Fair Value and Schedule Q

Laura McGaughey

Overview

- Schedule Q Reporting Changes, March 31, 2011
- Fair Value Measurement: ASC 820 (FAS 157)
- Fair Value Option for Assets and Liabilities : ASC 825 (FAS 159)
- Fair Value on the FFIEC 002: Schedule Q, "Financial Assets and Liabilities Measured at Fair Value"

Schedule Q, Report Changes March 31, 2011

- What’s New?
  - Changes to reporting thresholds
  - Changes to the type of fair value data collected
  - Additional line items
  - Memoranda Section disclosures

Schedule Q,
Report Changes March 31, 2011

Modification of Schedule Q reporting criteria

- Schedule Q is completed by all branches and agencies that:
  - Reported total assets of $500 million or more as of the preceding December
  - Reported total assets of less than $500 million as of the preceding December but:
    - (a) Have elected to report financial instruments and servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings
    - (b) Reported trading assets of $2 million or more in any of the four preceding calendar quarters
- Effective March 31, 2011

Schedule Q,
Report Changes March 31, 2011

What is reported?

- Collects data, by major asset and liability category, on assets and liabilities that are measured at fair value on a recurring basis under applicable accounting standards or a fair value option
- Recurring basis = annually or more frequently
- Assets and liabilities at fair value should be disclosed based on the fair value measurement level criteria of the ASC 820 (FAS 157) hierarchy (Level 1, 2 or 3)

Schedule Q,
Report Changes March 31, 2011

To be consistent with Schedule RAL, the following line items were added:

- Available-for-sale securities
- Federal funds sold and securities purchased under agreements to resell
- Federal funds purchased and securities sold under agreements to repurchase
- Other borrowed money
- Subordinated notes and debentures
- Total Assets measured at fair value on a recurring basis
- Total liabilities measured at fair value on a recurring basis

Schedule Q, Report Changes March 31, 2011

- New detail break-outs were added for:
  - Loans
    - held-for-sale
    - held for investment
  - Trading assets and liabilities
    - Derivatives
    - Other
- The line item that captures loan commitments was eliminated. Positive and negative fair values of loan commitments should be included in “All other assets” (Line 6) or “All other liabilities” (Line 13)

Schedule Q,
Report Changes March 31, 2011

- Memoranda Items added
  - Disclosure for all other assets and all other liabilities
  - Captures components of all other assets and all other liabilities measured at fair value and reported on Schedule Q which:
    - Exceeds $25,000

      AND
    - Exceeds 25% of the amount reported on either Schedule Q, Line 6, column A or Line 13, column A, respectively

ASC 820: Fair Value Measurement

- Fair Value Definition
- Fair value hierarchy is based on inputs used for valuation
  - Level 1 is based on quoted prices in active markets for identical assets/liabilities
  - Level 2 is defined as other observable inputs
    - Include quoted prices for similar assets/liabilities
  - Level 3 is defined as unobservable inputs
    - Based on entity's own assumptions

Fair Value Measurement in Stressed Market Conditions

- ASC 820-10-65-2 (FAS 157-3) and ASC 820-10-65-4 (FAS 157-4):

  - FASB Staff Position No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active,” issued on October 10, 2008

  - FASB Staff Position No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” issued on April 9, 2009

Fair Value Measurement in Stressed Market Conditions

- FAS 157-3 & FAS 157-4: What and Why?
  - During market stress events, the fair values of some financial instruments and nonfinancial assets may decline
  - The objective of a fair value measurement is to determine the price that would be received to sell an asset or transfer a liability in an orderly transaction at the balance sheet date
  - Fair values should reflect current market conditions and consider recent transaction prices, where available

Fair Value Measurement: Updates to ASC 820

- Accounting Standards Update (ASU) 2009-05: Measuring Liabilities at Fair Value
  - Provides guidance on the fair value measurement of liabilities
  - Clarifies techniques to be used to measure fair value if a quoted price in an active market is not available

- ASU 2010-06: Improving Disclosures about Fair Value Measurement
  - Requires new disclosures to capture transfers in and out of levels 1 and 2 fair value measurement
  - Activity in level 3 fair value measurements and clarifies existing disclosures

Fair Value Option for Financial Assets and Financial Liabilities (ASC 825)

- Fair Value Option for Assets and Liabilities ASC 825 (FAS 159) issued on February 17, 2007
  - Convergence with IASB Fair Value Option (IAS 39)
  - Allows entities to choose to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings

- Fair Value Option Criteria
  - Applied instrument by instrument and irrevocable
  - Entities may apply the new statement to eligible items existing on the balance sheet at the effective date
  - The application is a one time option at the adoption date and cannot be applied retroactively

Loans Measured at Fair Value Under a Fair Value Option

- Schedule C, Part I, Loans and Leases, includes loans NOT HELD FOR TRADING that are measured at fair value under a fair value option by category in lines 1 through 8
  - Disclose on : Schedule C, Part I, Memoranda

Reporting of Assets and Liabilities Under the Fair Value Option as Trading

- Assets and liabilities may be classified as trading if the bank:
  - Applies fair value accounting, with changes in fair value reported in current earnings; and
  - Manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities
  - In addition, AFS/HTM securities are reclassified to trading under a fair value option

Schedule Q, Financial Assets and Liabilities Measured at Fair Value

- Column A, Total Fair Value Reported on Schedule RAL
  - Report the total fair value of those assets and liabilities reported on Schedule RAL reported at fair value on a recurring basis or that the branch has elected to report at fair value under a fair value option
  - Amounts reported on Column A should equal amounts for these items included within Schedule RAL

Schedule Q, Financial Assets and Liabilities Measured at Fair Value

- Columns C, D, E, Fair Value Measurements
  - Report in Columns C, D, and E the fair value amounts which fall in Levels 1, 2, and 3, respectively
  - Column A = Columns C+D+E – Column B

Schedule Q, Financial Assets and Liabilities Measured at Fair Value

- Column B, Amounts Netted in the Determination of Total Fair Value

  - Report any netting adjustments (ASC 210-20) (FIN 39), Offsetting of Amount Related to Certain Contracts, and FAS 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements) related to the gross amounts reported in Columns C, D, and E separately in a manner consistent with industry practice.
  - The amounts reported in the three levels should match the total amount report in Column A, less netted amounts in Column B for each instrument type.

Schedule Q, Exceptions and Exclusions

- There are no longer any major exceptions or exclusions to Schedule Q
  - Now includes any assets or liabilities measured at fair value on a recurring basis
- Certain line items are specific to the fair value option
- Generally accepted accounting principals should still be followed, for example:
  - Leases are still generally not eligible for fair value option
  - AFS/HTM securities under a fair value option should still be reclassified to trading

Reporting of Assets and Liabilities on Schedule Q

Securities

- All securities within the scope of ASC 320 (FAS 115), that a bank has elected to report at fair value under the fair value option should be classified as trading securities even if the securities were not acquired principally for the purpose of trading
    - Schedule Q, Line 5(b): Report as “Other trading assets”
    - Breakout in Line 5(b)(1), “Nontrading securities at fair value with changes in fair value reported in current earnings (included in Schedule Q, Line 5(b))
- Available-for-sale securities for which the fair value option has not been elected

Reporting of Assets and Liabilities on Schedule Q

Loans

- Loans held for trading should be reported on Line 5(b), “Other Trading Assets”
- Loans held for sale for which the fair value option was elected should be reported on Line 3, “Loans held for sale ”
- Loans held for investment for which the fair value option was elected should be reported on Line 4, “Loans held for investment”
- Loans held for sale or investment for which the fair value option was not elected but are measured at fair value on a recurring basis should be reported on Line 6, “All other assets”

Reporting of Assets and Liabilities on Schedule Q

Trading Assets and Liabilities

- The positive and negative fair value of trading derivatives should be reported on Line 5(a) or Line 10(a) respectively
- Other trading assets or liabilities should be reported on Line 5(b) and includes items such as:
  - Loans held for trading
  - Nontrading securities under a fair value option
- The amount of nontrading securities reported on Line 5(b) should also be disclosed on Line 5(b)(1)
- Amounts reported should continue to equal amounts reported on Schedule RAL

Reporting of Assets and Liabilities on Schedule Q

All Other Assets and Liabilities

- Report all other assets or liabilities that are measured at fair value on a recurring basis or under a fair value option not included elsewhere on Schedule Q on Line 6 or Line 13
- This includes (among others):
  - Positive and negative fair values of Nontrading derivatives
  - Interest only strips receivables
  - Positive and negative fair values of Loan Commitments
- In addition, any component exceeding $25,000 and more than 25% of the amount reported in Line 6 or 13 should be itemized on Memoranda Line M1 or Line M2, in items a through f

Reporting of Assets and Liabilities on Schedule Q

Fair Value of Nontrading Interest Rate Swaps (Level 2)

	(Column A) Total Fair Value Reported on Schedule RAL				(Column B) LESS: Amounts Netted in the Determination of Total Fair Value				(Column C) Level 1 Fair Value Measurements				(Column D) Level 2 Fair Value Measurements				(Column E) Level 3 Fair Value Measurements				
Dollar Amounts in Thousands	RCXX	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	
ASSETS																					
1. Available-for-sale securities	1773				G474				G475				G476				G477				1.
2. Federal funds sold and securities purchased	RCFD																				
under agreements to resell	G478				G479				G480				G481				G482				2.
3. Loans and leases held for sale	G483				G484				G485				G486				G487				3.
4. Loans and leases held for investment	G488				G489				G490				G491				G492				4.
5. Trading assets:	RCXX																				
a. Derivative assets	3543				G493				G494				G495				G496				5.a.
	RCFD																				
b. Other trading assets	G497				G498				G499				G500				G501				5.b.
(1) Nontrading securities at fair value with changes in fair value reported in current earnings (included in Schedule Q, item 5.b above)	F240				F684				F692				F241				F242				5.b.(1)
6. All other assets	G391				G392				G395				G396				G804				6.
7. Total assets measured at fair value on a recurring basis (sum of items 1 through 5.b plus item 6)	G502				G503				G504				G505				G506				7.
LIABILITIES																					
8. Deposits	F252				F686				F694				F253				F254				8.
9. Federal funds purchased and securities sold under agreements to repurchase	G507				G508				G509				G510				G511				9.
10. Trading liabilities:	RCXX																				
a. Derivative liabilities	3547				G512				G513				G514				G515				10.a.
	RCFD																				
b. Other trading liabilities	G516				G517				G518				G519				G520				10.b.
11. Other borrowed money	G521				G522				G523				G524				G525				11.
12. Subordinated notes and debentures	G526				G527				G528				G529				G530				12.
13. All other liabilities	G805				G806				G807				G808				G809				13.
14. Total liabilities measured at fair value on a recurring basis (sum of items 8 through 13)	G531				G532				G533				G534				G535				14.

Reporting of Assets and Liabilities on Schedule Q

	(Column A) Total Fair Value Reported on Schedule RAL				(Column B) LESS: Amounts Netted in the Determination of Total Fair Value				(Column C) Level 1 Fair Value Measurements				(Column D) Level 2 Fair Value Measurements				(Column E) Level 3 Fair Value Measurements				
Dollar Amounts in Thousands	RCFD	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	RCFD	Bil	Mil	Thou	
Memoranda																					
1. All other assets (itemize and describe amounts included in Schedule Q, item 6, that are greater than $25,000 and exceed 25% of item 6):																					
a. Mortgage servicing assets	G536				G537				G538				G539				G540				M.1.a
b. Nontrading derivative assets	G541				G542				G543				G544				G545				M.1.b
c. TEXT G546	G546				G547				G548				G549				G550				M.1.c
d. TEXT G551	G551				G552				G553				G554				G555				M.1.d
e. TEXT G556	G556				G557				G558				G559				G560				M.1.e
f. TEXT G561	G561				G562				G563				G564				G565				M.1.f.
2. All other liabilities (itemize and describe amounts included in Schedule Q, item 13, that are greater than $25,000 and exceed 25% of item 13):																					
a. Loan commitments (not accounted for as derivatives)	F261				F689				F697				F262				F263				M.2.a
b. Nontrading derivative liabilities	G566				G567				G568				G569				G570				M.2.b
c. TEXT G571	G571				G572				G573				G574				G575				M.2.c
d. TEXT G576	G576				G577				G578				G579				G580				M.2.d
e. TEXT G581	G581				G582				G583				G584				G585				M.2.e
f. TEXT G586	G586				G587				G588				G589				G590				M.2.f.

