FEDERAL RESERVE BANK *of* NEW YORK

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January 18, 2018

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, 2017

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, 2017, 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 Edge and agreement corporations that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions. For Edge and agreement corporations that submit these reports electronically, they must maintain in their files a signed printout of the data submitted. Additional information about the Reporting Central application, including an online resource center, is available at http://www.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 Edge and agreement corporations that submit data electronically. Generally, individual respondent data reported on these reports are available to the public upon request on an individual basis. All data are published or provided to the public upon request, with the exception of items deemed confidential per the report's instructions, unless the individual respondent from which the data were collected has been granted confidential treatment or has a request pending. A respondent may request confidential treatment for the entire report or for specific items on the report. To

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better facilitate confidentiality requests and ensure the data are properly handled during the review of the request, the Federal Reserve strongly encourages Edge and agreement corporations that are of the opinion that disclosure of certain commercial or financial information in the report would likely result in substantial harm to its (or its subsidiaries') competitive position or that disclosure of the submitted personal information would result in unwarranted invasion of personal privacy to:

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

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

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

For more information on confidentiality requests, please see the specific report General Instructions. Note: The information referenced above pertains to the existing manual process for submitting confidentiality requests. The final notice to add the confidentiality check box to the front page of the FR 2886b reporting forms was published in the Federal Register.[1] However, the new confidentiality check box procedures has been postponed and Edge and agreement corporations will be provided with ample notice once the new implementation date has been determined so that they may prepare for submission of the new confidentiality check box requirements.

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). To estimate expected credit losses under CECL, edge and agreement corporations will use a broader range of data than under existing U.S. generally accepted accounting principles (GAAP).

1 80 FR 52282 (August 28, 2015)

These data include information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets.

The ASU is applicable to all financial instruments carried at amortized cost (including loans held for investment, net investment in leases, and held-to-maturity debt securities, as well as trade and reinsurance receivables and receivables that relate to repurchase agreements and securities lending agreements) and off-balance-sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credit, and financial guarantees. The new standard does not apply to trading assets, loans held for sale, financial assets for which the fair value option has been elected, or loans and receivables between entities under common control.

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

For edge and agreement corporations that are public business entities and are also U.S. Securities and Exchange Commission (SEC) filers, as both terms are defined in U.S. GAAP, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For public business entities that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For edge and agreement corporations that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2020, and for interim periods of fiscal years beginning after December 15, 2021. For all edge and agreement corporations, early application of the new standard is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Institutions must apply ASU 2016-13 for FR 2886B purposes in accordance with the effective dates set forth in the ASU. An edge and agreement corporations that early adopts ASU 2016-13 for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for FR 2886B purposes.

For additional information, institutions should refer to the agencies' Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses, which is available at (https://www.occ.treas.gov/news-issuances/bulletins/2016/bulletin-2016-45a.pdf) which were most recently updated on September 6, 2017, the agencies' June 17, 2016, Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses, which is available at (https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20160617b1.pdf) and ASU 2016-13, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168232528&acceptedDisclaimer=true

Accounting for Hedging Activities

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities." This ASU amends Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, to "better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results."

For edge and agreement corporations that are public business entities, as defined under U.S. generally accepted accounting principles (GAAP), the ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Refer to the Glossary entries for "public business entity" and "private company" in the FR 2886B instructions for further information on these terms.

Early application of the ASU is permitted for all edge and agreement corporations in any interim period or fiscal year before the effective date of the ASU. Further, the ASU specifies transition requirements and offers transition elections for hedging relationships existing on the data of adoption (i.e., hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or for which the institution has not removed the designation of the hedging relationship). These transition requirements and elections should be applied on the date of adoption of the ASU and the effect of adoption should be reflected as of the beginning of the fiscal year of adoption (i.e., the initial application date). Thus, if an edge and agreement corporations early adopts the ASU in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes the interim period of adoption, e.g., as of January 1 for a calendar year institution. An edge and agreement corporations that early adopts ASU 2017-12 in an interim period for U.S. GAAP financial reporting purposes should also early adopt the ASU in the same period for FR 2886B purposes.

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

For additional information, edge and agreement corporations should refer to ASU 2017-12, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176169282347&acceptedDisclaimer=true.

Regulatory Capital Treatment of Certain Centrally-Cleared Derivative Contracts

On August 14, 2017, the banking agencies issued supervisory guidance on the regulatory capital treatment of certain centrally-cleared derivative contracts in light of recent changes to the rulebooks of certain central counterparties. Under the previous requirements of these central counterparties' rulebooks, variation margin transferred to cover the exposure that arises from marking cleared derivative contracts, and netting sets of such contracts, to fair value was considered collateral pledged by one party to the other, with title to the collateral remaining with the posting party. These derivative contracts are referred to as collateralized-to-market contracts. Under the revised rulebooks of certain central counterparties, variation margin for certain centrally-cleared derivative contracts, and certain netting sets of such contracts, is considered a settlement payment for the exposure that arises from marking these derivative contracts and netting sets to fair value, with title to the payment transferring to the receiving party. In these circumstances, the derivative contracts and netting sets are referred to as settled-to-market contracts.

