FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Scott Smentek
ASSISTANT VICE PRESIDENT

January 9, 2018

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, 2017 have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms." The reporting date on the cover page of the FR Y-7N has been removed. Effective this quarter and going forward, the report date on the cover page will no longer be prepopulated. Report forms and or instructions will only be reposted if there are revisions for that quarter. No other changes have been made to the report form and instructions. There were no edit changes on the report.

On December 28, 2017, the following information collections were updated on the **Data Collections Currently under Review by the Board of Governors of the Federal Reserve System**: These changes would (1) extend for three years the FR Y 9 family of reports [1], the FR Y-7N family of reports [2], and the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b); (2) delete and consolidate certain existing data items, reduce reporting frequencies, and revise and add new reporting thresholds to the FR Y-9C report; and (3) revise reporting forms and instructions for the FR Y-9C, FR Y-9LP, and FR Y-9SP to implement accounting changes pertaining to equity securities under the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." Modifications for equity securities would be effective March 31, 2018, report date. All other changes would be effective for June 30, 2018 report date.

Reporting Institutions should note that Accounting Standards Codification Topic 740, Income Taxes, requires the tax effects of changes in tax laws or rates to be recognized in the period in which the law is enacted. Accordingly, the effects of the changes in tax laws and rates enacted on December 22, 2017, in the Tax Cuts and Jobs Act should be reflected in the FR Y-7N

[1] FR Y-9C, FR Y-9LP, Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP), Financial Statements for Employee Stock Ownership Plan Holding Companies (FR Y-9ES), and Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS)

[2] Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N, FR Y-7NS) and The Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q)

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report for December 31, 2017. Because of the significance of these changes, the Federal Reserve plans to provide guidance to institutions that addresses the changes for purposes of the year-end 2017 reporting in January 2018

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 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

Report Submission

The completed FR Y-7N/FR Y-7NS report must be received by the Federal Reserve Bank of New York on **Thursday, March 1, 2018**. Any FR Y-7N/FR Y-7NS report received after 5:00 p.m. on **Thursday, March 1, 2018** will be considered late unless postmarked by **Monday, February 26, 2018** or sent by overnight service by **Wednesday, February 28, 2018**. 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

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

If there are any questions concerning this report please contact Gillian Stowe, Staff Manager, at (212) 720-7990; or Cheryl Skillman, Staff Director, at (212) 720-8739.

Sincerely,

ATTACHMENT 1

Supplemental Instructions:

Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Measurement of Credit Losses on Financial Instruments," which introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses. Under CECL, the allowance for credit losses is a valuation account, measured as the difference between the financial assets' amortized cost basis and the net amount expected to be collected on the financial assets (i.e., lifetime credit losses). To estimate expected credit losses under CECL, reporting Institutions will use a broader range of data than under existing U.S. generally accepted accounting principles (GAAP). 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, holding companies 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 reporting Institutions 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 holding companies 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 reporting Institutions, 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 Y-7N/7NS purposes in accordance with the effective dates set forth in the ASU. A Reporting Institutions 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 Y-7N/7NS purposes.

For additional information, institutions should refer to the agencies' Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses, 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, 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 non-bank entities 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 Y-9C instructions for further information on these terms.

Early application of the ASU is permitted for all non-bank entities 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 a reporting institution 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.

The FR Y-9C instructions, including the Glossary entry for "Derivative Contracts," will be revised to conform to the ASU at a future date.

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

Premium Amortization on Purchased Callable Debt Securities

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

The ASU does not change the accounting for debt securities held at a discount. The discount on such debt securities continues to be amortized to maturity (unless the Subtopic 310-20 guidance mentioned above is applied).

For non-bank entities that are 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. Refer to the Glossary entries for "public business entity" and "private company" in the FR Y-9C instructions for further information on these terms.

Early application of the new standard is permitted for all non-bank entities, including adoption in an interim period of 2017 or a subsequent year before the applicable effective date for a non-bank entity. If a non-bank entity early adopts the ASU in an interim period, the cumulative-effect adjustment shall be reflected as of the beginning of the fiscal year of adoption.

A non-bank entity must apply the new standard on a modified retrospective basis as of the beginning of the period of adoption. Under the modified retrospective method, a non-bank entity 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, 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 non-bank entities that are 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-bank entities that are not public business entities as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Non-bank entities must apply ASU 2016-01 for FR Y-7N purposes in accordance with the effective dates set forth in the ASU.

With the elimination of AFS equity securities upon a non-bank entity's adoption of ASU 2016-01, the amount of net unrealized gains (losses) on these securities, net of tax effect, that is included in accumulated other comprehensive income (AOCI) on the FR Y-7N report balance sheet (Schedule BS, item 18(d)) as of the adoption date will be reclassified (transferred) from AOCI into the retained earnings component of equity capital on the balance sheet (Schedule BS, item 18(c)). Thereafter, changes in the fair value of (i.e., the unrealized gains and losses on) an non-bank entity's equity securities that would have been classified as AFS under existing U.S. GAAP will be recognized through net income rather than other comprehensive income. For non-bank entity'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.

New Revenue Recognition Accounting Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers," which added Topic 606, Revenue from Contracts with Customers, to the Accounting Standards Codification (ASC). The core principle of Topic 606 is that an entity should recognize revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer as part of the entity's ordinary activities. ASU 2014-09 also added Topic 610, Other Income, to the ASC. Topic 610 applies to income recognition that is not within the scope of Topic 606, other Topics (such as Topic 840 on leases), or other revenue or income guidance. As discussed in the following section of these Supplemental Instructions, Topic 610 applies to a non-bank entity's sales of repossessed nonfinancial assets, such as other real estate owned (OREO). The sale of repossessed nonfinancial assets is not considered an "ordinary activity" because non-bank entities do not typically invest in nonfinancial assets. ASU 2014-09 and subsequent amendments are collectively referred to herein as the "new standard."