Reporting of Assets and Liabilities on Schedule Q

- Review and reassess Schedule Q reporting criteria and Schedule Q memoranda reporting threshold
- Include items measured at fair value on a recurring basis as well as those under a fair value option
- Confirm instruments are reported in the appropriate fair value measurement level
- Verify amounts reported on Schedule Q match those reported elsewhere on the report

Deposits

Susanna Asaad

Objectives

- Upcoming Changes
- Definition of Deposit
- Deposit vs. Borrowing
- FFIEC 002 vs. FR 2900
- Overdrafts
- Sweep Arrangements
- Credit Balances and Cash Collateral
- Other Issues

Upcoming Changes to the FFIEC002 Report

- Federal Register Notice published on March 16, 2011
  - Deposit Insurance Assessment Base
  - Risk-Based Assessment System for Large Insured Depository Institutions

- Upcoming changes effective June 30, 2011

Deposit Insurance Assessment Base

- Reason for Change
  - Dodd-Frank legislation requires the FDIC to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments.
  - With certain exceptions, the assessment base is redefined as an amount equal to the average consolidated total assets minus the average tangible equity.

Deposit Insurance Assessment Base

- What are the changes?
  - DIs with assets of $1 billion or more and all newly insured DIs
    - Average consolidated assets are to be reported based on daily balances during the calendar quarter
    - Average tangible equity will be the average of the current quarter's month-end balances.
  - DIs with less than $1 billion in assets
    - Average consolidated assets may be reported based on weekly balances or daily averages
    - Average tangible equity will be based on the quarter-end amount.

Deposit Insurance Assessment Base- Upcoming Reporting Changes

- Delete from Schedule O existing items for the following:
  - Total daily averages of deposit liabilities before exclusions
  - Total daily average of allowable exclusions
  - Total daily average of foreign deposits

- Add to Schedule O new item to report the following:
  - Average consolidated total assets
  - The Method used to measure the average (daily or weekly averaging method)
  - Average tangible equity
  - long-term unsecured debt issued by other DIs

Deposit Insurance Assessment Base- Upcoming Reporting Changes

- Average tangible equity for an insured branch is calculated on a monthly average or quarter-end basis and is defined as eligible assets less the book value of liabilities (excluding liabilities due to the foreign bank's related entities)
- For purposes of calculating the quarterly average, consolidated total assets for an insured branch would be calculated using the total assets of the branch (including net due from related DIs), as defined for purposes of Schedule RAL, however, the quarterly average should reflect securities as the following:
  - Debt securities (not held for trading) at amortized cost
  - Available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value
  - Equity securities without readily determinable fair values at historical cost

Definition of a Deposit

- Federal Deposit Insurance Act
- Federal Reserve Regulation D

Definition of a Deposit

- The unpaid balance of money or its equivalent received or held by a depository institution in the usual course of business and for which it has given or is obligated to give credit.
- Money received or held by a depository institution, or the credit given for money or its equivalent, received or held by the depository institution in the usual course of business.

Definition of a Deposit

- Transaction Accounts
  - Demand deposits
  - NOW Accounts
  - Other
- ATS Accounts
- Telephone/Preauthorized Transfer Accounts

Definition of a Deposit

- Nontransaction Accounts
  - Time deposits
  - Savings deposits

Deposits vs. Borrowings

- Similarities
  - Major sources of funding for banking institutions
  - Liabilities on the balance sheet
- Differences
  - Legal and Regulatory
    - The underlying contractual agreement identifies the item as a deposit or borrowing
    - If a transaction is called a deposit it must be reported as a deposit

Definitional Differences - FFIEC 002 vs. FR 2900

- Preparers should be aware of all definitional differences between FFIEC 002 and FR 2900

- A complete list of the legitimate reporting differences between the two reports can be found at the following link:
  - http://www.federalreserve.gov/reportforms/legitdifferences/LD_FR2900BA_200812.pdf

Definitional Differences Suspense Accounts

- FFIEC 002
  - All suspense account items should be reported in their final disposition account type
- FR 2900
  - All suspense account items to be reported in other demand deposits, unless past experience supports a more accurate classification

Definitional Differences ASC 825 Fair Value Option

- FFIEC 002
  - Upon adoption of ASC 820 and ASC 825 deposits (excluding demand deposits) may be measured at fair value
- FR 2900
  - Deposits reported based on contracted obligation, not fair value

Overdrafts

- A depository institution honors a check or draft drawn against a deposit account in which insufficient funds are on deposit
  - Customer's Overdrafts
  - Reporting Institution's Overdrafts

Overdrafts: Customer

- Overdrawn balance should be raised to zero and reported as a loan and not netted against other deposit balances
- Customer overdrafts can be
  - Unplanned
    - No advance contractual agreement to honor the check or draft
    - Reported as “All other loans” on Schedule C - EXCEPT for overdrafts of foreign governments/official institutions and depository institutions which are reported according to counterparty.
  - Planned
    - A contractual agreement has been made in advance to allow credit extensions
    - Reported as loans on Schedule C according to counterparty

Overdrafts: Reporting Institution

- Overdrafts on deposit accounts held with other depository institutions (e.g., “due from” accounts)
- Reported as borrowings on Schedule P, according to counterparty

Overdrafts Summary

Type of Overdraft	Reporting Treatment
Customer Unplanned	"All other loans" on Schedule C, Line 8 (except for unplanned overdrafts of depository institutions, foreign governments and foreign official institutions, which are reported according to counterparty)
Customer Planned	Loans on Schedule C, according to counterparty
Reporting Institution	Borrowings on Schedule P, according to counterparty

Sweep Accounts

- Agreements where funds in excess of predetermined balances are “swept” into a higher-yielding investment or another deposit account
  - Swept balances should be reported based on the nature of the investment and counterparty
  - Funds swept back to the transaction account are subject to the six transfer rule as stated in Regulation D

Credit Balances

- Credit balances are balances booked by the reporting institution and owed to third parties that are incidental to or arise from the exercise of banking powers.
- Only reported by U.S. Agencies
- Reported as transaction accounts on the FFIEC 002, while on the FR 2900, they may be reported as transaction, savings, or time deposits.

Credit Balances

- Example
  - A U.S. Agency of a Foreign Bank issues a letter of credit to a U.S. domiciled counterparty for $90,000 and accepts $50,000 as collateral
    - The $50,000 would be reported as a credit balance on Schedule E, Column A

Cash Collateral

- Cash collateral received (e.g. in connection with loans or letters of credit) should be reported as a deposit
  - Report as a transaction or nontransaction account balance on Schedule E depending on the terms of the collateral agreement
- Cash collateral is NOT reported as "other borrowed money"

Cash Collateral

- Example
  - A U.S. Branch of a Foreign Bank issues a commercial letter of credit of $100,000 in which $30,000 is fully collateralized
    - The non-collateralized portion ($70,000) should be reported on Schedule L, Line 4
    - The collateralized portion ($30,000) should be reported as a deposit on Schedule E, according to maturity and counterparty

Form and instructions Changes

- **Schedule O (*December 2010*)**

Memorandum items 5.a and 5.b are to be completed by all branches.

5. Noninterest-bearing transaction accounts (as defined in Section 343 of the Dodd-Frank Act) of more than $250,000 (see instructions):						
a. *Amount* of noninterest-bearing transaction accounts of more than $250,000		J944				M.5.a.
	Number					
b. *Number* of noninterest-bearing transaction accounts of more than $250,000	J945					M.5.b.

- **Schedule E (*March 2011*)**

Memoranda	Excluding Its IBF				
Dollar Amounts in Thousands	RCON	Bil	Mil	Thou	
1. Components of total nontransaction accounts (included in item 7, Column C):					
a. Time deposits of $100,000 or more	2604				M.1.a.
b. Individual Retirement Accounts (IRAs) and Keogh Plan accounts included in Memorandum item 1.a, "Time deposits of $100,000 or more," above	F233				M.1.b.
c. Time deposits of $100,000 or more with remaining maturity of more than 12 months included in Memorandum item 1.a, "Time deposits of $100,000 or more," above	6643				M.1.c.

Other Issues

- Brokered Certificates of Deposit issued in $1,000 amounts under a master certificate of deposit
  - Included in Schedule O, Memorandum 1
  - Excluded from Schedule E, Memorandum 1.a or 1.c
- FDIC insured retirement accounts
- Proposed Amendment to repeal Regulation Q, Prohibition Against Payment of Interest on Demand Deposits

FEDERAL RESERVE BANK of NEW YORK

Loans

Zina Rakhovich

Objectives

- Overview
- Loan Classification
- General and Specific Reserves
- Allowance for Credit Losses
- Fair Value Option ASC 825 (FAS 159)
- Summary

Loan Overview

- Loans and leases held for trading purposes are reported as "Trading assets" at FV on Schedule RAL in Line 1.f
- Loans held for sale should be reported at the lower of cost or fair value (LOCOM) on Schedule C, as applicable
- All other loans should be reported at amortized cost on Schedule C, as applicable
  - Net of unearned income, specific reserves and unamortized loan fees
- Loans accounted for under a Fair Value Option and not held for trading should be reported at FV on Schedule C, as applicable

Loan Classification

- All loans are classified according to collateral, borrower or the purpose of the loan
  - Real estate
  - Borrower (securities broker dealer)
  - Primary business of counterparty

Loan Classification

- Real estate: Loans secured by real estate, whether originated or purchased (mortgages, construction and land development) except for loans to state and political subdivisions
  - Schedule C, Line 1, Memoranda 5 and 6
  - Schedule RAL, Line 1.f.(2), Memoranda 5 and 6

Loan Classification

- Loans to purchase securities: Loans to brokers and dealers (not secured by real estate) and loans for the purpose of purchasing and carrying securities, except for loans to depository institutions
  - Schedule C, Line 7, Memoranda 5 and 6
  - Schedule RAL, Line 1.f.(2), Memoranda 5 and 6

Loan Classification

- Counterparty: Loans not secured by real estate or for the purpose of purchasing and carrying securities should be classified according to the primary business of the counterparty
  - Schedule C, Lines 2, 3, 4, 6, 8 or 9, Memoranda 5 and 6
  - Schedule RAL, Line 1.f.(2), Memoranda 5 and 6

General Allowance for Loan Losses ("General Reserves")

- General allowance for loan losses represents reserves that are maintained against the loan portfolio to absorb probable losses

- Branches and agencies are not required to hold general reserves at the branch or agency level
  (SR Letter 94-4)

- General reserves may still be maintained by an institution as part of its internal credit policy

General Reserves

- Report General Reserves gross on Schedule M, Part I, Line 2.a, Column B, as "due to" and do not net against loans reported on Schedule C
  - Also report on Schedule M, Part IV, "Amount of allowance for loan losses" (Line 1)
- Provision should be included in the calculation of the bank's net income and reported on Schedule M, Part I, Line 2.a, Column A or B

Specific Allowance for Loan Losses (“Specific Reserves” ASC 310 (FAS 114)

- If an identified loss exists, the amount of the loss should be charged-off or a specific reserve should be established against the loan
  - Specific loan loss reserves are only maintained for identified losses

Specific Reserves

- A full or partial write-down of a loan through a direct charge off/specific reserves, cannot be reversed at a later date (the cost basis cannot be "written-up")

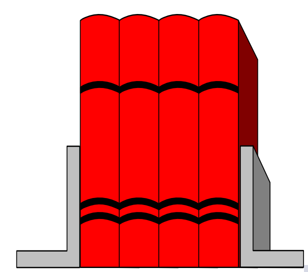
Specific Reserves

- The provision for specific loan loss reserve is reported in the same manner as the provision for general loan loss reserves on Schedule M, Part I, in Line 2.a

- Loans should be reported net of specific reserves for identified losses on Schedule C (and throughout the report)

Allowance for Credit Losses

- The AICPA's Audit Guide for Banks and Savings Institutions requires the allocation on the balance sheet of the allowance for credit losses



Allowance for Credit Losses

- Portion of the allowance related to trading assets should be reported in "Trading assets" on Schedule RAL, Line 1.f

- Portions of the allowance related to off-balance-sheet credit commitments should be reported in "Other liabilities" on Schedule RAL, Line 4.f

Note: Since derivative products are reported at fair value, the credit reserve is part of the fair value reported on the balance sheet

Allowance for Credit Losses

- Allowance for credit losses is established to cover counterparty risk only
  - A separate valuation reserve is established to cover <u>market losses</u> associated with the trading account and should be excluded from credit reserves

Fair Value Option (ASC 825)

- Loans that the bank has elected to report at FV under the fair value option are reported on Schedule C
  - Those loans that are held for trading should be reported as such on Schedule RAL, “Trading assets” (Line 1.f)
- No general or specific reserves should be established for loans reported at FV (part of the fair value)

Loans Measured at Fair Value (Schedule C, Memoranda 5)

- Collects FV information on loans reported on Schedule C that are accounted for at FV, including:
  - Loans measured under ASC 825
  - Loans held for sale, if the loan is reported at market value or any loan accounted for *under a Fair Value hedge*

- Memoranda 5 discloses loans into three categories:
  - Loans secured by real estate (Lines M.5.a.(1) through M.5.a.(3)b)
  - Commercial and industrial (Line M.5.b)
  - Other (M.5.c)

Unpaid Principal of Loans Measured at Fair Value (Schedule C, Memoranda 6)

- Collects the outstanding unpaid principal balance of the loans that are accounted for at FV and reported in Memoranda 5
- Memoranda 6 is comprised of three categories
  - Loans secured by real estate (Lines M.6.a.(1) through M.6.a.(5))
  - Commercial and industrial loans (Line M.6.b)
  - Other loans (M.6.c)

Key Points

- Loan classification
  - Secured by real estate
  - Purchase or carry securities
  - Primary business of counterparty

- Loans should be reported at
  - FV, LOCOM or amortized cost
  - Fair value option does not determine classification
  - Reserves should not be established for FVO loans

- Allowance for Credit Losses should be allocated on Schedule RAL as appropriate

FEDERAL RESERVE BANK *of* NEW YORK

Reporting Central

Michele Waldman

Reporting Central

- What is Reporting Central?
- Why are we replacing IESUB?
- What is the transition plan?
- Where can I find Reporting Central documentation?

