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2013 FMS & NJ Bankers Half-Day Seminar
Accounting Update
April 19, 2013

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Agenda

- Part I. Recently Issued / Effective ASUs
- Part II. Regulatory Focus on ALLL
- Part III. In The Pipeline
- Part IV. SEC Developments

Part I: Issued & Effective

- Comprehensive Income
- Offsetting (ASU 2011-11, ASU 2013-1)
- Indemnification Asset Accounting (ASU 2012-06)

Comprehensive Income

- FASB ASU 2011-05, “Comprehensive Income (Topic 220): Statement of Comprehensive Income,” issued June 16, 2011
  - U.S. GAAP permitted three methods – including comprehensive income presented in the statement of changes in equity; the ASU only permits two choices (consistent with IFRS)
- Reclassifications
  - Original ASU required to presentation on the face of the financial statements where the components of net income and the components of OCI are presented.
  - Requirement has been deferred by ASU 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05”
  - Proposal issued on Aug. 16, 2012 to require a tabular disclosure for reclassifications
  - Final ASU is forthcoming - will not require tabular format as long as the information is disclosed in one location
  - Effective for reporting periods beginning after December 15, 2012, for public entities

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Balance Sheet Offsetting (ASU 2011-11 & 2013-01)

- FASB ASU 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities”
  - Issued Dec. 19, 2011
  - Applies to financial instruments and derivative instruments that are either presented on a net basis in the balance sheet, or subject to an enforceable master netting arrangement or similar arrangement
  - Does not change existing U.S. GAAP offsetting eligibility criteria or the permitted balance sheet presentation for instruments that meet the eligibility criteria
  - Requires disclosures for comparability with IFRS
  - Effective for periods beginning on or after Jan. 1, 2013
  - Scope clarification: FASB ASU No. 2013-01, “Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities”
    - Issued January 31, 2013
    - Clarifies that ordinary trade receivables and receivables are not in the scope

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Indemnification Asset Accounting (ASU 2012-06)

- FASB ASU 2012-06, “Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution” (a consensus of the FASB Emerging Issues Task Force)
  - Issued October 23, 2012
  - Objective: To address diversity in practice related to the subsequent measurement of an indemnification asset particularly as it relates to government-assisted acquisitions of lending institutions that include a loss sharing arrangement (LSA).
- Effective date
  - For fiscal years, and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted.
- Transition
  - Applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution.

Part II. Regulatory Focus on the ALLL

Key Messages

- Over the past few months, the federal banking regulators have expressed concern with the magnitude and pace of the ALLL releases.
  - Economy is improving, but there is still evidence of weakness.
  - If the current trend continues, the ALLL levels will be far too low (back to 2004-2005 levels) and not commensurate with the existing credit conditions.
  - Although the economy is improving and they do expect the ALLL to come down, they are concerned with the pace of releases.
  - The federal banking regulators also believe that income pressure may be contributing to the some releases.
- They have expressed concern in several venues
  - In mid-August, the OCC convened a meeting between the federal bank regulators, the SEC, the PCAOB and audit firms
  - Also a focus at the 2012 AICPA National Bank & Savings Institution Conference held in mid-September.
  - The OCC has convened other meetings between bankers and auditors (Oct. & Dec.)
  - Speech by Comptroller Curry on October 29, 2012

Comptroller Curry Speech

- Remarks by Thomas J. Curry, Comptroller of the Currency
  - Risk Management Association's Annual Risk Management Conference
  - October 29, 2012
- Key Points
  - Economy – risk remains elevated; Europe is in a recession, growth in Asia has slowed; in the US, the housing market is soft and unemployment remains high
  - Nonaccrual real-estate loans – while the levels are down from the peak, they remain elevated, especially at community banks
  - Commercial properties - the fundamentals are improving but net operating income and property values are likely to remain below peak levels; also, about half of all CRE loans will need to be rolled over by 2014 and borrowers could face repayment challenges
  - Home equity loans – non-performing HELOCs remain well above their pre-crisis lows; most HELOCs issued between 2004-2008 have an interest-only period of 7-10 years; 80% of all HELOCs outstanding were originated between 2004-2008; upon reset, they are concerned that borrowers will be unable to service the higher interest / amortizing loans

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Comptroller Curry Speech

- Outreach campaign lead by the OCC – the OCC, the other banking regulators, and the accounting and audit oversight bodies are meeting with banks, accounting firms, and trade associations to relay the message that the bank regulators, SEC and PCAOB agree that judgment has to be part of the process of setting the ALLL and that the process requires documentation and a strong underlying rationale.
- Incurred loss model – noted the limitations (overreliance on historical experience) and expressed support for FASB's forthcoming model (the Current Expected Credit Loss (CECL) model) which is a more forward looking approach.

