

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

**Scott Smentek**  
ASSISTANT VICE PRESIDENT

January 6, 2017

## **To: The Individuals Responsible for Filing the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations**

The report forms and instructions for the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N/FR Y-7NS) for December 31, 2016 have been posted to the Federal Reserve Board's website at [www.federalreserve.gov](http://www.federalreserve.gov) under "Reporting Forms." The reporting date on page 1 of the FR Y-7N/FR Y-7NS form has been changed to December 31, 2016. In addition, the OMB expiration date has been updated to reflect the three-year extension of the report. No other changes have been made to the report form and instructions. There were no edit changes on the report.

Foreign Banking Organizations file the FR Y-7N quarterly for each U.S. nonbank subsidiary with total assets equal to or greater than \$1 billion or with total off-balance-sheet activity equal to or greater than \$5 billion. Foreign Banking Organizations file the detailed FR Y-7N annually for each U.S. nonbank subsidiary that does not meet the criteria to file quarterly but has total assets equal to or greater than \$500 million (and less than \$1 billion). Foreign Banking Organizations file the abbreviated FR Y-7NS annually for each nonbank subsidiary that does not meet the criteria to file the detailed report, but has total assets equal to or greater than \$250 million (and less than \$500 million). The FR Y-7N/FR Y-7NS must be submitted for each legal entity subject to reporting requirements. Therefore, consolidation of individual entities is not permitted.

Effective with the December 31, 2014 report date, the FR Y-7NS report is available for electronic data submission via Reporting Central only (i.e., IESUB can no longer be used). The FR Y-7N transitioned to Reporting Central as of September 2014. 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>.

As part of the transition to Reporting Central, the Federal Reserve has modified its internal procedures for handling confidentiality requests for those institutions that choose to submit data electronically. Generally, the FR Y-7N/FR Y-7NS reports are available to the public

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upon request on an individual basis. However, an institution may request confidential treatment for the entire report or for specific items on the FR Y-7N/FR Y-7NS. To better facilitate confidentiality requests and ensure the data are properly handled during the review of the 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 choose not to 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 FR Y-7N/FR Y-7NS General Instructions (page GEN-5).

Supplemental instructions concerning current accounting and reporting issues affecting the FR Y-7N/FR Y-7NS are provided in this letter.

### **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](http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8)

### **Report Submission**

The completed FR Y-7N/FR Y-7NS report must be received by the Federal Reserve Bank of New York on **Wednesday, March 1, 2017**. Any FR Y-7N/FR Y-7NS report received after 5:00 p.m. on **Wednesday, March 1, 2017** will be considered late unless postmarked by **Sunday, February 26, 2017** or sent by overnight service by **Tuesday, February 28, 2017**. Completed reports should be submitted to:

**Federal Reserve Bank of New York  
Data & Statistics Function  
Administrative Support Staff  
33 Liberty Street, 4th Floor  
New York, N.Y. 10045**

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We 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." The edits for the FR Y-7N/FR Y-7NS report are included in the instructions.

If there are any questions concerning this report please contact Sharon Swain, Staff Manager, at (212) 720-6202; or Kenneth Aberbach, Staff Director, at (212) 720-8234.

Sincerely,

Scott Smentek  
Assistant Vice President

**ATTACHMENT 1****Supplemental Instructions:****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 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 institutions that are public business entities, as defined under U.S. generally accepted accounting principles (GAAP) (as discussed in a later section of these Supplemental Instructions), 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

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provisional amounts that occur after the effective date of the ASU. Thus, reporting entities with a calendar year fiscal year that are public business entities must apply the ASU to any adjustments to provisional amounts that occur after January 1, 2016, beginning with their FR Y-7N report for March 31, 2016. Reporting entities with a calendar year fiscal year that are private companies must apply the ASU to any FR Y-7N reports for December 31, 2017. Early application of ASU 2015-16 is permitted in FR Y-7N 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>.