What is Reporting Central?

- Reporting Central is an application which will replace the current Internet Electronic Submission (IESUB) system for reports submission
- Multi-year project beginning in 1^{st} quarter 2012
- Reports will be transitioned by series families or groups of reports.

Why Are We Replacing IESUB?

- IESUB is a 15 year old application
- Reporting Central will take advantage of newer technologies and enhanced security features
- We will switch from using Logon IDs and Passwords to digital certificates

What is the Transition Plan?

- First reports to transition will be the Treasury International Capital (TIC) and the FFIEC 009/009A
- No decision has been made as to which group of reports will go next
- Current IESUB spreadsheet file format or data entry will be accepted in the new Reporting Central application

Transition Plan Continued

- Those who currently file TIC or FFIEC 009/009A reports will receive communications directly beginning in the next few weeks
- Digital Certificate sign ups will begin in the 3rd quarter
- Separate report series sign up will begin in early 4th quarter
- Respondent seminar will take place on January 10, 2012

Where Can I Find Reporting Central Documentation?

- All Reporting Central documentation will appear at the following URL:

  http://www.frbservices.org/centralbank/reportingcentral/index.html

FEDERAL RESERVE BANK *of* NEW YORK

Reporting of Off-Balance -Sheet Items

Michael Tursi

Reporting of Off-Balance-Sheet Items

- Reporting of derivative contracts
- ASC 815, Accounting for Derivatives Instruments and Hedging Activities, (FAS 133)
- Examples of derivative contracts
- Reporting of other off-balance sheet commitments and contingencies
- ASU 2009-17, Amendments to FASB Interpretation No. 46(R), (FAS 167)

Definitions

What is a “derivative”?

- A derivative instrument is a financial instrument or other contract with all of the following characteristics:
  - It has (1) one or more underlying and (2) one or more notional amounts or payment provisions or both
  - Requires little or no initial net investment
  - Its terms require or permit net settlement

Reporting of Derivative Contracts

- Balance Sheet Reporting (Schedule RAL)
- Income Statement Effect (Schedule M, Part I, Line 2.a)
- Schedule L and M, Part V (Disclosures and Fair Value Examples)

Schedules L and M, Part V Disclosures & Fair Value Examples

Schedules L and M Part V Disclosures

- Notional Value
  - Risk characteristics
  - Purpose
- Fair Values
  - Risk characteristics
  - Purpose
- Credit Derivatives

Schedules L and M, Part V Disclosures & Fair Value Examples

Schedules L and M Part V Disclosures

- Schedule L includes off-balance sheet transactions with nonrelated institutions and related non-depository institutions

- Schedule M, Part V, includes off-balance sheet transactions with related depository institutions

Reporting of Notional Values

- The notional value to be reported for an off-balance sheet derivative contract is the underlying principal amount upon which the exchange of funds is based

Reporting of Notional Values

- For example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5.0% and LIBOR multiplied by 10 has an effective notional amount of $10,000,000

Reporting of Notional Values

- Contracts with multiple risk characteristics should be classified based upon the predominant risk characteristic

- Report in Line 9 the notional amount of all outstanding futures and forward contracts, exchange-traded and over-the counter option contracts, and swaps contracts, as appropriate based on the predominant risk characteristic

Gross Positive and Negative Fair Value

- Report in Line 12 gross positive and negative fair values of derivative contracts held for trading and for purposes other than trading

Reporting of Derivative Contracts on Balance Sheet & Income Statement

- The FV of derivative contracts held for trading should be reported gross (unless ASC 210 (FIN 39) applies) on Schedule RAL, Line 1.f, "Trading assets" or in Line 4.e, "Trading liabilities"

- The gain/loss should be reported as a part of the calculation of unremitted profit/loss on Schedule M, Part I, Line 2.a

ASC 815 (FAS 133)

- ASC 815
  - Accounting and reporting standards for derivative instruments and hedging activities
  - Cash flow hedging/Fair value hedging
  - Embedded derivatives

ASC 815

- Types of hedges
  - The fair value of all non-trading derivatives will be reported on “Other assets” or “Other liabilities”
  - For depository institutions, the two predominate types of hedges are
    - Fair Value
    - Cash Flow

ASC 815

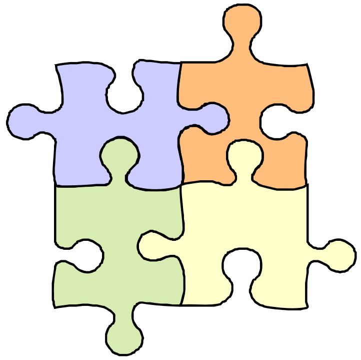
- Fair Value Hedges
  - The hedged items are reported at fair value for the portion of the risk being hedged
  - The mark-to-market gains are reported in earnings with the hedging contract
  - To the extent the hedging relationship is effective earning will be unaffected

ASC 815

- Cash Flow Hedges
  - Cash Flow Hedges apply to hedging the risk of changes in cash flows for variable rate assets and liabilities

ASC 815

- The difference between a Cash Flow and Fair Value hedge
  - The hedged item is not reported at fair value



ASC 815

- Reporting on the FFIEC 002
  - The mark-to-market gains and losses from fair value and cash flow hedges should be reported in the institution's "Net unremitted profit/(loss)," Schedule M, Part I, Line 2.a

ASC 815

- Intercompany transactions
  - Derivatives with the parent bank or another office of the reporting branch's or agency's parent bank may <u>qualify for hedge accounting provided</u>
    - The counterparty (e.g., the other member of the consolidated group) has entered into a contract with an unrelated party that offsets the inter-company derivative completely

ASC 815

<u>Definition</u>

- *Embedded derivatives* are implicit or explicit terms that effect the cash flows or value of other exchanges required by a contract in a manner similar to derivative

- The combination of the *host contract* and an embedded derivative is referred to as a *hybrid contract*

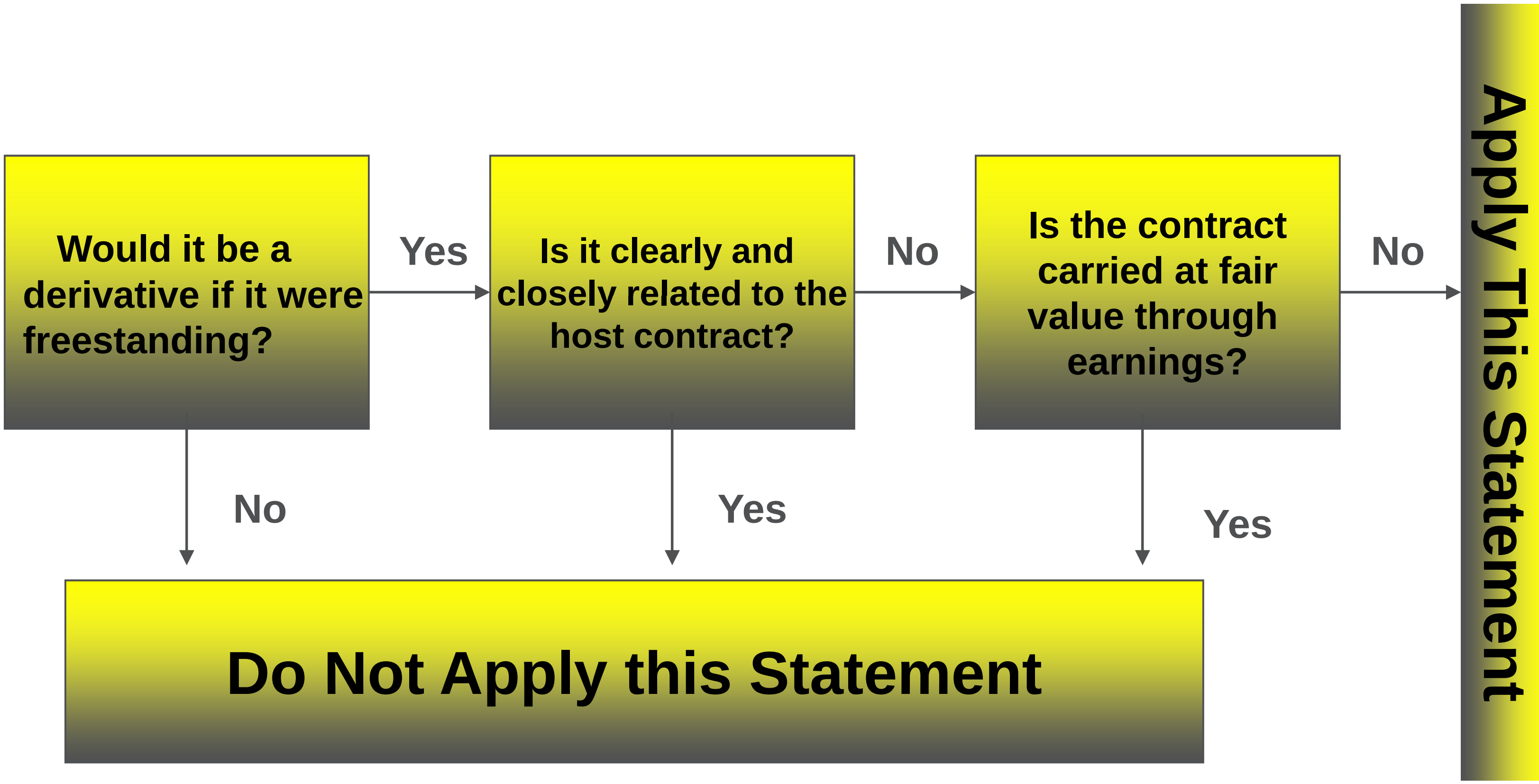
- Examples of hybrid contracts
  - Structured notes
  - Convertible securities
  - Securities with caps, floors, or collars

ASC 815

Embedded Derivatives - Bifurcate:

- Not **"clearly and closely related"** to host contract
- The hybrid instrument is not remeasured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings
- A separate instrument with the same terms as the embedded derivative instrument would be a derivative instrument subject to the requirements of SFAS No. 133

ASC 815 Embedded Derivatives When Does a Contract Have an Embedded Derivative Subject to this Statement?