> "We are watching reserves very closely, and we expect national banks and federal savings associations to maintain them at appropriate levels. We are ready to take action if and when it is needed."
> – Comptroller Curry

Part III. In The Pipeline

- Financial Instruments
  - Interest Rate and Liquidity Disclosures
  - Credit Impairment
  - Classification and Measurement
- Leases
- Revenue Recognition

Financial Instruments

- FASB Proposed ASU, “Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)”
  - Issued on May 27, 2010; comment deadline was Sept. 30, 2010
  - Over 2,800 comment letters received
- Addresses three main categories:
  - Classification and measurement
  - Impairment
  - Hedge accounting
- Also, adds liquidity and interest rate risk disclosures

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Liquidity & Interest Rate Risk Disclosures

- Feedback from the May 2010 Financial Instruments proposal indicated that:
  - Regardless of fair value or amortized cost for loans and financial liabilities, users think that it is important to receive information to understand the key risks of an entity's financial instruments
  - Users focused on credit risk, interest rate risk, and liquidity risk
- Proposed ASU, "Financial Instruments (Topic 825) - Disclosures about Liquidity Risk and Interest Rate Risk"
  - Issued June 27, 2012

	Liquidity Risk	Interest Rate Risk
Non-financial Institutions	• Maturity analysis • Available liquid funds	• None
Financial Institutions	• Liquidity gap table • Available liquid funds	• Re-pricing gap table • Interest rate sensitivity analysis
Depository Institutions	• Liquidity gap table • Available liquid funds	• Re-pricing gap table • Interest rate sensitivity analysis • Issuance of time deposits

Liquidity Risk

- Liquidity Gap Table
  - Tabular maturity analysis of financial instruments (by class)
  - Expected maturity relates to the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations), rather than the entity's expected timing of the sale or transfer of the instrument
  - Other Disclosures
    - Quantitative and narrative disclosures necessary to provide users of financial statements with an understanding of its exposure to liquidity risk
- Available Liquid Funds
  - Disclose available liquid funds (by class), including unencumbered cash and high quality liquid assets
    - Includes cash, cash equivalents, and unpledged liquid assets that are unrestricted, readily convertible to cash
- Issuance of Time Deposits
  - A tabular disclosure of the cost of funding from the issuance of time deposits and acquisition of brokered deposits during each of the last four quarters

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Interest Rate Risk

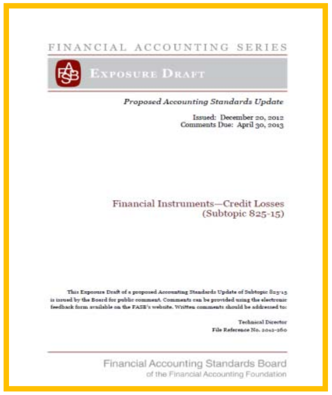
- Re-pricing gap table (by class)
  - The carrying amount of financial instruments segregated in time intervals based on the re-pricing dates, or maturing yield
  - The weighted-average yield (if applicable) for each time interval
  - A total carrying amount column that ties to the amount presented in the balance sheet and a total weighted-average yield (if applicable)
  - The duration for each class of financial instruments
  - Also, narratively disclose the method that was used to estimate duration in the table
- Interest rate sensitivity analysis
  - To presents the effects of hypothetical, instantaneous interest rate changes on earnings and equity
  - Would include:
    - Parallel shifts of the yield curve (up and down 100 & 200 bps)
    - Flattening shifts of the yield curve (increase and decrease short end by 100 bps)
    - Steepening shifts of the yield curve (decrease short end, increase long end by 100 bps)