### **Extraordinary Items**

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-01, “Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates from U.S. generally accepted accounting principles (GAAP) the concept of extraordinary items. At present, Accounting Standards Codification (ASC) Subtopic 225-20, Income Statement – Extraordinary and Unusual Items (formerly Accounting Principles Board Opinion No. 30, “Reporting the Results of Operations”), requires an entity to separately classify, present, and disclose extraordinary events and transactions. An event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. For FR Y-7N purposes, if an event or transaction currently meets the criteria for extraordinary classification, an institution must segregate the extraordinary item from the results of its ordinary operations and report the extraordinary item in its income statement in Schedule IS, item 10, “Extraordinary items, net of applicable income taxes.”

ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Thus, for example, institutions with a calendar year fiscal year must begin to apply the ASU in their FR Y-7N report for March 31, 2016. Early adoption of ASU 2015-01 is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. For FR Y-7N report purposes, an institution with a calendar year fiscal year must apply the ASU prospectively, that is, in general, to events or transactions occurring after the date of adoption. However, an institution with a fiscal year other than a calendar year may elect to apply ASU 2015-01 prospectively or, alternatively; it may elect to apply the ASU retrospectively to all prior calendar quarters included in the institution’s year-to-date FR Y-7N income statement that includes the beginning of the fiscal year of adoption.

After an institution adopts ASU 2015-01, any event or transaction that would have met the criteria for extraordinary classification before the adoption of the ASU should be reported in the FR Y-7N report Schedule IS, item 5.a.10, “Other noninterest income,” or item 7, “Noninterest expense,” as appropriate, unless the event or transaction would otherwise be

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reportable in another item of Schedule IS. In addition, consistent with ASU 2015-01, the agencies plan to remove the term “extraordinary items” from, and revise the caption for, Schedule IS, item 10.

For additional information, institutions should refer to ASU 2015-01, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Accounting by Private Companies for Identifiable Assets in a Business Combination**

In December 2014, the FASB issued ASU No. 2014-18, “Accounting for Identifiable Intangible Assets in a Business Combination,” which is a consensus of the Private Company Council (PCC). This ASU provides an accounting alternative that permits a private company, as defined in U.S. GAAP (and discussed in a later section of these Supplemental Instructions), to simplify the accounting for certain intangible assets. The accounting alternative applies when a private company is required to recognize or otherwise consider the fair value of intangible assets as a result of certain transactions, including when applying the acquisition method to a business combination under ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), “Business Combinations”).

Under ASU 2014-018, a private company that elects the accounting alternative should no longer recognize separately from goodwill:

- Customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of a business, and
- Noncompetition agreements.

However, because mortgage servicing rights and core deposit intangibles are regarded as capable of being sold or licensed independently, a private company that elects this accounting alternative must recognize these intangible assets separately from goodwill, initially measure them at fair value, and subsequently measure them in accordance with ASC Topic 350, Intangibles – Goodwill and Other (formerly FASB Statement No. 142, “Goodwill and Other Intangible Assets”).

A private company that elects the accounting alternative in ASU 2014-18 also must adopt the private company goodwill accounting alternative described in ASU 2014-02, “Accounting for Goodwill,” which is discussed in a later section of these Supplemental Instructions. However, a private company that elects the goodwill accounting alternative in ASU 2014-02 is not required to adopt the accounting alternative for identifiable intangible assets in ASU 2014-18.

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A private company's decision to adopt ASU 2014-18 must be made upon the occurrence of the first business combination (or other transaction within the scope of the ASU) in fiscal years beginning after December 15, 2015. The effective date of the private company's decision to adopt the accounting alternative for identifiable intangible assets depends on the timing of that first transaction.

- If the first transaction occurs in the private company's first fiscal year beginning after December 15, 2015, the adoption will be effective for that fiscal year's annual financial reporting period and all interim and annual periods thereafter.
- If the first transaction occurs in a fiscal year beginning after December 15, 2016, the adoption will be effective in the interim period that includes the date of the transaction and subsequent interim and annual periods thereafter.