ASC 815

- **Embedded Derivatives**
  Clearly and Closely Related – General

- Clearly and closely related refers to:
  - Economic characteristics
  - Risks

- Factors to be considered:
  - The type of host
  - The underlying

ASC 815

Embedded Derivatives

Clearly and Closely Related - Equity Host

- An option to convert preferred stock (not mandatorily redeemable) to common is clearly and closely related to the equity host, and therefore is not separated

- A call option on an entity's own equity security would not be a derivative if it were free standing, but only if classified on the entity's books

ASC 815

Embedded Derivatives Debt Hosts - Embedded Derivatives That Are Not Clearly And Closely Related

The underlying is interest rates and *either*:

- The investor may not recover substantially all of its initial investment, or
- The investor's yield may increase to twice the market rate or more and at least twice the initial rate

Examples of Types of Derivatives

- Options
- Swaptions
- Swaps

Options

- Options transfer the right but not the obligation to buy or sell an underlying asset, instrument, or index on or before the option’s exercise date at a specified price (the strike price)

Options

Fair value

- For an exchange-traded option, the change in the price from the inception of the contract is the fair value
- For an over-the-counter option, the change in the price as determined by an option pricing model (e.g., Black-Sholes)

Options

Hedging Market Risk

Example

GHI Company purchases equity securities and will hedge the market risk with an at-the-money put option

- Equity securities price: $50 per share (100 shares)
- Premium of put option: $600 (strike price $65)

Options

Option from inception to maturity

	12/31/04	12/31/05	12/31/06
MBI shares	$6500	$6000	$5700
Put option			
Time value	600	350	0
Intrinsic value	0	500	800
	$600	$850	$800

GHI Company exercises the option prior to the option's expiration on December 31, 2006

Options

	Debit	Credit
January 1, 2004		
All other securities (Line 1.c(4))	$5000	
Cash and balances due from depository inst. (Line 1.a)		$5000
(To record purchase of MBI shares)		
December 31, 2004		
All other securities (Line 1.c(4))	$1500	
Net due to/from Head Office (Schedule M, Part I, 2.a)		$1500
(To record appreciation of MBI shares)		
Other assets (Line 1.h)	$600	
Cash and balances due from depository inst. (Line 1.a)		$600
(To record the purchase of the put option)		

Options

	Debit	Credit
December 31, 2005		
Other assets (Line 1.h)	$500	
Net due to/from Head Office (Sch. M, Part I, 2.a)		$500
(To record the increase in the intrinsic value of the option)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$500	
All other securities (Line 1.c(4))		$500
(To record the decrease in the fair value of the MBI shares)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$250	
Other assets (Line 1.h)		$250
(To record the ineffective portion of the change in FV of the option)		

Options

	Debit	Credit
December 31, 2006		
Other assets (Line 1.h)	$300	
Net due to/from Head Office (Sch. M, Part I, 2.a)		$300
(To record the increase in the intrinsic value of the option)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$300	
All other securities (Line 1.c(4))		$300
(To record the decrease in the fair value of MBI shares)		
Net due to/from Head Office (Sch. M, Part I, 2.a)	$350	
Other assets (Line 1.h)		$350
(To record the ineffective portion of the change in FV of the option)		
Cash and balances due from depository inst. (Line 1.a)	$6500	
Other assets (Line 1.h)		$800
All other securities (Line 1.c(4))	$5700	
(To record the exercise of the option on 12/31/06 by delivering shares.)		

Swaptions

- An option that gives the holder the right, but not the obligation, to execute a swap contract on a future date
- Whether the option is exercised depends on some future event or time

Swaps

Fair Value

- The fair value of a swap contract is the net present value of the future cash flows (e.g., net settlement amount)
  - Only the net settlement amount should be included in the fair value used to calculate the revaluation gain or loss

Swaps

Swaps held for trading

- The FV of these contracts should be reported on Schedule RAL, Line 1.f, "Trading assets" or in Line 4.e, "Trading liabilities"

- The gain/loss should be reported as part of the calculation of unremitted profit/loss reported on Schedule M, Part I, in Line 2.a

Swaps

Swaps held for purposes other than trading
(e.g., hedging contracts marked-to-market)

- The FV of hedging contracts should be reported on Schedule RAL, Line 1.h, "Other assets" or in Line 4.f, Other liabilities" and on Schedule M, Part I, in Line 2.a
- These should only include those contracts meeting hedge effectiveness test under FAS 133
- All other contracts should be reported in trading

Multiple Risk Contracts

- Derivative contracts that contain two or more risk characteristics
- Contracts should be classified on Schedule L, line 9, of the FFIEC 002 by their predominant risk characteristic (i.e., interest rate, foreign exchange, equity or commodity)
- Example of this type of contract is a cross- currency interest rate swaps

Reporting of Credit Derivatives

Reporting of credit derivatives is addressed in SR 96-17 (GEN) and **ASC 815**

- Credit derivatives are off-balance sheet arrangements that allow one party (the "beneficiary") to transfer credit risk of a specific asset to another party (the "guarantor")
  - Allow the beneficiary to mitigate its credit risk concentration to a particular borrower
  - Guarantor assumes the credit risk associated with the asset without directly purchasing it

Reporting of Credit Derivatives

- Certain financial guarantees are not subject to this statement if these provide for payments to the guaranteed party for a loss incurred because the debtor defaults on a payment when payment is due (ASC 815-10-15)
  - However, financial guarantees (e.g., credit derivatives) are subject to **ASC 815** if the contract is indexed to the credit worthiness of the borrower

Reporting of Credit Derivatives

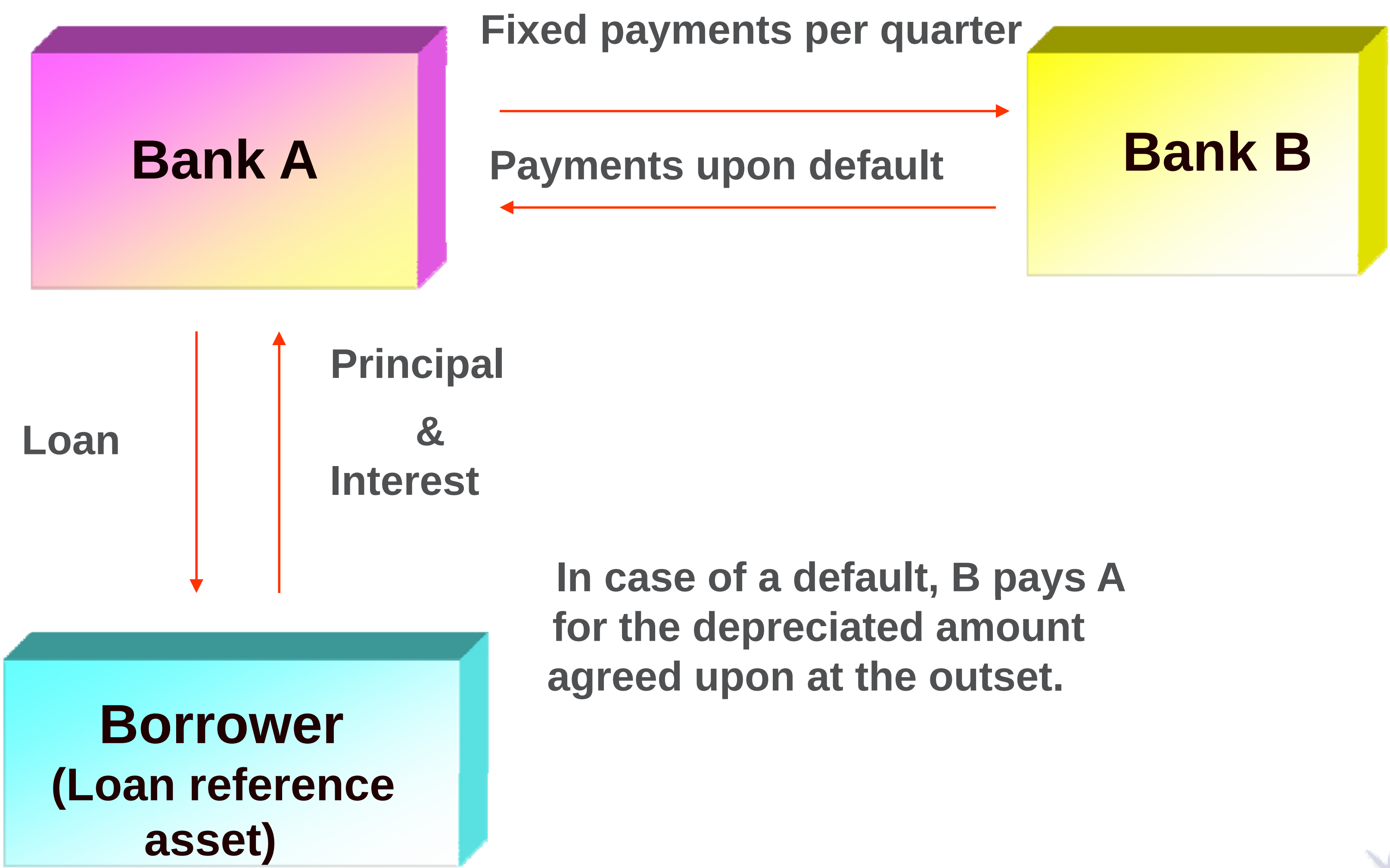
- Credit derivatives subject to **ASC 815** should be reported:
  - On the balance sheet in the same manner as any other derivative product
  - Schedule L, Line 6, breakout by:
    - Line 6a – Notional amount by type of contract (credit default swap, TROR swap, etc.)
    - Line 6b – Gross fair value, positive and negative
  - Schedule M, Part V

Two Common Types of Credit Derivatives

(1) Credit Default Swaps

- The beneficiary agrees to pay guarantor a fixed payment (i.e., a certain number of basis points either quarterly or annually)
- In return the guarantor agrees to pay the beneficiary an agreed upon amount if there is a default

Credit Default Swap Structure



In case of a default, B pays A for the depreciated amount agreed upon at the outset.

Two Common Types of Credit Derivatives

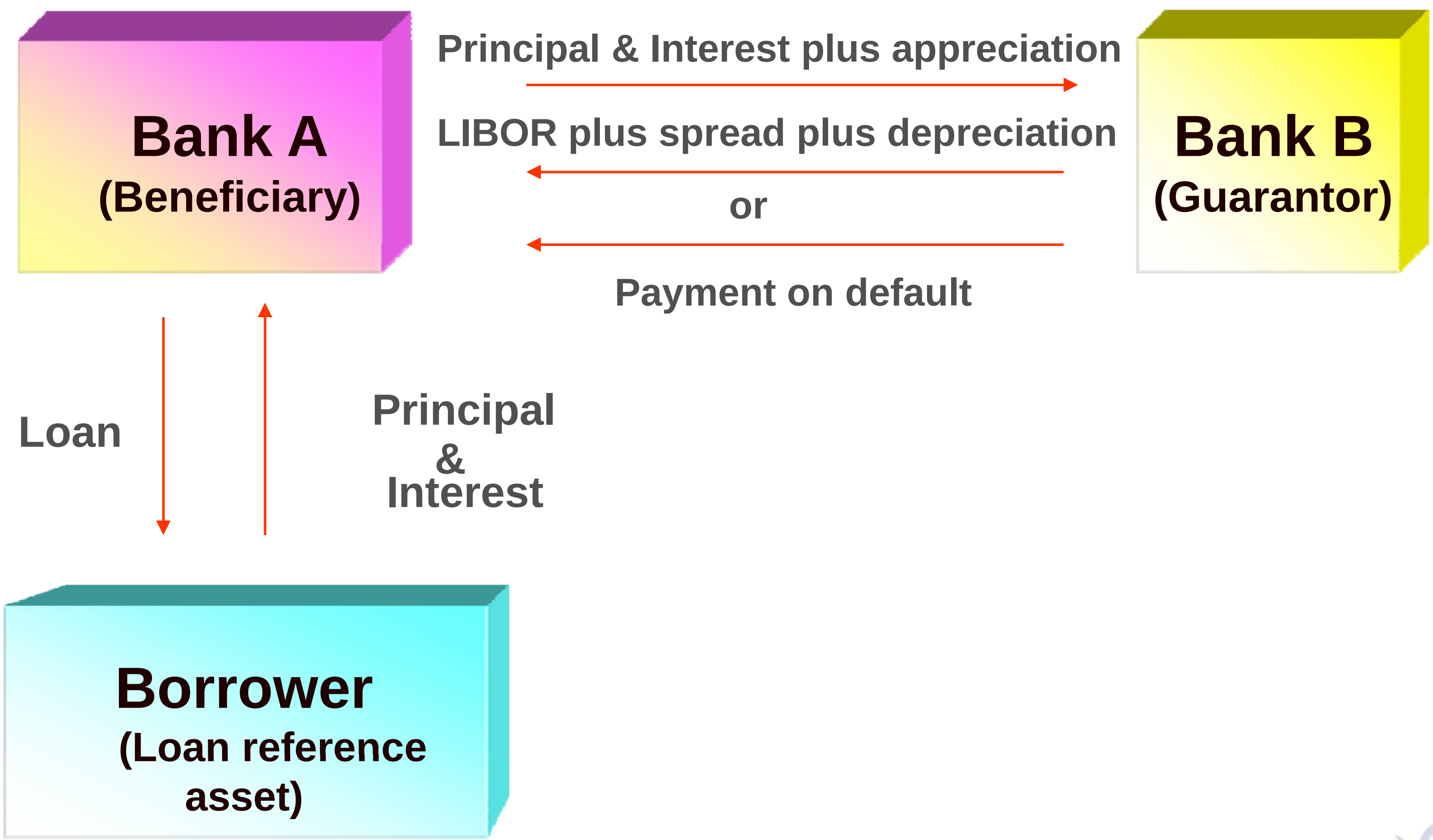
(2) Total Rate of Return Swaps (TROR)

- The beneficiary agrees to pay the guarantor the total return (e.g., principal and interest as well as any appreciation in the market value of the asset)
  - The guarantor agrees to pay spread over funding costs plus any depreciation in the value of the asset

Two Common Types of Credit Derivatives

- The guarantor in a TROR could be viewed as having "synthetic ownership" of the asset since it assumes the risk and rewards of the asset over the agreement period

Total Rate of Return Swaps Structure



Other Off-Balance Sheet Reporting Issues

- Contingent liabilities, Line 7
  - Commitments to accept and place deposits
  - Purchases and sales of risk participation in loans
  - Securities borrowed
  - Commitments to purchase when-issued securities that are excluded from ASC 815

Other Off-Balance Sheet Reporting Issues

- Contingent Assets, Line 8
  - Securities lent
  - Commitments to sell when-issued securities that are excluded from ASC 815

FEDERAL RESERVE BANK *of* NEW YORK

ASU 2009-17 (FAS 167)

ASU 2009-17

- Background
- Summary
- New Consolidation Framework
- Exception to Consolidation
- Frequency of Reconsideration
- Fees Paid to Decision makers
- Adoption Methods
- Effective Date and Transition

Background

- FIN 46(R) deals with VIEs
  - VIEs are typically thinly capitalized not controlled by voting owners.