Liquidity and Interest Rate Risk Disclosures: Next Steps

- No proposed effective date
- Comments due Sept. 25, 2012
  - Received over 180 letters
- Feedback
  - Concerns with cost / benefit
    - Data resides outside of financial reporting systems
  - Should be addressed as part of going concern project
  - Disclosures are comparable but static and not necessarily how risk is managed
  - Liability associated with forward-looking information

Impairment: Introduction

- FASB issued Proposed Accounting Standards Update (ASU), "Financial Instruments: Credit Losses" (Subtopic 825-15)
  - Issued on December 20, 2012
  - Will significantly change the allowance for loan and lease losses and other approaches to impairment
  - Part of the FASB's financial instruments joint project with the IASB
    - Impairment
    - Classification and measurement (exposure draft is coming soon)
    - Hedging


FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: December 20, 2012
Comments Due: April 30, 2013

Financial Instruments—Credit Losses
(Subtopic 825-15)

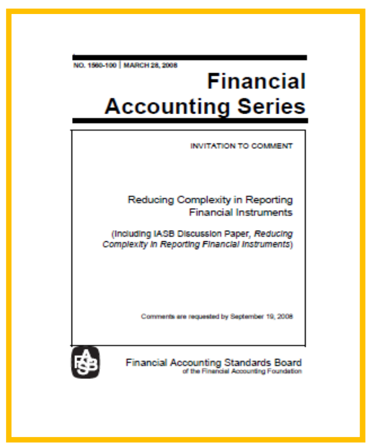
This Exposure Draft of a proposed Accounting Standards Update of Subtopic 825-15 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB's website. Written comments should be addressed to:

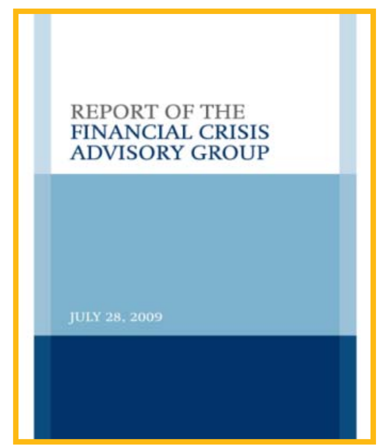
Technical Director
File Reference No. 2012-260

Financial Accounting Standards Board
of the Financial Accounting Foundation

Background

- Trying to address the complexity that exists due to the mixed attribute model and in response to the following:
  - FASB and IASB issued a Discussion Paper, “Reducing Complexity in Reporting Financial Instruments”
    - Issued March 28, 2008
  - SEC Study on Mark-to-Market Accounting
    - Issued December 30, 2008
  - Financial Crisis Advisory Group (FCAG) final report
    - Issued July 28, 2009





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Background: v1

- FASB Proposed ASU, “Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)”
- Included impairment in the proposal
- Proposed a single model for all financial assets and address the “too little, too late” concerns
- Sought to remove the “probable” threshold
- Would have used all past and current events but not future expectations

Background: v2 and v3

- FASB & IASB Supplementary Document, “Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment,” issued on Jan. 31, 2011
  - “Good book”/ “bad book” based on uncertainty of collectability
    - Good book: allowance is calculated as the higher of:
      - Time-proportional amount (IASB approach) or
      - Losses expected to occur in the foreseeable future, which cannot be less than 12 months (FASB approach)
    - Bad Book: allowance covers the entire amount of expected losses.

- Three bucket approach developed jointly with IASB
  - Bucket 1: Lifetime losses associated with the likelihood of a loss event in the next 12 months
  - Bucket 2: Lifetime expected losses (group)
  - Bucket 3: Lifetime expected credit losses (individual)
  - U.S. stakeholders raised a number of questions……..