Early application of the intangibles accounting alternative is permitted for any annual or interim period for which a private company's financial statements have not yet been made available for issuance. Customer-related intangible assets and noncompetition agreements that exist as of the beginning of the period of adoption should continue to be accounted for separately from goodwill, i.e., such existing intangible assets should not be combined with goodwill.

A reporter that meets the private company definition in U.S. GAAP is permitted, but not required, to adopt ASU 2014-18 for FR Y-7N purposes and may choose to early adopt the ASU, provided it also adopts the private company goodwill accounting alternative. If a private institution issues U.S. GAAP financial statements and adopts ASU 2014-18, it should apply the ASU's intangible asset accounting alternative in its FR Y-7N report in a manner consistent with its reporting of intangible assets in its financial statements.

For additional information on the private company accounting alternative for identifiable intangible assets, institutions should refer to ASU 2014-18, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Private Company Accounting Alternatives, Including Accounting for Goodwill**

In May 2012, the Financial Accounting Foundation, the independent private sector organization responsible for the oversight of the Financial Accounting Standards Board (FASB), approved the establishment of a Private Company Council (PCC) to improve the process of setting accounting standards for private companies. The PCC is charged with working jointly with the FASB to determine whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, and transition guidance for private companies reporting under U.S. generally accepted accounting principles (GAAP). Alternative guidance for private companies may include modifications or exceptions to otherwise applicable existing U.S. GAAP standards.

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The Federal Reserve has concluded that an institution that is a private company, as defined in U.S. GAAP (as discussed in the next section of these Supplemental Instructions), is permitted to use private company accounting alternatives issued by the FASB when preparing its FR Y-7N report(s), except as provided in 12 U.S.C. 1831n(a) as described in the following sentence. If the Federal Reserve determines that a particular accounting principle within U.S. GAAP, including a private company accounting alternative, is inconsistent with the statutorily specified supervisory objectives, the Federal Reserve may prescribe an accounting principle for regulatory reporting purposes that is no less stringent than U.S. GAAP. In such a situation, an institution would not be permitted to use that particular private company accounting alternative or other accounting principle within U.S. GAAP for FR Y-7N reporting purposes. The Federal Reserve would provide appropriate notice if they were to disallow any accounting alternative under the statutory process.

On January 16, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-02, "Accounting for Goodwill," which is a consensus of the PCC. This ASU generally permits a private company to elect to amortize goodwill on a straight-line basis over a period of ten years (or less than ten years if more appropriate) and apply a simplified impairment model to goodwill. In addition, if a private company chooses to adopt the ASU's goodwill accounting alternative, the ASU requires the private company to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill must be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. In contrast, existing U.S. GAAP does not permit goodwill to be amortized, instead requiring goodwill to be tested for impairment at the reporting unit level annually and between annual tests in certain circumstances. The ASU's goodwill accounting alternative, if elected by a private company, is effective prospectively for new goodwill recognized in annual periods beginning after December 15, 2014, and in interim periods within annual periods beginning after December 15, 2015. Goodwill existing as of the beginning of the period of adoption is to be amortized prospectively over ten years (or less than ten years if more appropriate). The ASU states that early application of the goodwill accounting alternative is permitted for any annual or interim period for which a private company's financial statements have not yet been made available for issuance.

A non-bank entity that meets the private company definition in ASU 2014-02, as discussed in the following section of these Supplemental Instructions (i.e., a private institution), is permitted, but not required, to adopt this ASU for FR Y-7N reporting purposes and may choose to early adopt the ASU. If a private institution issues U.S. GAAP financial statements and adopts the ASU, it should apply the ASU's goodwill accounting alternative in its FR Y-7N reports in a manner consistent with its reporting of goodwill in its financial statements. Thus, for example, a private institution with a calendar year fiscal year that chooses to adopt ASU 2014-02 must apply the ASU's provisions in its December 31, 2015, and subsequent quarterly FR Y-7N reports unless early application of the ASU is elected. If a private institution with a calendar