- FIN 46(R) requires an enterprise holding a variable interest in an entity to determine:
  - If the entity is a VIE and, if so,
  - Which “variable interest” (VI) holder should consolidate the VIE?
  - If the enterprise is the “Primary Beneficiary” (PB) of the VIE

Background

- Under FIN 46(R), the PB is the VI holder that absorbs the majority of the variability in future results of the VIE.
  - Variability is framed as “expected losses” and “expected residual returns.”
  - A complicated quantitative analysis may be required to analyze expected losses and expected residual returns.

- If a PB exists, they consolidate the VIE.

- QSPEs are exempt from consolidation under current guidance in FIN 46(R).

Background

- VIs are contractual, ownership, or other financial interests in a VIE that changes with the VIE's net asset value (e.g., equity interest, loans or debt securities, guarantees)
- An equity investment of less than 10% is presumed to be insufficient to finance a VIE's activities

Background

- ASU 2009-17 will provide users with improved information about enterprise’s involvement with VIEs.

- Address constituent concerns about the application of certain key provisions of FIN 46(R).

- Improve disclosures.

Summary

- FASB issued ASU 2009-17 (FAS 167) in June, 2009. The standard is effective as of the beginning of the fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar–year companies).

- Former QSPEs will be evaluated for consolidation under ASU 2009-17, which amends FIN 46(R).

- Other amendments include:
  - Quantitative risks and rewards assessment to determine the primary beneficiary of a variable interest entity (VIE) replaced with qualitative assessment of power.
  - Continuous reassessments of whether an entity is the primary beneficiary of a VIE.

New Consolidation Framework

- Quantitative risks and rewards calculation no longer determine who is the PB.

- The new consolidation framework uses a **qualitative** assessment. The PB is the party that has both:

  - Power to direct those activities of a VIE that *most significantly* impact the VIE's economic performance.
  - Obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE.

- The ED had a "fall back" quantitative test. ASU 2009-17 does not.

New Consolidation Framework

- Because ASU 2009-16 (FAS 166) eliminated QSPEs, the FIN 46(R) exception for consolidating QSPEs is gone.
  - All enterprises involved with “formally Q” SPEs will now be required to evaluate whether they should consolidate.
- ASU 2009-17 requires deciding who should consolidate an entity before deciding whether assets transferred have been “sold.”
  - Harder to meet sales criteria if VIE is now a consolidated affiliate of the parent company
  - Sale will be honored for separate company reporting.

New Consolidation Framework

- Enterprises must first identify activities that most impact the VIE's economic performance.

- Then it must determine whether it has power to direct those activities.
  - Enterprise does not have to exercise power currently to direct those activities
  - Kick-out rights and participating rights are ignored, unless they can be exercised **unilaterally** by **one** enterprise.

New Consolidation Framework

- Differs from substantive kick-out rights in other literature (i.e., EITF 04-5).

- Unilateral ability to exercise kick-out rights or participating rights may identify the one party with the power to direct activities that most significantly impacts the VIE's economic performance.
  - Troubled Debt Restructuring are in the scope of ASU 2009-17 .
  - VIE is expected to have only on PB at a given time.

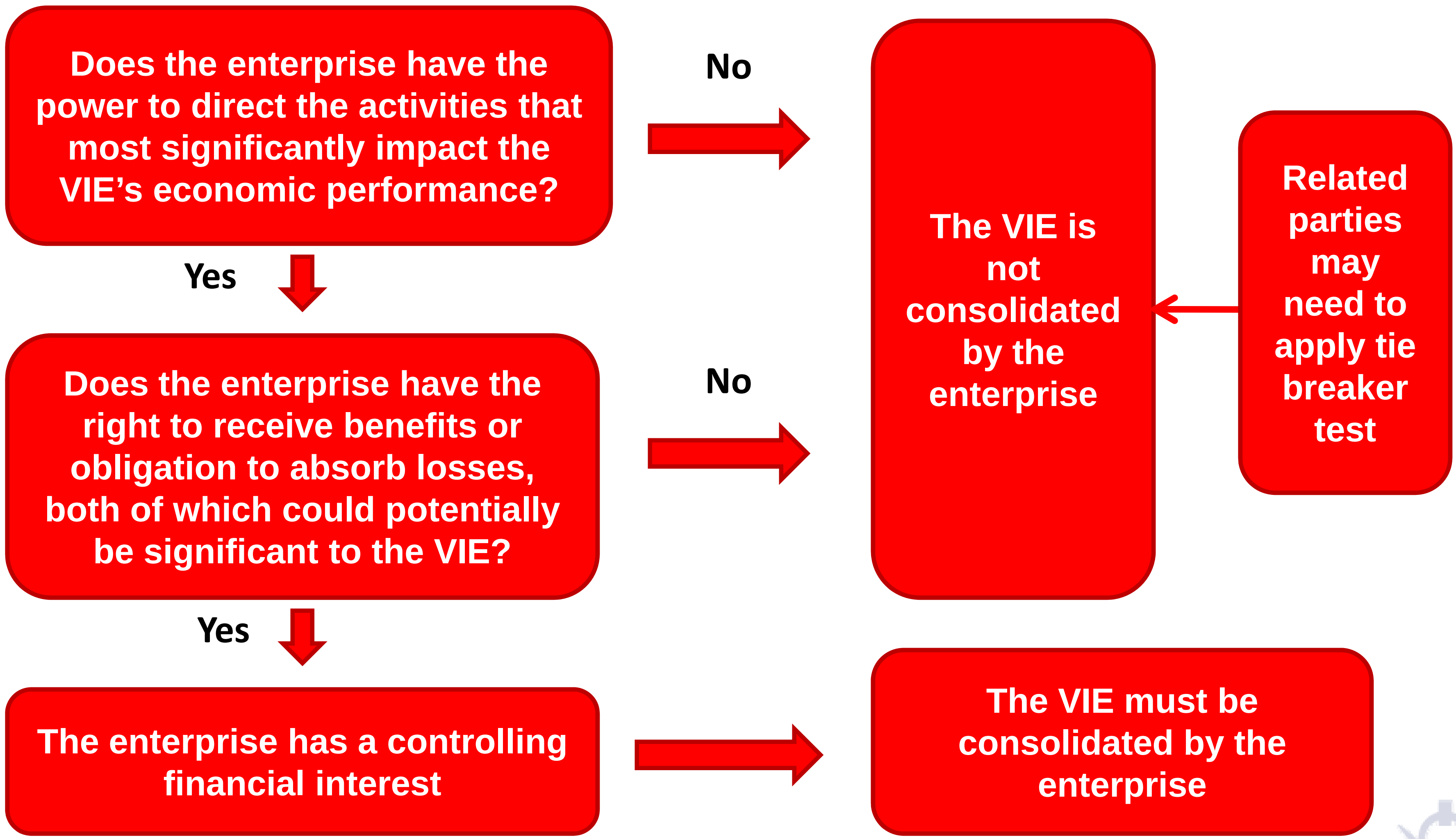
New Consolidation Framework – Related Party Provisions

- FIN 46(R) is amended so that the power/benefits principle is considered before applying related party provisions.
- Determine if an enterprise is the PB based upon the power benefits criteria.
- If an enterprise concludes that there is no PB, consider whether the enterprise and its related parties would be identified as the PB.
- If the related party group would have the "power" and "benefits," select the enterprise within that group that is most closely associated with the VIE.

New Consolidation Framework – Analysis

- High Risk of Losing Off-Balance Sheet Treatment
  - Revolving Securitization Structures (credit cards)
    - Ability to move accounts into and out of securitization trust and retention of subordinated position demonstrates Power and Benefits.
  - Other Securitization Structures (mortgage, auto, etc.)
    - If the sponsor retains a combination of servicing rights (Power) and a residual first position (Benefits).
  - ABCP Conduits
    - Ability to manage conduit's assets demonstrates Power and fees combined while ability to determine use of liquidity facilities demonstrates Benefits.

New Consolidation Framework



Exceptions to Consolidation

- Power is shared among more than one unrelated party, none of which has the unilateral power to direct the VIE's activities.
  - VIE is governed by voting equity interests and no one party holds power over a majority of voting interests.

Exceptions to Consolidation

- More than one unrelated party has the power to direct activities that "most significantly impact" the VIE"s economic performance.
  - Nature of activities that each party has the power to direct is the same.
  - No one party has power over the majority of activities.
  - The VI of each party are interests in the entire VIE and are not limited to activities that the party has power to direct.
- Party with the power to direct activities of a VIE does not have a significant VI in the VIE – They are truly just a hired hand.

Frequency of Reconsideration

- FIN 46(R)
  - Reconsideration of PB only upon specified events.
  - Reconsideration of VIE only upon specified events (similar to those for PB).
- ASU 2009-17
  - Continuous reconsideration of consolidation conclusions. Any change in facts and circumstances could lead to a change in the consolidation status of a VIE.
  - Substantially the same as FIN 46(R). ASU 2009-17 adds one more reconsideration event when the holders of the equity investment at risk as a group lose the power to direct the activities that most significantly impact the VIE’s economic performance.

Fees Paid to Decision Makers

- A service provider/decision maker fee arrangement generally is a VI unless all of the following are met:
  - Fee is commensurate with services provided and is senior in priority.
  - The party has no other interests that expose it to more than an insignificant amount of variability.
  - The arrangement includes terms that are customary in nature.
  - Anticipated fee is insignificant relative to anticipated performance.
  - The arrangement absorbs only an insignificant amount of variability.

Adoption Methods

- Any new consolidated VIE should be measured at their carrying amounts at the adoption date as if ASU 2009-17 had always been applied.
- VIEs may be booked at fair value, if carrying value cannot be reconstructed.
- If fair value is not practicable and the entity is primarily for securitization or other asset backed financing (assets can only be used to settle related obligations) VIE can be measured at unpaid principal balance.

Adoption Methods

- Fair value option may be elected for consolidated VIEs upon initial adoption of ASU 2009-17 on an entity-by-entity basis
  - Fair value applied to all of the eligible assets and liabilities of the particular VIE.

Effective Date and Transition

- ASU 2009-17 is effective as of the beginning of the first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year companies).
- All QSPEs and VIEs will need to be evaluated under the new guidelines as of January 1, 2010 (calendar year companies).
- Early adoption is prohibited, but retrospective application is allowed.
  - Entities can choose the number of years to restate (including none).
- Cumulative effect adjustment to retained earnings for any difference between the new net asset amount and the amount of any previously recognized interests.