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Convergence

- FASB decided to explore a different model
  - Result: the Current Expected Credit Loss Model (CECL) Model
- Retains several key concepts agreed upon with the IASB
  - The concept of expected credit loss and the current recognition of the effects of credit deterioration on collectability expectations.
- Differences from the three-bucket model
  - Uses a single-measurement objective (current estimate of expected credit losses)
- IASB is proceeding with the 3 bucket approach and expects to issue an exposure draft in the 1st quarter of 2013
- Both boards plan to review all the comment letters submitted to both proposals

Overview: Scope

- Notice the title – it's not the ALLL
- Instrument classification
  - Applies to all financial assets (as defined in the proposal) not classified at FV through NI (FV/NI)
    - For debt instruments, this includes those carried at either amortized cost or at fair value with changes in OCI (FV/OCI classification)
- Instrument type
  - All financial assets – debt instruments, leases and loan commitments
    - The term "debt instrument" is defined in the proposal as: "A receivable or payable that represents a contractual right to receive cash (or other consideration) or a contractual obligation to pay cash (or other consideration) on fixed or determinable dates, whether or not there is any stated provision for interest."
  - Covers loans, debt securities, trade receivables, reinsurance receivables, lease receivables, and loan commitments that are not classified at FV/NI

Overview: The CECL Model

- Recognize an allowance for expected credit losses on financial assets
  - Expected Credit Loss is defined as: “An estimate of all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit.”
  - Considers more forward-looking information than is permitted under current U.S. GAAP
    - Based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets’ remaining contractual cash flows
    - Includes quantitative and qualitative factors specific to borrowers and the economic environment in which the entity operates. In addition to evaluating the borrowers’ current creditworthiness, the assessment includes an evaluation of the forecasted direction of the economic cycle.

Overview: The CECL Model

- Departs from the incurred loss model which means the probable threshold is removed
  - Not limited to expected losses over a specific time horizon but acknowledges that the degree of judgment increases as the forecast horizon increases.
  - Removes the prohibition on recording day one losses
- An adjustment to historical experience might be necessary to reflect current information
- Use the time of value of money concept such that expected losses are discounted at the asset's effective interest rate.
- Neither a worst-case nor a best-case scenario
  - Should reflect both the possibility that a credit loss results and the possibility that no credit loss results
  - A probability-weighted calculation that considers the likelihood of more than two outcomes is not required

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Overview: The CECL Model for Debt Securities

- For debt securities
  - No more “other than temporary impairment” (OTTI) model
  - Does not apply to equity securities
  - Change from individual security evaluation to include pool evaluations
  - For assets carried at FV/OCI, there is a practical expedient available. Credit losses do not have to be recognized if both:
    - 1) fair value equals or exceeds the amortized cost (which is the first step in the existing OTTI model) and
    - 2) expected credit losses on the asset are insignificant.
  - Record an allowance instead of direct write-off (so have the opportunity for reversal)

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Overview: The CECL Model for PCI Assets and TDRs

- For Purchased Credit-Impaired (PCI) financial assets
  - Broadens the scope of what is a PCI instrument – individual or groups that have experienced significant deterioration in credit quality since origination
  - Contemplates use of existing systems
    - Amortized cost would be the purchase price and the associated expected credit loss at acquisition. The difference between amortized cost and the par amount (noncredit discount or premium) is amortized or accreted into income; the credit discount is not.
  - Establish a day one allowance – significant shift from current GAAP
  - Aggregation criteria is slightly different – shared risk characteristics rather than common risk characteristics (similar credit risk and predominant risk characteristics)
  - Permits increases in expected cash flows to be recognized immediately

- For Troubled Debt Restructurings (TDRs)
  - Record a basis adjustment (using the modified contractual cash flows, discounted at the original effective interest rate)

Overview: Possible Methods

- Does not specify any one method
  - Methods used to estimate expected credit losses may vary on the basis of the type of financial asset and the information available to the entity that is relevant to the estimation process
- Does not require specific approaches or specific policy elections
  - Latitude to develop estimation techniques that are applied consistently over time and aim to faithfully estimate expected credit losses
- Must reflect the time value of money either explicitly or implicitly
  - The discounted cash flow model is an example of a method that explicitly reflects the time value of money by forecasting future cash flows and discounting these amounts to a present value using the effective interest rate.
  - Other methods implicitly reflect the time value of money, such as loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors.

Overview: What Else?

- Redefines collateral dependent in the glossary
  - “A financial asset for which the repayment is expected to be provided primarily or substantially through the operation (by the lender) or sale of the collateral, based on an entity’s assessment as of the reporting date.”
  - Continues to permit as a practical expedient
  - Broadens the use by replacing “solely” with “primarily or substantially”
  - Clarifies that operation is by the lender
- Defines nonaccrual (825-15-25-10)
  - “An entity shall cease its accrual of interest income when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest.”
- Defines cost-recovery and cash-basis method
- Defines write-off (charge-off) (825-15-35-1)
  - “An entity shall directly reduce the cost basis in a financial asset (or portion of a financial asset) within the scope of this Subtopic in the period in which the entity determines that it has no reasonable expectation of future recovery.”