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year fiscal year chooses to early adopt ASU 2014-02 for second quarter 2015 financial reporting purposes, the institution may implement the provisions of the ASU in its FR Y-7N report(s) for June 30, 2015. This would require the private institution to report in its first quarter 2015 FR Y-7N three months' amortization of goodwill existing as of January 1, 2015, and the amortization of any new goodwill recognized in the first six months of 2015. For the FR Y-7N, goodwill amortization expense should be reported in item 7 of the income statement (Schedule IS) unless the amortization is associated with a discontinued operation, in which case the goodwill amortization should be included within the results of discontinued operations and reported in Schedule IS, item 10, "Extraordinary items, net of applicable income taxes."

Private institutions choosing to early adopt the goodwill accounting alternative in ASU 2014-02 that have a fiscal year or an early application date other than the one described in the examples above should contact their Federal Reserve District Bank for reporting guidance.

For additional information on the private company accounting alternative for goodwill, institutions should refer to ASU 2014-02, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Definitions of Private Company and Public Business Entity**

According to ASU No. 2014-02, "Accounting for Goodwill," a private company is a business entity that is not a public business entity. ASU No. 2013-12, "Definition of a Public Business Entity," which was issued in December 2013, added this term to the Master Glossary in the Accounting Standards Codification. This ASU states that a business entity, such as a non-bank entity, that meets any one of five criteria set forth in the ASU is a public business entity for reporting purposes under U.S. GAAP, including FR Y-7N reporting purposes. An institution that is a public business entity is not permitted to apply the private company goodwill accounting alternative discussed in the preceding section when preparing its FR Y-7N reports.

As defined in ASU 2013-12, a business entity is a public business entity if it meets any one of the following criteria:

- It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC (such as one of the federal banking agencies).

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- It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- It has issued securities that are traded, listed, or quoted on an exchange or an over-the-counter market, which includes an interdealer quotation or trading system for securities not listed on an exchange (for example, OTC Markets Group, Inc., including the OTC Pink Markets, or the OTC Bulletin Board).
- It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

ASU 2013-12 also explains that if an entity meets the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC, but not for other reporting purposes.

If an institution does not meet any one of the first four criteria, it would need to consider whether it meets both of the conditions included in the fifth criterion to determine whether it would be a public business entity. A mutual institution does not meet the fifth criterion. With respect to the first condition under the fifth criterion, a stock institution must determine whether it has a class of securities not subject to contractual restrictions on transfer, which the FASB has stated means that the securities are not subject to management preapproval on resale. A contractual management preapproval requirement that lacks substance would raise questions about whether the stock institution meets this first condition.

For additional information on the definition of a public business entity, institutions should refer to ASU 2013-12, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring**

When a loan has previously been modified in a troubled debt restructuring (TDR), the lending institution and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR loan should be carefully evaluated to determine the appropriate accounting by the institution under U.S. generally accepted accounting principles. Under certain circumstances it may be acceptable not to account for the subsequently restructured loan as a TDR. The federal financial institution regulatory agencies will not object to an institution no longer treating such a loan as a TDR if at

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the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the institution than those it would offer for such new debt. When assessing whether a concession has been granted by the institution, the Federal Reserve considers any principal forgiveness on a cumulative basis to be a continuing concession. When determining whether the borrower is experiencing financial difficulties, the institution's assessment of the borrower's financial condition and prospects for repayment after the restructuring should be supported by a current, well-documented credit evaluation performed at the time of the restructuring.

If at the time of the subsequent restructuring the institution appropriately demonstrates that a loan meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114), and the loan need no longer be disclosed as a TDR in the FR- Y7N report, except as noted below. Accordingly, going forward, loan impairment should be measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5). Even though the loan need no longer be measured for impairment as a TDR or disclosed as a TDR, the recorded investment in the loan should not change at the time of the subsequent restructuring (unless cash is advanced or received). In this regard, when there have been charge-offs prior to the subsequent restructuring, consistent with longstanding FR Y-7N instructions, no recoveries should be recognized until collections on amounts previously charged off have been received. Similarly, if interest payments were applied to the recorded investment in the TDR loan prior to the subsequent restructuring, the application of these payments to the recorded investment should not be reversed nor reported as interest income at the time of the subsequent restructuring.