Definition of a Subsidiary

- For the purposes of defining the nonbank subsidiary reports the Regulation Y definition of subsidiary is used.
- As defined by 225.2 of Regulation Y, a subsidiary generally includes:
  - Companies 25% or more owned or controlled by another company
  - Companies that control in any manner the election of a majority of the Board of Directors of another company
  - Companies that have a controlling interest over another company.
- Controlling interest used in ASU 2009-17 is defined in terms of non-voting interest, which is not covered in Reg Y's definition of a subsidiary

FFIEC 002 Reporting Instructions Initial Measurement

- The primary beneficiary should follow the guidance specified in ASC 805-20-30, paragraphs 1 through 23, Business Combinations, when consolidating the VIE, as if the initial consolidation had resulted from a business combination

FEDERAL RESERVE BANK of NEW YORK

Securities

Oscar Torres

Reporting Form Changes

- Schedule RAL, Assets and Liabilities, was expanded to capture additional information on Trading Assets
  - Mortgage-backed securities:
    - Issued or guaranteed by U.S. Government agencies (Line 1.f.(2)(a))
    - Other (Line 1.f.(2)(b))
  - Other asset-backed securities (Line 1.f.(3))

Securities

- ASC 320 “Investments in Debt and Equity Securities” (formerly FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”)
  - Held-to-maturity securities (HTM)
  - Available-for-sale securities (AFS)
  - Trading securities

Securities

- Held-to-maturity securities
  - Debt securities
    - Positive intent and ability to hold to maturity
    - Carried at amortized cost on Schedule RAL, Lines 1.b and 1.c

Securities

- Available-for-sale securities
  - Debt or equity securities
  - The institution does not have the intent and ability to hold to maturity
  - It does not intend to trade actively
  - Reported at fair value on Schedule RAL, Lines 1.b and 1.c

Securities

- Trading securities
  - Debt or equity securities
  - The institution holds to capitalize on the short term movement
  - Reported at fair value Schedule RAL, Lines 1.f

Securities

- Some circumstances when the sale or transfer from the held-to-maturity classification is considered consistent with ASC 320
  - Evidence of a significant deterioration in the issuer's creditworthiness
  - A change in tax law that eliminates or reduces the tax exempt status of interest on the debt security
  - A major business combination or major disposition
  - A change in statutory or regulatory requirements

Securities

- <u>Circumstances when the sale or transfer from the held-to-maturity classification is considered "inconsistent" with ASC 320</u>
  - Changes in foreign currency risk
  - Changes in market interest rates
  - Changes in available alternative investments
  - Changes in funding sources and terms
  - Changes in the security's prepayment risk
  - Changes in the marginal tax rate
  - A liquidity need

Debt Securities – OTTI

ASC 320-10-35, Subsequent Measurement

An institution must recognize an other-than-temporary impairment (OTTI) of a debt security when the fair value of the security is less than its amortized cost basis and:

- The entity intends to sell the security
- It is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis.

Debt Securities – OTTI

- OTTI
  - The difference between the securities amortized cost basis and its fair value must be recognized in earnings (Schedule M, Part I, Line 2.a)
  - The fair value of the debt security would become its new amortized cost basis.

Debt Securities – OTTI

- OTTI – *Cont'd*

A credit loss exists if the present value of cash flows expected is less than its amortized cost basis and:

  - The entity does not intend to sell the security
  - The entity will not be required to sell the security before recovery of its amortized cost basis – current period credit loss.

Debt Securities – OTTI

OTTI – *Cont'd*

An other- than-temporary impairment has occurred

- The amount of the impairment related to credit loss must be recognized in earnings

- The amount of the impairment related to other factors is recognized in OCI

Types of Securities

- U.S Treasuries Securities
  - Treasury Bills (T-Bills)
  - Treasury Notes (T-Notes)
  - Treasury Bonds (T-Bonds)

- U.S. Government Agency obligations (excluding mortgage-backed securities)

  - Export-Import Bank
  - Small Business Administration (SBA)

Types of Securities

- Securities of foreign governments and official institutions
  - International Bank for Reconstruction and Development (World Bank)
  - Inter-American Development Bank
  - Foreign Central Banks and Development Banks
  - Nationalized Banks

Types of Securities

- Mortgage-Backed Securities issued or guaranteed by U.S. Government agencies
  - FNMA
  - FHLMC
  - GNMA
  - REMICs issued by the VA

Types of Securities

- Other Mortgage-Backed Securities
  - Non-U.S.-government issuers
  - Other depository institutions
  - Insurance companies
  - State and local housing authorities in the U.S.

Types of Securities

- Other Asset-Backed Securities (ABS)
  - Asset-backed commercial paper
  - ABS collateralized by credit card receivables, HELOCs, non-mortgage loans (consumer, auto, commercial and industrial, etc.)
  - SLM Corporation (after December 2004)

Types of Securities

- All other securities
  - Bonds, notes and debentures
  - Commercial paper (non asset-backed)
  - Equity securities
  - Municipal securities
  - Corporate stock
  - Common stock of FNMA, FHLMC or SLMA

Securities - FAQ

- **Trade date/Settlement date accounting:**

  Preferred method is trade date accounting however settlement date accounting may be used if not materially different. Method should be used consistently

Securities - FAQ

- **Equity securities – no determinable FV:**

  If held for trading or elected a fair value option , should be reported as trading assets in, “Other trading assets”, otherwise report at historical cost in “Other assets”, including other claims on nonrelated parties’’.

- **Mutual Funds:**

  Report as, "Other bonds, notes, debentures, and corporate stock: All other" regardless if the fund only invests in one type of security. If held for trading, report as, "Trading assets“.

Securities - FAQ

- **Retained interests from asset securitizations in the form of securities:**

  If held for trading, report in “Trading assets”, if held for sale report in “Other bonds, notes, debentures and corporate stock”. In both cases, at fair value.

Securities - FAQ

- **Securities Borrowed / Lent Against Collateral:**

  Securities borrowed/lent against collateral other than cash should be reported as “Other assets” and “Other liabilities” on Schedule RAL and disclosed on Schedule L as “All other off-balance sheet contingent liabilities” and “All other off-balance sheet contingent claims”.

FEDERAL RESERVE BANK *of* NEW YORK

Income Statement Reporting Issues

Anthony Guglielmo

Income Statement Issues

- FFIEC 002 Report does not contain income statement
- However, unremitted profits/losses are reported on Schedule M, Part I, Line 2.a
- How to report the income statement and other similar items on the FFIEC 002?

Income Statement

\+ Interest income
\- Interest expense
= Net Interest Income
\- Provision for Loan Losses
= Net Interest Income (net of provision)
± Non Interest Income (includes net gain/(loss) on FX and trading account)
\- Non Interest Expense
\+ Extraordinary Items
= Net Profit or Loss

Income Statement Issues

- Provision
  - The provision for both specific and general reserves is an expense and should be reported on Schedule M, Part I, Line 2.a as part of the profit/(loss) calculation

Income Statement Issues

- Net unrealized gains or losses on the available-for-sale securities should be reported as part of unremitted profit (loss) on Schedule M, Part I, Line 2.a
- Foreign Currency translation adjustments should be included as part of calculation of unremitted profit /(loss)
- Fees earned for fiduciary activities should be included as part of unremitted profits calculation

Income Statement Issues

- The mark-to-market gains and losses from fair value and cash flow hedges should be reported as components of the "Net unremitted profit/(loss)," Schedule M, Part I, Line 2.a

Income Statement Issues

- The IBF's net profit or loss
- Report in Part II, Line 1.b (1) (When maintained as a separate account)
- In addition, consolidate with the bank's profit or loss and report on Schedule M, Part I, Line 2.a

Income Statement Issues

Example 1 - Problem

- **Capital Contribution = 15 mil**
- **Net Profit - Branch = 5 mil**
- ***Net Loss - IBF = (30 mil)***
- **What is reported in Line 2. A?**

Example 1 - Solution

- **Line 2. A?**
- **Column A - “Due from” = (10 mil)**
- **Column B - “Due to” = 0 mil**

Income Statement Issues

<u>Example 2</u> - Problem

- Capital Contribution = 5 mil
- Net Loss - IBF = (30 mil)
- Net Profit/(Loss) - Branch = 0
- *Mark-to-market <u>gains</u> from FV hedges = 10 mil*
- What is reported in Line 2. A?

<u>Example 2</u> - Solution

- Line 2. A?
- Column A - "Due from" = (15 mil)
- Column B - "Due to" = 0

Income Statement Issues

<u>Example 3</u> - Problem

- Capital Contribution = 5 mil
- Net Profit - Branch = 5 mil
- Net Loss - IBF = (30 mil)
- *Net Unrealized <u>Gain</u> on AFS Sec* = *10 mil*
- What is reported in Line 2. A?

<u>Example 3</u> - Solution

- Line 2. A?
- Column A - “Due from” = (10 mil)
- Column B - “Due to” = 0 mil

Key Points

- Net unrealized gains and losses on the available-for-sale securities
- Provision for loan losses
- IBF’s net income
- Gains/(losses) from FV and cash flow hedges (Schedule M, Part I, Line 2.a)
- Net income should be reported GROSS of U.S. income taxes on Schedule M

FEDERAL RESERVE BANK *of* NEW YORK

Reporting of Securitization and Asset Sale Activities

Objectives

- What is a securitization?
- What are the major components in a securitization?
- What is reported on Schedule S?

Definition

- Securitization – In general terms it is the process of converting financial assets into negotiable securities

Key Terms

- Credit Enhancement
  - An arrangement where the financial institution retains in form or substance any risk of credit loss, directly or indirectly associated with a transferred asset that exceeds its pro rata claim of the asset
  - Protect investors against unwanted risk

Key Terms

- Credit Enhancement
  - Common sources of Credit Enhancement
    - Excess Spread Accounts
    - Overcollateralization
    - Letter of Credit
    - Cash Collateral Account
    - Credit Derivatives

Key Terms

- Liquidity Facility
  - An arrangement in which the financial institution is obligated to provide funding to a securitization structure to ensure investors of timely payments

Key Terms

- Credit Enhancement vs Liquidity Facility
  - Advances made under liquidity facilities are NOT subordinated to other claims on the underlying assets

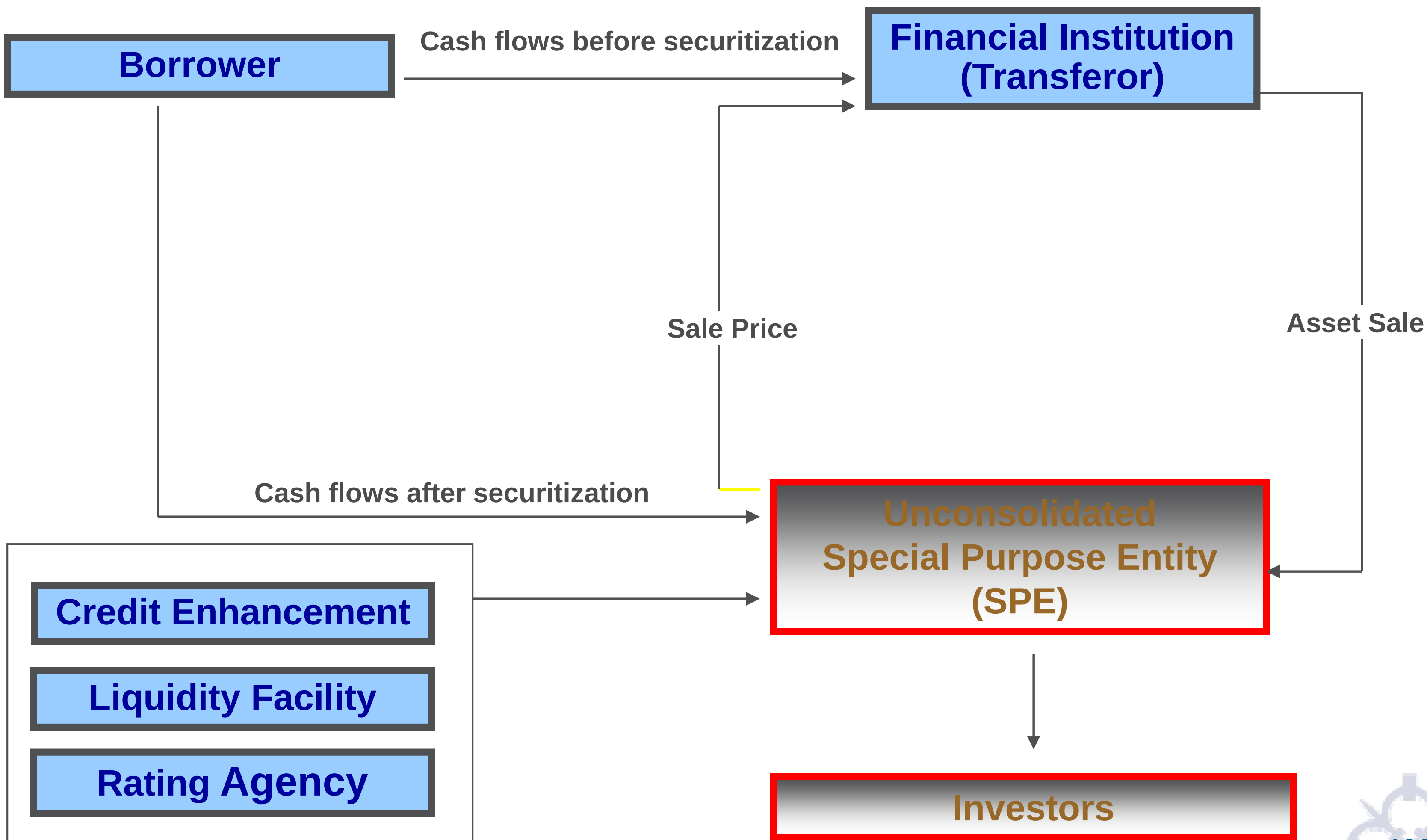
Key Terms

- Seller’s Interest (retained interest)
  - The financial institutions ownership interest in assets that have been securitized