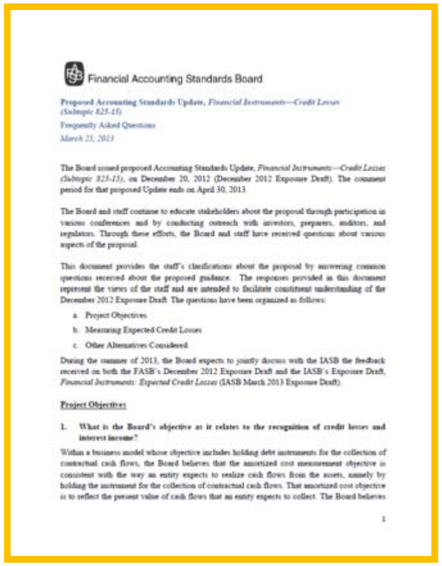
Overview: Disclosures, Transition and Effective Date(s)

- Disclosures
  - Generally retains the credit quality disclosures (ASU 2010-20)
  - Additional disclosures for expected losses, including disclosures about collateral
  - Includes PCI disclosures
  - Requires a roll-forward of principal
- Transition
  - Record a cumulative-effect adjustment as of the beginning of the first period in which the guidance is effective (offset to retained earnings)
- Effective date
  - None proposed but the proposal seeks feedback early adoption and nonpublic entities

FASB Staff FAQ

- Issued by the FASB staff
- Frequently asked questions (FAQ) about the credit losses proposal
- Proposed Accounting Standards Update, “Financial Instruments—Credit Losses (Subtopic 825-15)” Frequently Asked Questions
- Issued on March 25, 2013
- 16 pages

http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176162305167


Financial Accounting Standards Board

Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*

Frequently Asked Questions

March 25, 2013

The Board issued proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*, on December 20, 2012 (December 2012 Exposure Draft). The comment period for that proposed Update ends on April 30, 2013.

The Board and staff continue to educate stakeholders about the proposal through participation in various conferences and by conducting outreach with investors, preparers, auditors, and regulators. Through these efforts, the Board and staff have received questions about various aspects of the proposal.

This document provides the staff's clarifications about the proposal by answering common questions received about the proposed guidance. The responses provided in this document represent the views of the staff and are intended to facilitate constituent understanding of the December 2012 Exposure Draft. The questions have been organized as follows:

a. Project Objectives
b. Measuring Expected Credit Losses
c. Other Alternatives Considered

During the summer of 2013, the Board expects to jointly discuss with the IASB the feedback received on both the FASB's December 2012 Exposure Draft and the IASB's Exposure Draft, *Financial Instruments: Expected Credit Losses* (IASB March 2013 Exposure Draft).

Project Objectives

1. What is the Board's objective as it relates to the recognition of credit losses and interest income?

Within a business model whose objective includes holding debt instruments for the collection of contractual cash flows, the Board believes that the amortized cost measurement objective is consistent with the way an entity expects to realize cash flows from the assets, namely by holding the instrument for the collection of contractual cash flows. That amortized cost objective is to reflect the present value of cash flows that an entity expects to collect. The Board believes

1

Resource

- "Is the Third Time the Charm? The FASB Proposes Major Changes for Credit Losses"
  - Issued January 4, 2013
- 12 pages
- http://www.crowehorwath.com/ContentDetails.aspx?id=5611&elq=6ca966da214f40e29a0667319497077a&elqCampaignId=458