The new standard specifically excludes financial instruments and other contractual rights or obligations within the scope of Topic 310, Receivables; Topic, 320, Investments – Debt and Equity Securities; Topic 815, Derivatives and Hedging; and certain other ASC Topics. Therefore, many common revenue streams in the financial sector, such as interest income, fair value adjustments, gains and losses on sale of financial instruments, and loan origination fees, are not within the scope of the new standard. The new standard may change the timing for the recognition of, and the presentation of any revenue streams within the scope of ASC Subtopic 606-10, such as certain fees associated with credit card arrangements, underwriting fees and costs, and deposit-related fees.

For non-bank entities that are public business entities, as defined under U.S. generally accepted accounting principles (GAAP), the new standard is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. For non-bank entities that are not public business entities (i.e., that are private companies), the new standard is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within fiscal years beginning after December 15, 2019. Early application of the new standard is permitted for all non-bank entities for fiscal years beginning after December 15, 2016, and interim reporting periods as prescribed in the new standard. If a non-bank entity chooses to early adopt the new standard for financial reporting purposes, the non-bank entity should implement the new standard in its FR Y-7N for the same quarter-end report date.

For FR Y-7N purposes, a non-bank entity must apply the new standard on a modified retrospective basis as of the effective date of the standard. Under the modified retrospective method, a non-bank entity 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 Y-7N Schedule IS-A, item 1. A non-bank entity that early adopts the new standard must apply it in its entirety. The non-bank entity cannot choose to apply the guidance to some revenue streams and not to others that are within the scope of the new standard.

For additional information, non-bank entities should refer to the new standard, which is available at: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Revenue Recognition: Accounting for Sales of OREO

As stated in the preceding section, Topic 610 applies to a non-bank entity's sale of repossessed nonfinancial assets, such as OREO. When the new standard becomes effective at the dates discussed above, Topic 610 will eliminate the prescriptive criteria and methods for sale accounting and gain recognition for dispositions of OREO currently set forth in ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the new standard, a non-bank entity will recognize the entire gain, if any, and derecognize the OREO at the time of sale if the transaction meets the requirements of Topic 606. Otherwise, a non-bank entity will record any payments received as a deposit liability to the buyer and continue reporting the OREO as an asset at the time of the transaction.

The following paragraphs highlight key aspects of Topic 610 that will apply to seller-financed sales of OREO once the new standard takes effect. When implementing the new standard, a non-bank entity 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 non-bank entity has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss. For additional information, please refer to the Glossary entry for "Foreclosed Assets" in the FR Y-9C instructions, which has been updated this quarter to incorporate guidance on the application of the new standard to sales of OREO.

Under Topic 610, a non-bank entity'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 non-bank entity must determine whether it is probable that it will collect substantially all of the consideration to which it is entitled in exchange for the transfer of the OREO, i.e., the transaction price. To make this determination, as well as the determination that the buyer of the OREO is committed to perform its obligations, a non-bank entity 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 non-bank entity's continuing involvement with the property following the transaction.

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

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

As stated in the preceding section, for FR Y-7N purposes, non-bank entities must apply the new standard on a modified retrospective basis. To determine the cumulative-effect adjustment for the change in accounting for seller-financed OREO sales, non-bank entities 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. The cumulative-effect adjustment to retained earnings for this change in accounting principle should be reported in FR Y-7N Schedule IS-A, item 1.

Accounting for Leases

In February 2016, the FASB issued ASU 2016-02, "Leases," which added Topic 842, Leases to the Accounting Standards Codification (ASC). The 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 ASC 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 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 entity adopts the new accounting standard.

For non-bank entities that are public business entities, as defined by U.S. generally accepted accounting principles (GAAP), ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For non-bank entities 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 non-bank entities. A non-bank entity that early adopts the new standard must apply it in its entirety to all lease-related transactions. If a non-bank entity chooses to early adopt the new standard for financial reporting purposes, the non-bank entity should implement the new standard in its FR Y-7N report for the same quarter-end report date.

For FR Y-7N purposes, a non-bank entity must apply the new standard on a modified retrospective basis. Under the modified retrospective method, a non-bank entity 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 Schedule IS-A, item 1. The ROU asset recorded upon adoption should be reflected in Schedule BS, item 5, “Premises and fixed assets” and the related lease liability recorded upon adoption should be reflected in Schedule BS, item 12 and/or item 13, “Other borrowed money”. These classifications are consistent with the current FR Y-9C instructions for reporting lessee capital leases.

For additional information on ASU 2016-02, non-bank entities 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.

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 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 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 for Subsequent Restructuring of a Troubled Debt Restructuring

Reporters should continue to follow the guidance for Accounting for Subsequent Restructuring of a Troubled Debt Restructuring that was included in the FR Y-9C Supplemental Instructions for September 2016. These instructions can be accessed via the Federal Reserve's website (http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf)

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

Reporters should continue to follow the guidance for Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon a Foreclosure that was included in the FR Y-9C Supplemental Instructions for September 2016. These instructions can be accessed via the Federal Reserve's website (http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf)

Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure

Reporters should continue to follow the guidance for Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure that was included in the FR Y-9C Supplemental Instructions for September 2016. These instructions can be accessed via the Federal Reserve's website (http://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201609.pdf)

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)

"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)

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)

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)

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)

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.