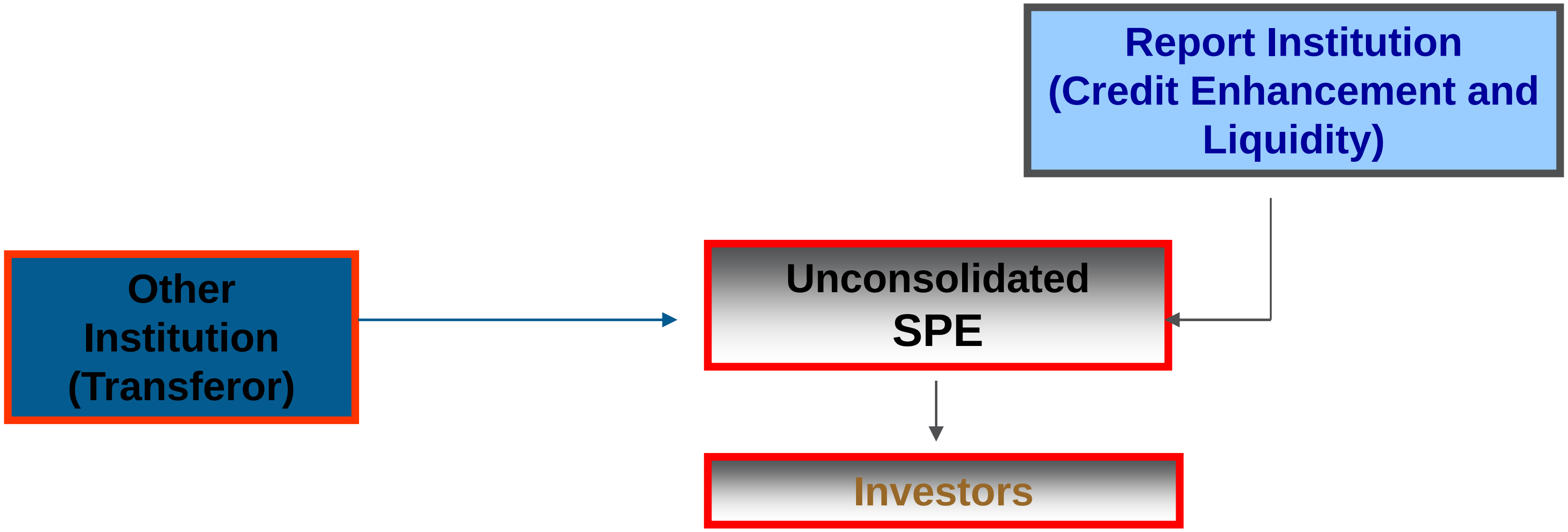
Schedule S Securitization and Asset Sale Activities

- Assets sold and securitized by reporting institution
  - Line items 1. through 7.b
- Credit Exposure to Securitizations Sponsored by Others
  - Credit exposure, Line 9
  - Unused commitments, Line 10
- Assets sold and not securitized by the reporting institution
  - Line 11 and Line 12

Assets Sold and Securitized (Items 1-7)



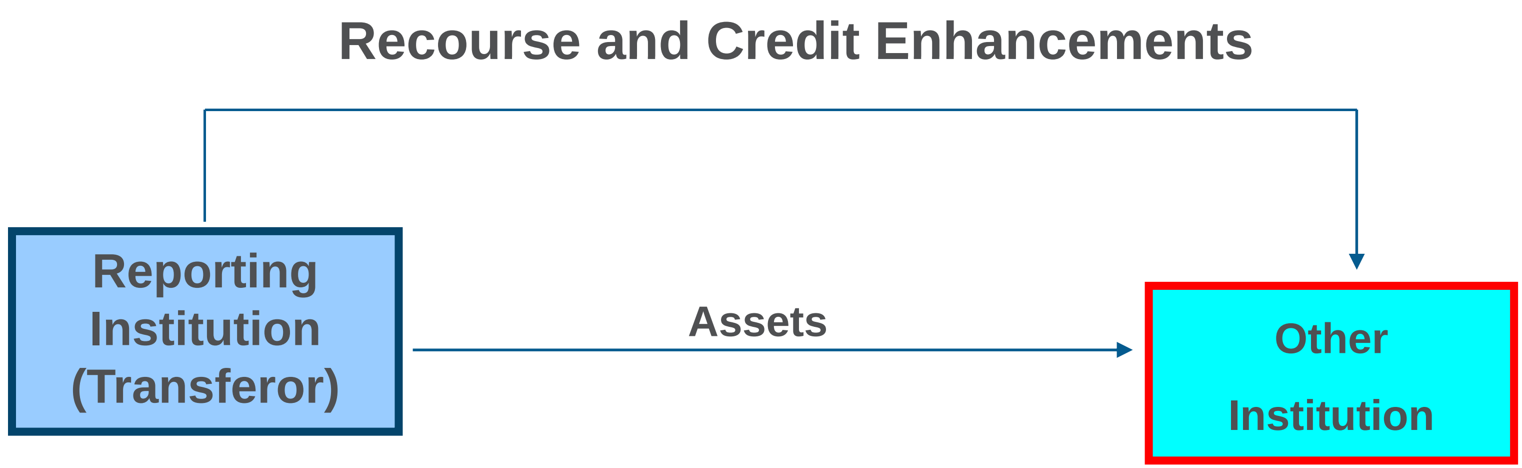
Credit Enhancement/Liquidity to Others (Items 9-10)



1. Reporting institution provides credit enhancements to SPE.

   - The reporting institution reports the credit enhancement or liquidity on Schedule S items 9 -10 based on credit enhancement or liquidity is provided.
   - Do not include credit enhancements or liquidity to asset-backed CP conduit.

Asset Sales (Items 11-12)



1 . Reporting institution sells assets to another institution.

2. If the reporting institution retains recourse or provides credit enhancements, the amount of the outstanding principal balance is reported on Schedule S item 11.

3. The maximum amount of the credit exposure due to credit enhancements or recourse is reported on Schedule S item 12.

Asset Backed Commercial Paper

- An ABCP conduit is a SPE that issues commercial paper and uses the proceeds to purchase trade receivables, credit card receivables, auto and equipment leases, and other types of assets

- The payments that are collected from the purchased assets are used to redeem the commercial paper at maturity

Asset Backed Commercial Paper

- ABCP Sponsor
  - Initiates the creation of the program
    - Refers and determines eligibility of assets included in the program

Memorandum Item 1

Asset-backed commercial paper conduits

- Maximum amount of credit exposure arising from credit enhancements provided to conduit structures in the forms of standby letters of credit, subordinated securities and other credit enhancements, regardless of whether the bank must consolidate the conduit for reporting purposes in accordance with ASU 2009-17 (FASB 167)
- Unused commitments provided to conduit structures
  - Report according to entity type sponsoring the conduit

FEDERAL RESERVE BANK *of* NEW YORK

Schedule T Fiduciary and Related Services

Schedule T - Fiduciary and Related Services

- Three sections
- Fiduciary Powers (Items 1 - 3)
- Fiduciary and Related Assets Held (Items 4 - 10)
- Memoranda (Items 1 - 3)
- Managed Assets Held in Personal Trust and
  - Agency Accounts
  - Corporate Trust and Agency Accounts
  - Collective Investment Funds

Items 1, 2 and 3

- Does the institution have trust powers?
- Does the institution exercise the fiduciary powers it has been granted?
- Does the institution have any fiduciary or related activity to report?

Items 4 -10

- Report market values as of the report date:
  - Managed Assets - Column A
    - Accounts for which institution has investment discretion
  - Non-Managed Assets - Column B
    - Accounts for which the institution does not have investment discretion
  - Number of Managed Accounts - Column C
  - Number of Non-Managed Accounts - Column D

Memoranda Items

- Managed assets held in personal trust and agency accounts – Memoranda Item 1
- Corporate trust and agency accounts – Memoranda Item 2
- Collective investment funds and common trust funds – Memoranda Item 3

Reporting Issues

Henry Castillo

Offsetting

- Regulatory reports generally require reporting on a gross basis
- ASC 210-20 (formerly FIN 39)
  - Allows offsetting of certain contracts when a “right of setoff” exists

Offsetting

ASC 210-20 Offsetting Criteria

- There are two parties to the transaction, each owes the other determinable amounts
- Reporting party has the right to set off the amount owed by the other
- Reporting party intends to set off
- Right of setoff is enforceable by law

Offsetting Under Master Netting Agreement

- Fair value of derivative contracts reported on the balance sheet that fall under a contractual agreement providing for the net settlement through a single payment can be reported net under ASC-210-20

Offsetting

ASC 210-20 (FIN 39) Amendment

- FASB's amendment to FIN 39 allows for netting of cash collateral from derivative contracts accounted for at fair value with the same counterparty under a master netting agreement

Offsetting

ASC 210-20 (FIN 39) Amendment

- A reporting entity’s choice to offset fair value amounts or not must be applied consistently
- A reporting entity may not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral

Offsetting

<u>ASC 210-20 (FIN 39) Amendment</u>

- Offsetting of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against derivative positions is not allowed if:
    - Those amounts were not fair value amounts or,
    - Arose from instruments in a master netting agreement that are not eligible for offset

Offsetting

ASC 210-20 (FIN 39) Amendment

- A reporting entity that chooses to offset fair value amounts must separately disclose amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral that have been offset against net derivative positions

Offsetting

- ASC 210-20 (formerly FIN 41)
  - Allows netting of repurchase and reverse repurchase agreements that meet the legal right of setoff

Offsetting

ASC 210-20 (FIN 41) Offsetting Criteria

- The offsetting Agreements must be executed with the same counterparty
- The transaction must have the same explicit settlement date at the inception of agreement
- The offsetting must be executed in accordance with a Master Netting Agreement

Offsetting

<u>ASC 210-20 (FIN 41) Offsetting Criteria</u>

- The securities underlying the agreements must exist in "book entry" form
- The agreements must be settled on a securities transfer system

Offsetting

ASC 210-20 (FIN 41) Offsetting Criteria

- Institutions intend to use same account at clearing bank for cash inflows and cash outflows resulting from settlement of these agreements
  - Netting of repurchase agreements under ASC 210-20 (FIN 41) should also be reflected in reporting of quarterly averages on Schedule K and related transactions on Schedule M

Offsetting

ASC 210-20 Offsetting Criteria

- Institution meeting the criteria for offsetting should have policies and procedures in place for reviewing the transactions and supporting documentation to ensure compliance with ASC 210-20 (FIN 39 and FIN 41)

FEDERAL RESERVE BANK *of* NEW YORK

Reporting of Federal Funds Resale and Repurchase Agreements

Federal Funds

Federal funds sold/purchased are immediately available funds which may be secured (except by securities) or unsecured that mature in one business day or roll over under a continuing contract.

Exclude:

Federal Home Loan Bank
Federal Reserve Bank

Resale/Repurchase Agreements

Securities purchased/sold under agreement to resell/repurchase are immediately available funds which require the reporting institution to deliver the identical security (or a security that meets the definition of substantially the same) regardless of the maturity of the agreement

Exclude: Assets other than securities
FHLB & FRB *other borrowings*

FFS/RRPs: Reporting

Schedule RAL (Line 1.d)

Federal funds sold and securities purchased under agreements to resell

(1) Federal Funds sold:					
(a) With commercial banks in the U.S.	XXXX		XXXX		1.d.(1)a
(b) With nonbank brokers and dealers in securities	XXXX		XXXX		1.d.(1)b
(c) With others	XXXX		XXXX		1.d.(1)c
(2) Securities purchased under agreements to resell:					
(a) With commercial banks in the U.S.	XXXX		XXXX		1.d.(2)a
(b) With nonbank brokers and dealers in securities	XXXX		XXXX		1.d.(2)b
(c) With others	XXXX		XXXX		1.d.(2)c

FFP/RPs: Reporting

Schedule RAL (Line 4.b)

Federal funds purchased and securities sold under agreements to repurchase

(1) Federal Funds purchased:					
(a) With commercial banks in the U.S.	XXXX		XXXX		4.b.(1)a
(b) With others	XXXX		XXXX		4.b.(1)b
(2) Securities sold under agreements to repurchase:					
(a) With commercial banks in the U.S.	XXXX		XXXX		4.b.(2)a
(b) With others	XXXX		XXXX		4.b.(2)b

FEDERAL RESERVE BANK *of* NEW YORK

Reporting of Other Assets and Other Liabilities

Reporting of Other Assets

- <u>Example</u>

  Bank A sells a security to a foreign central bank. Bank A uses trade date accounting to record its sales and purchases of securities. The transaction will be recorded as follows:

  Dr Accounts Receivable

  Cr Securities

- Accounts receivables generated from the sale are reported as "Other Assets", Line 1.h

Reporting of Other Assets

- If a right of setoff exists under ASC 210-20 (FIN 39) the receivable and payable from securities purchases and sales can be reported net

Reporting of Other Assets

Example A

- On settlement date, the receipt of funds is recorded as follows:

Dr	Cash	
	Cr	Accounts Receivable

Reporting of Other Assets

- In-substance foreclosures (ISFs) should be reported as loans until the lender has taken possession (e.g., loan title or control) of the collateral
  - Once possession is taken, the FV of collateral should be reported as OREO
  - Until this occurs, ISFs should be reported as loans

Reporting of Other Assets

- Income earned or accrued but not collected on loans, securities, and other interest-bearing assets should be reported in other assets
- Customers' liability for deferred payment letter of credit

Reporting of Other Assets

- Positive FV of derivative contracts designated as hedges under ASC 815-20 (FAS 133)
  - If you choose to exclude accrued interest receivable from the fair value calculation, report as a separate accrual. Methodology should be applied consistently.