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Resource: SNL Webinars

- Part 1: FASB's Credit Loss Recognition Proposal – A Quick Look
  - Hosted by SNL Knowledge Center, a division of SNL Financial LC
  - January 24, 2013
  - Archived on SNL website

  http://center.snl.com/Programs/webinar.aspx?id=4294970173

- Part 2: FASB's Credit Loss Proposal – A Deeper Dive
  - Hosted by SNL Knowledge Center, a division of SNL Financial LC
  - April 2, 2013
  - Will be archived on SNL website

  https://event.webcasts.com/starthere.jsp?ei=1014984

SNL Knowledge Center

Classification & Measurement: Financial Assets

- Three categories, depending on (1) the characteristics of the financial instrument and (2) entity's business model
  - Shift in focus from today's model
- Three categories – akin to the "FAS 115" model
  - Amortized cost
    - The asset is held and managed with the objective of holding the assets to collect contractual cash flows
    - Must meet certain criteria – really reserved for vanilla instruments
  - Fair value through OCI (FV/OCI)
    - The asset is held and managed within a business model that has the objective of both:
      - Holding financial assets to collect contractual cash flows
      - Selling financial assets
      - Which means at recognition, the entity has not yet determined whether it will hold the individual asset to collect contractual cash flows or sell the asset
  - Fair value through earnings (FV/NI) – the residual category
    - The asset fails to qualify for either of the other categories

Classification & Measurement: Financial Assets

- Reclassifications
  - Required prospectively when business model changes – expected to be infrequent
    - "….reclassify financial assets if, and only if, the business model within which the assets are held and managed changes."
  - Change in business model, examples in the proposal:
    - Acceptable – acquisition of a company with a different business model or discontinuation of a line a business
    - Unacceptable – change in intent for particular financial assets, temporary market disappearance, transfers between areas with different models
    - Still seems to retain the tainting concept, at least for prospective classification decisions

- Financial assets (carried at amortized cost) subsequently identified for sale
  - Continue to classify at amortized cost, but disclose separately
  - Gains are recognized when sale is complete
  - Losses are recognized when identified for sale

Classification & Measurement: Other Key Points

- Financial Liabilities (Deposits, Debt)
  - Generally, carry at amortized
- Equity Securities
  - Measured at FV/NI
  - Practicability exception for investments without a “readily determinable fair value”
- Fair value option
  - Is eliminated, although there are exceptions

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Classification & Measurement: Other Key Points

- Balance Sheet
  - Separate presentation by category – no longer in order of liqudity
  - Public entities:
    - Fair value presented parenthetically on the face of the balance sheet for instruments measured at amortized cost, except short-term receivables/payables and demand deposits
  - Private entities:
    - Not required to present parenthetically or disclose fair value amounts for financial assets and liabilities measured at amortized cost

No more "FAS 107" table

- Transition
  - A cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective
- Effective date
  - None proposed but the proposal seeks feedback adoption, including whether the effective date should be the same for public and nonpublic entities

Resource

- “More Than an Oil Change: FASB Proposes Overhaul for Financial Assets and Liabilities”
  - Issued April 15, 2013
- 24 pages
- http://www.crowehorwath.com/ContentDetails.aspx?id=6129&elq=6c9e2818d48f4e3090c5ab2151167a57&elqCampaignId=551

Leases

- Proposed ASU, "Leases" (Topic 840)
- The issue
  - FAS 13, Accounting for Leases (November 1976) created two types of leases:
    - Capital leases – accounted for similarly to purchases; asset and liability on-balance sheet
    - Operating leases – all other leases accounted for as executory contracts; off-balance sheet, with limited information in notes
  - "All-or-nothing" approach doesn't reflect, on the balance sheet, for most leases the underlying rights and obligations associated with the lease
  - International standards (IAS 17) largely mirror U.S. standards, with similar problems
- Project applies to both lessee and lessors

Timetable

Project added to agenda - July 2006

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Discussion Paper - March 19, 2009

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Exposure Draft – August 17, 2010
Comment period ended December 15, 2010

↓

Outreach / Fieldwork

↓

Re-deliberations

↓

Revised Expose Proposal – first quarter 2013

↓

Outreach / Fieldwork / Re-deliberations

↓

Issue final ASU

Current stage of the project

Update: For Lessees

- Record an asset (right to use) and liability (lease obligation)
  - Right of Use Asset = Cost (amount of liability, plus any initial direct costs incurred by the lessee)
  - Liability to Make Lease Payments= Cost (PV of lease payments discounted using the lessee’s incremental borrowing rate or, if readily determinable, the rate the lessor charges the lessee)
- Pattern of expense recognition
  - Original proposal - expense will be front-loaded
  - Revised proposal – depends on whether the lease qualifies for the single lease expense (SLE) approach; if yes, then use straight-line
- Characterization of expense
  - Original proposal - interest expense and amortization for all leases rather than rent expense (for operating leases) and interest expense and depreciation (for capital leases)
  - Revised proposal – characterization depends on whether the lessee consumes more than an insignificant portion of the asset; if not, have lease expense