Under the agencies' regulatory capital rules, in general, an institution must calculate the trade exposure amount for a cleared derivative contract, or a netting set of such contracts, by using the methodology described in section 34 of the rules to determine (i) the current credit exposure and (ii) the potential future exposure of the derivative contract or netting set of such contracts for purposes of the standardized approach risk-based capital calculation and the supplementary leverage ratio calculation. The risk-weighted asset calculations under the advanced approaches capital framework have similar requirements. Current credit exposure is determined by reference to the fair value of each derivative contract as measured under U.S. GAAP. Potential future exposure is determined, in part, by multiplying each derivative contract's notional principal amount by a conversion factor. The conversion factors vary by the category (for example, interest rate, equity) and remaining maturity of the derivative contract. The regulatory capital rules provide that, for a derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the fair value of the contract is zero, the remaining maturity equals the time until the next reset date.

For the purpose of the regulatory capital rules, the August 2017 supervisory guidance states that if, after accounting and legal analysis, an institution determines that (i) the variation margin payment on a centrally cleared settled-to-market contract settles any outstanding exposure on the contract, and (ii) the terms are reset so that the fair value of the contract is zero, the remaining maturity on such a contract would equal the time until the next exchange of variation margin on the contract. In conducting its legal analysis to determine whether variation margin may be considered settlement of outstanding exposure under the regulatory capital rules, an institution should evaluate whether the transferor of the variation margin has relinquished all legal claims to the variation margin and whether the payment of variation margin constitutes settlement under the central counterparty's rulebook, any other applicable agreements governing the derivative contract, and applicable law. Among other requirements, a central counterparty's rulebook may require an institution to satisfy additional obligations, such as payment of other expenses and fees, in order to recognize payment of variation margin as satisfying settlement under the rulebook. The legal and accounting analysis performed by the institution should take all such requirements into account.

Banking Edge and Banking agreement corporations should refer to the supervisory guidance in its entirety for purposes of determining the appropriate regulatory capital treatment of settled-to-market contracts under the regulatory capital rules. This guidance is available at https://www.fdic.gov/news/news/financial/2017/fil17033a.pdf.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This ASU amends Accounting Standards Codification (ASC) Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs (formerly FASB Statement No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases"), by shortening the amortization period for premiums on callable debt securities that have explicit, non-contingent call features and are callable at fixed prices and on preset dates. Under existing U.S. generally accepted accounting principles (GAAP), the premium on such a callable debt security generally is required to be amortized as an adjustment of yield over the contractual life of the debt security. Under the ASU, the excess of the amortized cost basis of such a callable debt security over the amount repayable by the issuer at the earliest call date (i.e., the premium) must be amortized to the earliest call date (unless the institution applies the guidance in ASC Subtopic 310-20 that allows estimates of future principal prepayments to be considered in the effective yield calculation when the institution holds a large number of similar debt securities for which prepayments are probable and the timing and amount of the prepayments can be reasonably estimated). If the call option is not exercised at its earliest call date, the institution must reset the effective yield using the payment terms of the debt security.

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 Edge and agreement corporations, including adoption in an interim period of 2017 or a subsequent year before the applicable effective date for an Edge and agreement corporation. an Edge and agreement corporation early adopts the ASU in an interim period, the cumulative-effect adjustment shall be reflected as of the beginning of the fiscal year of adoption.

An Edge and agreement corporation must apply the new standard on a modified retrospective basis as of the beginning of the period of adoption. Under the modified retrospective method, an Edge and agreement corporation should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the fiscal year the new standard is adopted. The cumulative-effect adjustment to retained earnings for this change in accounting principle should be reported in the FR 2886B report outside of earnings in other comprehensive income as reflected in net due from/due to.

For additional information, institutions should refer to ASU 2017-08, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168934053&acceptedDisclaimer=true.

Recognition and Measurement of Financial Instruments: Investments in Equity Securities

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU makes targeted improvements to U.S. GAAP. As one of its main provisions, the ASU requires investments in equity securities, except those accounted for under the equity method and those that result in consolidation, to be measured at fair value with changes in fair value recognized in net income. Thus, the ASU eliminates the existing concept of available-for-sale (AFS) equity securities, which are measured at fair value with changes in fair value generally recognized in other comprehensive income.