Reporting of Other Assets

- Balances held in margin accounts should be reported as "Other Assets".
- Credit balances with broker dealers should be reported as "Other liabilities".
- Term Deposits offered through the Term Deposit Facility (TDF) should be excluded from "Other assets" and reported as "Cash and balances due from depository institutions" (Line 1.a)

Reporting of Other Liabilities

- Accounts payable should be reported gross in other liabilities rather than netted against accounts receivable
- Interest accrued and unpaid on deposits

Reporting of Other Liabilities

- Bank's liability for deferred payment letters of credit
- Negative FV of derivative contracts designated as hedges under ASC 815-20 (FAS 133)
  - If you choose to exclude accrued interest payable from the FV calculation, report as a separate accrual. Methodology should be applied consistently.

Reporting of Other Liabilities

- Credit reserves allocated for losses on off-balance sheet credit commitments

Reporting of Other Liabilities

Exclude from Other Liabilities

- Short sales (Report on Schedule RAL, “Trading liabilities”)
- Reserves established for assets that are reported at fair value are included as part of the fair value of the asset

Reporting of Other Liabilities

Exclude from Other Liabilities

These should be reported as "deposit liabilities" on Schedule E, as appropriate

- Mortgage and escrow funds (funds received for payment of taxes, insurance, etc.)
- Proceeds from the sale of savings bonds
- Withheld taxes, social security taxes, sales taxes, and similar items

Reporting of Suspense Accounts

- **Suspense accounts**
  - Temporary holding accounts where items are carried until they can be identified and posted to the proper account

Reporting of Suspense Accounts

- Suspense accounts should be reviewed prior to the submission of the FFIEC 002 and reported in the appropriate account

FEDERAL RESERVE BANK *of* NEW YORK

Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N/NS)

Geraldine Bitton

Quarterly Reporting

- Who is required to file?

  Quarterly Reporting:

  Each top-tier foreign banking organization must file the FR Y-7N report on a quarterly basis for each of its U.S. nonbank subsidiaries that meets any one of the following criteria and are not regulated by a primary U.S. regulator other than the FRB:

  - (a) total assets equal to or greater than $1 billion; or
  - (b) total off-balance-sheet activities equal to or greater than $5 billion

Annual Reporting

- **Annual Reporting – Detailed**

  Each top-tier foreign banking organization must file the FR Y-7N report on an annual basis for each of its U.S. nonbank subsidiaries that have total assets of $250 million to < $1 billion and are not regulated by a primary U.S. regulator other than the FRB.

- **Annual Reporting – Abbreviated**

  Each top-tier foreign banking organization must file the FR Y-7NS report on an annual basis for each of its U.S. nonbank subsidiaries that have total assets of $50 million to < $250 million and are not regulated by a primary U.S. regulator other than the FRB.

Filing Criteria – Frequency of Reporting

- Once a nonbank subsidiary satisfies the criteria to file the FR Y-7N report for any quarter during the calendar year, the nonbank subsidiary must continue to file the quarterly report for the remainder of the calendar quarter, even if it no longer satisfies the requirement for filing the quarterly report.

- EXAMPLE:

EXAMPLE:	Total Assets*	Report Filed
March 31, 2011:	$500 million	N/A
June 30, 2011:	$600 million	N/A
September 30, 2011:	$1.5 billion	Quarterly FR Y-7N
December 31, 2011:	$900 million	Quarterly FR Y-7N

**For purposes of this example, off-balance sheet activities is not applicable for this reporter and therefore that criteria is not met in any quarter*

Exemption?

- Who is exempt?
  - Functionally Regulated in the U.S.
    - (ex. SEC, CFTC, State Insurance Commissioners, State Securities Departments)
  - Subsidiaries organized outside the 50 states
    - (subs organized in U.S. territories are not required to file)
  - Subsidiaries holding shares as a result of debts previously contracted (“DPC” assets)
  - Merchant banking investment companies
    - Under section 4(k)4(H) of the BHC Act
  - Subsidiaries of U.S. commercial banks

Multiple FBO Ownership

- If the subsidiary is owned by multiple FBOs – majority owner FBO should submit the report
- If the subsidiary is owned equally by multiple FBOs – largest FBO, based on consolidated assets, should submit the report

Reporting Method

- Calendar year reporting only
  - No fiscal year reporting

- Signatures
  - Reports must be signed by an officer of the FBO
  - If the top tier holding company is domiciled outside the U.S., the holding company may authorize an officer of the nonbank subsidiary to sign the report.

Common Reporting Errors Reporting Method

- No Consolidation
  - Separate report for each legal entity that is a subsidiary of the FBO (directly or indirectly owned) and that meets the reporting criteria
  - Each FBO should separately assess whether a VIE meets the definition of a subsidiary and determine if any such entity meets the criteria for filing the report.
  - A subsidiary for purposes of this report is defined by Section 225.2 of Federal Reserve Regulation Y, which generally includes companies 25 percent or more owned or controlled by another company.

Common Reporting Errors Reporting Method

- Equity method accounting for all subsidiaries of the reporting entity

  - Income Statement – net income of reporter's sub:

    "Equity in undistributed income" (Line 11)

  - Balance Sheet – net investment balance of reporter's sub:
    - "Balances due from related institutions - gross" (Line 9) if positive
    - "Balances due to related institutions – gross" (Line 16) if negative

Common Reporting Errors Reporting Method

- OCI including the cumulative translation adjustment pertaining to the subsidiaries of the reporting entity is included as part of the net income of the subsidiary, and is reported in Schedule IS, "Equity in undistributed income" (Line 11)

- Accumulated OCI of the reporter's subsidiaries is reported on Schedule BS, "Balances due from related institutions" (Line 9)

Common Reporting Errors Related Parties

- Related Parties
  - Reported Gross on Schedule BS, Line 9 (Due From) and Line 16 (Due to) and Include:
    - Balances with the top tier bank holding company or banking organization and their subsidiary bank holding companies;
    - Balances with subsidiary banks (or their branches);
    - Balances with other subsidiaries (including those of the parent and the reporting nonbank subsidiaries;
    - Investment in all subsidiaries and associated companies (whether consolidated or unconsolidated) are reported as “Balances due from related institutions gross” (Line 9)

Common Reporting Errors Fair Value Option

- Nonbank subsidiaries that have elected to account for financial instruments or servicing assets and liabilities at fair value under a fair value option (FVO) with changes in fair value recognized in earnings
  - Assets and liabilities elected to report under the FVO are reported at fair value on Schedule, BS
  - The total fair value of assets and liabilities (with third parties and related institutions) accounted for under the FVO are disclosed on Memoranda, Line 1.a and 1.b respectively.

Common Reporting Errors Fair Value Option

- Income Statement: Updated caption for Schedule IS, Memoranda Line 1
  - Revaluation adjustments to the carrying value of assets and liabilities reported at fair value under a FVO resulting from the periodic marking of such assets and liabilities can be reported in:
    - “Trading revenue”, Line 5.a(3) for assets/liabilities that were transferred to the trading account as a result of a reporting at fair value as a result of a FVO
    - “Net servicing fees”, Line 5.a(6) for servicing assets/liabilities reported at fair value under a FVO
    - “Other noninterest income”, Line 5.a(10) for all other assets/liabilities reported at fair value under a FVO
  - The net change in fair values of financial instruments accounted for under a FVO should also be reported on Schedule IS, Memorandum, Line 1, “Net change in fair values of financial instruments accounted for under a fair value option”
- **The memo excludes revaluation adjustments of trading assets and liabilities that were not reported at FV under a FVO

Common Reporting Errors ALLL

- Allowance for Loan Losses (ALL) must be reported on a standalone basis for each legal entity
  - ALL cannot be reported at the parent bank level or at another subsidiary level
  - ALL should exclude reserves for credit risk on off balance sheet items. These should be reported in “Other liabilities”, Line 14 on Schedule BS and in “Noninterest expense”, Line 7 on Schedule IS
- Specific Reserves
  - Loans are to be reported net of specific reserves (exclude specific reserves from ALL)

Common Reporting Errors
Past Due & Nonaccrual Loans - TDRs

- **UPDATED Caption for Schedule BS-A, Line 7.d:*

  Include in Schedule BS-A, “Loans restructured in troubled debt restructuring included in items 7.a through 7.c above” to clearly indicate that loans in this item should be troubled debt restructuring and exclude leases.

- Loans restructured in TDRs include those loans that have been restructured or renegotiated to provide a reduction of either interest or principal because of a deterioration in the financial position of the borrower.
  - A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is <u>not</u> considered a TDR.
  - For further information, see the FR Y-9C Glossary entry for ‘‘troubled debt restructurings.’’

Common Reporting Errors
Past Due & Nonaccrual Loans – TDRs

- **UPDATED INSTRUCTIONS:*

  Include in Schedule BS-A, “Loans restructured in troubled debt restructurings included in items 7.a through 7.c above” (Line 7.d): All loans to individuals for household, family, and other personal expenditures, and all loans secured by 1−4 family residential properties.

Common Reporting Errors - Assets & Liabilities

- Deferred Tax Assets and Liabilities
  - Income taxes are reported on a stand-alone basis
  - Deferred tax assets and liabilities must be reported net for each tax jurisdiction on Schedule BS, “Other assets” Line 7 and “Other liabilities” Line 14 respectively.
- Repurchase agreements and Resale Agreements
  - Repurchase agreements and FFPs are reported as “Other borrowed money” on Schedule BS, Line 12.
  - Resale agreements and FFS are reported as “Loans” on Schedule BS, Line 3.a.

Common Reporting Errors - Assets & Liabilities

- Goodwill
  - Goodwill is reported as “All other assets” on Schedule BS, Line 7
    - Impairments to goodwill are reported as “noninterest expense” on Schedule IS, Line 7

- Other Assets & Other Liabilities
  - Other assets reported on Schedule BS-M, Line 3 should be equal to or less than balances reported on Schedule BS “All other assets” Line 7
  - Other liabilities reported on Schedule BS-M, Line 6 must be equal to or less than balances reported on Schedule BS “Other liabilities” Line 14

Common Reporting Errors Off-Balance Sheet Items

- Derivatives and Off-balance Sheet items reported on Schedule BS, Lines 20 – 30 include transactions with related and nonrelated institutions.

- Notional Value of foreign exchange spot contracts are reported with foreign exchange futures and forwards on Schedule BS, Line 24

Common Reporting Errors Off-Balance Sheet Items

- Derivatives
  - Accrued interest receivable and payable from derivative contracts excluded from the calculation of fair value should be reported separately on Schedule BS, “All other assets” Line 7 and “All other Liabilities ” Line 14 respectively. (Methodology should be applied consistently)
  - Unrealized gains and losses from derivative contracts held for trading with nonrelated institutions are reported net on Schedule IS, “Trading Revenue” Line 5.a (3)

Common Reporting Errors Off-Balance Sheet Items

- Derivatives
  - Fair Value of Derivatives held for purposes other than trading
    - Derivatives held for purposes other than trading that do not qualify for hedge accounting under ASC 815-20 must be reported as held for trading
    - Fair Value of derivatives that do qualify for hedge accounting are reported in “All other assets” (Line 7), if a positive fair value or “Other liabilities” (Line14), if a negative fair value.

Common Reporting Errors Off-Balance Sheet Items

- ALL credit derivatives, including contracts where the reporter is the beneficiary are reported in:
  - "All Other Off Balance Sheet Liabilities", (Line 30)

- All securities borrowed/lent against collateral other than cash (i.e.. against other securities) are reported in:
  - "All Other Off Balance Sheet Liabilities", (Line 30)