If the TDR designation is removed from a loan that meets the conditions discussed above and the loan is later modified in a TDR or individually evaluated and determined to be impaired, then the impairment on the loan should be measured under ASC Subtopic 310-10 and, if appropriate, the loan should be disclosed as a TDR.

For a subsequently restructured TDR loan on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the loan should continue to be measured as a TDR. However, if the subsequent restructuring agreement specifies a contractual interest rate that, at the time of the subsequent restructuring, is not less than a market interest rate for new debt with similar credit risk characteristics and the loan is performing in compliance with its modified terms after the subsequent restructuring, the loan need not continue to be reported as a TDR in Schedule BS-A, item 7.d, in calendar years after the year in which the subsequent restructuring took place. To be considered in compliance with

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its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

### **Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure**

In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-14, “Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure,” to address diversity in practice for how government-guaranteed mortgage loans are recorded upon foreclosure. The ASU updates guidance contained 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), because U.S. generally accepted accounting principles (GAAP) previously did not provide specific guidance on how to categorize or measure foreclosed mortgage loans that are government guaranteed. The new ASU clarifies the conditions under which a creditor must derecognize a government-guaranteed mortgage loan and recognize a separate “other receivable” upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan in accordance with the guidance in ASC Subtopic 310-40).

Under the new guidance, institutions should derecognize a mortgage loan and record a separate other receivable upon foreclosure of the real estate collateral if the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the institution has the intent to convey the property to the guarantor and make a claim on the guarantee and it has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed (that is, the real estate property has been appraised for purposes of the claim and thus the institution is not exposed to changes in the fair value of the property).

This guidance is applicable to fully and partially government-guaranteed mortgage loans. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This other receivable should be reported in Schedule BS, item 7, “All other assets.” Any interest income earned on the other receivable would be reported in Schedule IS, item 1 “Interest income.” Other real estate owned would not be recognized by the institution.

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For institutions that are public business entities, as defined under U.S. GAAP (as discussed in the preceding section of these Supplemental Instructions), ASU 2014-14 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. For example, institutions with a calendar year fiscal year that are public business entities must apply the ASU in their FR Y-7N reports beginning March 31, 2015. However, institutions that are not public business entities (i.e., that are private companies) are not required to apply the guidance in ASU 2014-14 until annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. Thus, institutions with a calendar year fiscal year that are private companies must apply the ASU in their December 31, 2015, and subsequent quarterly FR Y-7N reports. Earlier adoption of the guidance in ASU 2014-14 is permitted if the institution has already adopted the amendments in ASU No. 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure” (which is discussed in the following section of these Supplemental Instructions).

Entities can elect to apply ASU 2014-14 on either a modified retrospective transition basis or a prospective transition basis. However, institutions must use the method of transition that is elected for ASU 2014-04 (that is, either modified retrospective or prospective). Applying ASU 2014-14 on a prospective transition basis should be less complex for institutions than applying the ASU on a modified retrospective transition basis. Under the prospective transition method, an institution should apply the new guidance to foreclosures of real estate property collateralizing certain government-guaranteed mortgage loans (based on the criteria described above) that occur after the date of adoption of the ASU. Under the modified retrospective transition method, an institution should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the annual period for which the ASU is adopted.

For additional information, institutions should refer to ASU 2014-14, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon a Foreclosure**

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans. Upon Foreclosure” to address diversity in practice for when certain loan receivables should be derecognized and the real estate recognized. The ASU updated guidance contained in Accounting Standards Codification Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors.