To be classified as AFS under current U.S. GAAP, an equity security must have a readily determinable fair value and not be held for trading. In addition, for an equity security that does not have a readily determinable fair value, the ASU permits an entity to elect to measure the security at cost minus 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. Edge and agreement corporations must apply ASU 2016-01 for FR 2886B purposes in accordance with the effective dates set forth in the ASU.

With the elimination of AFS equity securities upon an Edge and agreement corporation adoption of ASU 2016-01, the amount of net unrealized gains (losses) on these securities, net of tax effect, that is included outside of earnings in other comprehensive income as reflected in net due from/due to on the FR 2886B report balance sheet. Thereafter, changes in the fair value of (i.e., the unrealized gains and losses on) an edge and agreement corporations' equity securities that would have been classified as AFS under existing U.S. GAAP will be recognized through net income rather than other comprehensive income. For Edge and agreement corporation's holdings of equity securities without readily determinable fair values as of the adoption date, the measurement provisions of the ASU are to be applied prospectively to these securities.

For additional information, institutions should refer to ASU 2016-01, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true.

Recognition and Measurement of Financial Instruments: Fair Value Option Liabilities

In addition to the changes in the accounting for equity securities discussed in the preceding section of these Supplemental Instructions, ASU No. 2016-01 requires an Edge and agreement corporation to present separately in net due from/due to the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk ("own credit risk") when the Edge and agreement corporation has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Until an Edge and agreement corporation adopts the own credit risk provisions of the ASU, U.S. GAAP requires the Edge and agreement corporation to report the entire change in the fair value of a fair value option liability in earnings. The ASU does not apply to other financial liabilities measured at fair value, including derivatives. For these other financial liabilities, the effect of a change in an entity's own credit risk will continue to be reported in net income.

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

The effective dates of ASU 2016-01 are described in the preceding section of these Supplemental Instructions. Notwithstanding these effective dates, early application of the ASU's provisions regarding the presentation of changes due to own credit risk on fair value option liabilities is permitted for all Edge and agreement corporations for financial statements of fiscal years or interim periods that have not yet been issued or made available for issuance, and in the same period for FR 2886B report purposes.

When an Edge and agreement corporation with a calendar year fiscal year adopts the own credit risk provisions of ASU 2016-01, the accumulated gains and losses as of the beginning of the fiscal year due to changes in the instrument-specific credit risk of fair value option liabilities, net of tax effect, are reflected in other comprehensive income in net due from/due to. If an Edge and agreement corporation with a calendar year fiscal year chooses to early apply the ASU's provisions for fair value option liabilities in an interim period after the first interim period of its fiscal year, any unrealized gains and losses due to changes in own credit risk and the related tax effects recognized in the FR 2886B Schedule RC statement during the interim period(s) before the interim period of adoption should be reclassified from P&L to other comprehensive income.

For additional information, institutions should refer to ASU 2016-01, which is available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170&acceptedDisclaimer=true.

Accounting for Measurement-Period Adjustments Related to a Business Combination

In September 2015, 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 Edge and agreement corporations that are public business entities, as defined under U.S. GAAP, ASU 2015-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For Edge and agreement corporations that are not public business entities (i.e., that are private companies), the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The ASU's amendments to Topic 805 should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the ASU. Thus, edge and agreement corporations with a calendar year fiscal year that are public business entities were required to apply the ASU to any adjustments to provisional amounts that occur after January 1, 2016, beginning with their FR 2886b report for March 31, 2016. Edge and agreement corporations with a calendar year fiscal year that are private companies must apply the ASU to any FR 2886b Reports for December 31, 2017. Early application of ASU 2015-16 is permitted in FR 2886b reports that have not been submitted.

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

Accounting for Sales of OREO

Topic 610 applies to an Edge and agreement corporation's sale of repossessed nonfinancial assets, such as OREO. Topic 610 will eliminate the prescriptive criteria and methods for sale accounting and gain recognition for dispositions of OREO currently set forth in Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the new standard, an Edge and agreement corporation will recognize the entire gain or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of Topic 606. Otherwise, an Edge and agreement corporation will generally record any payments received as a deposit liability to the buyer and continue reporting the OREO as an asset at the time of the transaction.

The following paragraphs highlight key aspects of Topic 610 that will apply to seller-financed sales of OREO once the new standard takes effect. When implementing the new standard, an Edge and agreement corporation will need to exercise judgment in determining whether a contract (within the meaning of Topic 606) exists for the sale or transfer of OREO, whether the Edge and agreement corporation has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss.

