to own credit risk, as described above, is permitted for all entities 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 Call Report purposes.

When an institution with a calendar year fiscal year adopts 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 reclassified from Schedule RC, item 23, "Retained earnings," to Schedule RC, item 24, "Accumulated other comprehensive income" (AOCI). If an institution 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 income statement during the interim period(s) before the interim period of adoption should be reclassified from earnings to OCI. In the FR 2886B, this reclassification would be from Schedule RI, item 5.a(6) "Other noninterest income," and Schedule RI, item 9, "Applicable income taxes," to Schedule RI-A, item 5, "Other comprehensive income," with a corresponding reclassification from Schedule RC, item 23, to Schedule RC, item 24.

For additional information, institutions should refer to ASU 2016-01, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Accounting for Measurement-Period Adjustments Related to a Business Combination

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments.” Under Accounting Standards Codification Topic 805, Business Combinations (formerly FASB Statement No. 141(R), “Business Combinations”), if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports provisional amounts in its financial statements for the items for which the accounting is incomplete. During the measurement period, the acquirer is required to adjust the provisional amounts recognized at the acquisition date, with a corresponding adjustment to goodwill, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. At present under Topic 805, an acquirer is required to retrospectively adjust the provisional amounts recognized at the acquisition date to reflect the new information. To simplify the accounting for the adjustments made to provisional amounts, ASU 2015-16 eliminates the requirement to retrospectively account for the adjustments. Accordingly, the ASU amends Topic 805 to require an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period 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 acquire for which the initial accounting for the business combination is incomplete at the end of the reporting period in which the combination occurs. Topic 805 provides additional guidance on the measurement period, which shall not exceed one year from the acquisition date, and adjustments to provisional amounts during this period.

For institutions that are public business entities, as defined under U.S. GAAP, ASU 2015-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For institutions that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The ASU’s amendments to Topic 805 should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the ASU. Thus, 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

January 20, 2017

5

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

Debt Issuance Cost

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU requires debt issuance costs to be recognized as a direct deduction from the face amount of the related debt liability, similar to debt discounts. The ASU is limited to the presentation of debt issuance costs; therefore, the recognition and measurement guidance for such costs is unaffected. At present, Accounting Standards Codification (ASC) Subtopic 835-30, Interest Imputation of Interest, requires debt issuance costs to be reported on the balance sheet as an asset (i.e., a deferred charge). As a result, for FR 2886b purposes, the costs of issuing debt have been reported; net of accumulated amortization, in Schedule RC, item 8, "Other assets."

For edge and agreement corporations that are public business entities, as defined under U.S. GAAP, ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For example, edge and agreement corporations with a calendar year fiscal year that are public business entities were required to apply the ASU in their FR 2886b beginning March 31, 2016. 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, 2015, and interim periods within fiscal years beginning after December 15, 2016. Thus, edge and agreement corporations with a calendar year fiscal year that are private companies must apply the ASU in their December 31, 2016, and subsequent quarterly FR 2886b reports. Early adoption of the guidance in ASU 2015-03 is permitted.

After an edge and agreement corporation adopts ASU 2015-03, any transaction involving a recognized debt liability in which debt issuance costs were incurred and classified as deferred charges in "Other assets" before the adoption of the ASU should be reported as a direct deduction from the carrying amount of the related debt liability and included in the appropriate balance sheet category of liabilities in FR 2886b Schedule RC, e.g., item 15, "Other borrowed money."

For additional information, institutions should refer to ASU 2015-03, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Determining the Fair Value of Derivatives

Edge and agreement corporations should continue to follow the guidance regarding determining the fair value of derivatives that was included in the FR 2886b transmittal letter for September 30, 2014. These instructions can be accessed via the Federal Reserve's website: <http://www.newyorkfed.org/banking/regrept/2q14fr2886.pdf>.

“Purchased” Loans Originated By Others

When acquiring loans originated by others, institutions should consider whether the transaction should be accounted for as a purchase of the loans or as a secured borrowing in accordance with Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” as amended). For the transaction to qualify for sale accounting:

- First, unless the transfer is of an entire financial asset, the transferred portion of the financial asset must meet the definition of a participating interest.
- Second, the transfer must meet all of the conditions set forth in Subtopic 860-10 to demonstrate that the transferor has surrendered control over the transferred financial assets.

For example, some institutions have entered into various residential mortgage loan purchase programs. These programs often function like traditional warehouse lines of credit; however, in some cases, the mortgage loan transfers are legally structured as purchases by the institution rather than as pledges of collateral to secure the funding. Under these programs, an institution provides funding to a mortgage loan originator while simultaneously obtaining an interest in the mortgage loans subject to a takeout commitment. A takeout commitment is a written commitment from an approved investor (generally, an unrelated third party) to purchase one or more mortgage loans from the originator.

January 20, 2017

7

Although the facts and circumstances of each program must be carefully evaluated to determine the appropriate accounting, an institution should generally account for a mortgage purchase program with continuing involvement by the originator, including takeout commitments, as a secured borrowing with pledge of collateral, i.e., a loan to the originator secured by the residential mortgage loans, rather than a purchase of mortgage loans.

When loans obtained in a mortgage purchase program do not qualify for sale accounting, the financing provided to the originator (if not held for trading purposes) should be reported on the FR 2886b Report Schedule RC-C, item 5, “All other loans”, and on the balance sheet Schedule RC, item 4.a, “Loans and leases, net of unearned income”.

Indemnification Assets and Accounting Standards Update No. 2012-06

Edge and agreement corporations should continue to follow the guidance regarding reporting indemnification assets and Accounting Standards Update No. 2012-06 that was included in the FR 2886b transmittal letter for September 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>.

Goodwill Impairment Testing

Edge and agreement corporations should continue to follow the guidance regarding reporting related to goodwill impairment testing that was included in the FR 2886b transmittal letter for March 31, 2014. These instructions can be accessed via the Federal Reserve’s website:

<http://www.newyorkfed.org/banking/regrept/1q14fr2886.pdf>.

January 20, 2017

8

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 FR 2886b report must be returned to this Bank, by mail or messenger, no later than **January 30, 2017**. Any FR 2886b report received after 5:00 p.m. on **January 30, 2017** will be considered late unless postmarked by **January 27, 2017** or sent by overnight service by **January 29, 2017**.

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 & 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, 2016 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 Federal Reserve website at: www.federalreserve.gov/boarddocs/reportforms/.

FEDERAL RESERVE BANK *of* NEW YORK

January 20, 2017

9

Questions regarding the FR 2886b should be directed to the respective Staff Directors of the Capital and Liquidity & Funding Division: Laura Stash at (212) 720-5581, Morgan Norful at (212) 720-8055, or Cheryl Skillman at (212) 720-8739.

Sincerely,

FEDERAL RESERVE BANK *of* NEW YORK

January 20, 2017
10

ATTACHMENT

Revisions to the FR 2886b for the quarter ended December 31, 2016

Reporting Form

(1) *None.*

Reporting Form Instructions

(1) *None.*