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Under prior accounting guidance, all loan receivables were reclassified to other real estate owned (OREO) when the institution, as creditor, obtained physical possession of the property, regardless of whether formal foreclosure proceedings had taken place. The new ASU clarifies when a creditor is considered to have received physical possession (resulting from an in-substance repossession or foreclosure) of residential real estate collateralizing a consumer mortgage loan. Under the new guidance, physical possession for these residential real estate properties is considered to have occurred and a loan receivable would be reclassified to OREO only upon:

- The institution obtaining legal title through foreclosure even if the borrower has redemption rights whereby it can legally reclaim the real estate for a period of time, or
- Completion of a deed-in-lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the institution to satisfy the loan.

Real estate-secured loans other than consumer mortgage loans collateralized by residential real estate should continue to be reclassified to OREO when the institution has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place.

The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. However, nonpublic entities, as defined under generally accepted accounting principles, are not required to apply the guidance in the ASU to interim periods in the year of adoption.

Early adoption is permitted under the standard. A nonbank subsidiary electing to early adopt should include as other real estate owned on Schedule BS, item 6, all residential real estate collateral underlying consumer mortgage loans when the institution has obtained physical possession of the collateral as defined under ASU 2014-04. Nonbank subsidiaries should report the cumulative effect of a change in accounting principle<sup>1</sup> in Schedule HI-A, item 6.

A nonbank subsidiary can elect to apply the ASU on either a modified retrospective transition basis or a prospective transition basis. Under the modified retrospective transition method, an institution should apply a cumulative-effect adjustment to residential consumer mortgage loans and OREO existing as of the beginning of the annual period for which the

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<sup>1</sup> The cumulative effect of a change in accounting principle is the difference between (1) the balance in the retained earnings account at the beginning of the year in which the change is made and (2) the balance in the retained earnings account that would have been reported at the beginning of the year had the newly adopted accounting principle been applied in all prior periods.

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amendments are effective. As a result of adopting the ASU, assets reclassified from OREO to loans should be measured at the carrying value of the real estate at the date of adoption while assets reclassified from loans to OREO should be measured at the lower of the net amount of loan receivable or the OREO property's fair value less costs to sell at the time of adoption. Under the prospective transition method, an institution should apply the new guidance to all instances where the institution receives physical possession of residential real estate property collateralized by consumer mortgage loans that occur after the date of adoption.

For additional information, institutions should refer to ASU 2014-04, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

### **Secured Consumer Debt Discharged in a Chapter 7 Bankruptcy Order**

Reporters should continue to follow the guidance for Secured Consumer Debt Discharged in a Chapter 7 Bankruptcy Order that was included in the FR Y-9C Supplemental Instructions for December, 2015. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201512.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201512.pdf))

### **"Purchased" Loans Originated By Others**

Reporters should continue to follow the guidance for purchased loans originated by others that was included in the FR Y-9C Supplemental Instructions for September, 2015. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201509.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201509.pdf))

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

Reporters should follow the guidance for troubled debt restructurings that was included in the FR Y-9C Supplemental Instructions for March 31, 2015. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201503.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201503.pdf))

### **Indemnification Assets and Accounting Standards Update No. 2012-06**

Reporters should continue to follow the guidance for indemnification assets that was included in the FR Y-9C Supplemental Instructions for June 30, 2014. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201406.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201406.pdf))

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**Determining the Fair Value of Derivatives**

Reporters should continue to follow the guidance in determining the fair value of derivatives that was included in the FR Y-9C Supplemental Instructions for June 30, 2014. These instructions can be accessed via the Federal Reserve's Web site ([http://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201406.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201406.pdf))

**Variable Interest Entities**

Reporters preparing the FR Y-7N should submit a report for each legal entity subject to reporting requirements (i.e. on a parent only basis). Therefore, consolidation of individual entities, including VIEs, is not permitted. However, respondents should separately assess whether a VIE meets the definition of a subsidiary as defined by Section 225.2 of Federal Reserve Regulation Y, which generally includes companies 25 percent or more owned or controlled by another company, and determine if any such entities meet the criteria for filing the FR Y -7N.