Under Topic 610, when an Edge and agreement corporation does not have a controlling financial interest in the OREO buyer under Topic 810, Consolidation, the Edge and agreement corporation's first step in assessing whether it can derecognize an OREO asset and recognize revenue upon the sale or transfer of the OREO is to determine whether a contract exists under the provisions of Topic 606. In order for a transaction to be a contract under Topic 606, it must meet five criteria. Although all five criteria require careful analysis for seller-financed sales of OREO, two criteria in particular may require significant judgment. These criteria are the commitment of the parties to the transaction to perform their respective obligations and the collectability of the transaction price. To evaluate whether a transaction meets the collectability criterion, a selling Edge and agreement corporation should 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, a selling Edge and agreement corporation should consider all facts and circumstances related to the buyer's ability and intent to pay the transaction price. As with the current accounting standards governing seller-financed sales of OREO, the amount and character of a buyer's initial equity in the property (typically the cash down payment) and recourse provisions remain important factors to evaluate. Other factors to consider may include, but are not limited to, the financing terms of the loan (including amortization and any balloon payment), the credit standing of the buyer, the cash flow from the property, and the selling Edge and agreement corporation's continuing involvement with the property following the transaction.

If the five contract criteria in Topic 606 have not been met, the Edge and agreement corporation generally may not derecognize the OREO asset or recognize revenue (gain or loss) as an accounting sale has not occurred. In contrast, if an Edge and agreement corporation determines the contract criteria in Topic 606 have been met, it should then determine whether it has satisfied its performance obligations as identified in the contract by transferring control of the asset to the buyer, indicators of which are identified in the new standard. For seller-financed sales of OREO, the transfer of control generally occurs on the closing date of the sale when the Edge and agreement corporation obtains the right to receive payment for the property and transfers legal title to the buyer. However, an Edge and agreement corporation should consider all relevant facts and circumstances to determine whether control of the OREO has transferred.

When a contract exists and an Edge and agreement corporation has transferred control of the asset, the Edge and agreement corporation should derecognize the OREO asset and recognize a gain or loss for the difference between the transaction price and the carrying amount of the OREO asset. Generally, the transaction price in a sale of OREO will be the contract amount in the purchase/sale agreement, including for a seller-financed sale financed at market terms. However, the transaction price may differ from the amount stated in the contract due to the existence of off-market terms on the financing. In this situation, to determine the transaction price, the contract amount should be adjusted for the time value of money by using as the discount rate a market rate of interest considering the credit characteristics of the buyer and the terms of the financing.

For FR 2886b purposes, a corporation or agency should apply the new standard on a modified retrospective basis. To determine the cumulative-effect adjustment for the change in accounting for seller-financed OREO sales, an Edge and agreement corporation should measure the impact of applying Topic 610 to the outstanding seller-financed sales of OREO currently accounted for under Subtopic 360-20 using the installment, cost recovery, reduced-profit, or deposit method as of the beginning of the fiscal year the new standard is adopted.

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 noncancellable 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 Edge and agreement corporation adopts the new accounting standard.

For Edge and agreement corporations 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 Edge and agreement corporations that are not public business entities, the new standard is effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early application of the new standard is permitted for all Edge and agreement corporations. An Edge and agreement corporation that early adopts the new standard should apply it in its entirety to all lease-related transactions. If an Edge and agreement corporation chooses to early adopt the new standard for financial reporting purposes, the Edge and agreement corporation should implement the new standard in its FRB 2886b Report for the same quarter-end report date.

For FRB 2886b purposes, an Edge and agreement corporation should apply the new standard on a modified retrospective basis. Under the modified retrospective method, an Edge and agreement corporation should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the fiscal year the new standard is adopted.

For additional information on ASU 2016-02, Edge and agreement corporations should refer to the FASB's website at: http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FCompletedProjectPage&cid=1176167904031, which includes a link to the new accounting standard.

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, Edge and agreement corporations 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, Edge and agreement corporations 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 Edge and agreement corporations 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 Edge and agreement corporation rather than as pledges of collateral to secure the funding. Under these programs, an Edge and agreement corporation 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.

Although the facts and circumstances of each program must be carefully evaluated to determine the appropriate accounting, an Edge and agreement corporation 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.

Subscription Service

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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, 2018.** Any FR 2886b report received after 5:00 p.m. on **January 30, 2018** will be considered late unless postmarked by **January 27, 2017** or sent by overnight service by **January 29, 2017.**

For Edge and agreement corporations 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, 2017 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/.

Questions regarding the FR 2886b should be directed to Manager Gillian Stowe, (212) 720-7990 or Staff Director Cheryl Skillman at (212) 720-8739.

Sincerely,

ATTACHMENT

Revisions to the FR 2886b for the quarter ended December 31, 2017

Reporting Form

(1) *None.*

Reporting Form Instructions

(1) *None.*