Next Steps

- FASB continues to deliberate
  - On July 21, 2011 announced a revised proposal will be exposed for comment
  - FASB plans to complete their deliberations and issue a revised exposure draft in the 1st quarter of 2013
- Transition
  - In original proposal, seeks to apply to all outstanding leases at date of adoption

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Revenue Recognition

- Generally, will not be applicable to much of what financial institutions do, however there are potential issues which should cause you to be interested in this project:
  - Loyalty point programs
  - Asset management fees
  - Acquisition costs
  - Below market rate lending activities
  - Real estate sales guidance
- FASB continues to deliberate
  - Expect to issue a final ASU in the first half of 2013

Part IV. SEC Developments

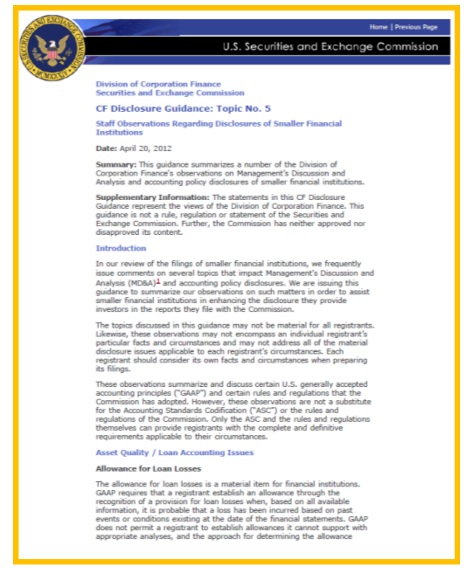
- Convergence: IFRS for U.S. Companies
- Areas of Frequent Comment for Financial Institution Registrants

IFRS for the U.S.? The Latest from the SEC

- On July 13, 2012, the SEC's Office of the Chief Accountant published its final staff report, "Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers"
  - "….the Work Plan did not set out to answer the fundamental question of whether transitioning to IFRS is in the best interests of the U.S. securities markets generally and U.S. investors specifically."
  - Summarizes the observations and analyses in six key areas identified for study.

The SEC's Current Hot Topics: Corporation Finance

- CF Disclosure Guidance: Topic No. 5, "Staff Observations Regarding Disclosures of Smaller Financial Institutions"
  - Issued April 20, 2012
- Topics
  - Asset Quality / Loan Accounting Issues
    - Allowance for Loan Losses
    - Charge-off and Nonaccrual Policies
    - Commercial Real Estate (CRE)
    - Loans Measured for Impairment Based on Collateral Value
    - Credit Risk Concentrations
    - Troubled Debt Restructurings (TDRs) and Modifications
    - Other Real Estate Owned (OREO)
  - Deferred Taxes
  - Federal Deposit Insurance Corporation (FDIC)-Assisted Transactions



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U.S. Securities and Exchange Commission

Division of Corporation Finance
Securities and Exchange Commission

CF Disclosure Guidance: Topic No. 5

Staff Observations Regarding Disclosures of Smaller Financial Institutions

Date: April 20, 2012

Summary: This guidance summarizes a number of the Division of Corporation Finance's observations on Management's Discussion and Analysis and accounting policy disclosures of smaller financial institutions.

Supplementary Information: The statements in this CF Disclosure Guidance represent the views of the Division of Corporation Finance. This guidance is not a rule, regulation or statement of the Securities and Exchange Commission. Further, the Commission has neither approved nor disapproved its content.

Introduction

In our review of the filings of smaller financial institutions, we frequently issue comments on several topics that impact Management's Discussion and Analysis (MD&A)[1] and accounting policy disclosures. We are issuing this guidance to summarize our observations on such matters in order to assist smaller financial institutions in enhancing the disclosure they provide investors in the reports they file with the Commission.

The topics discussed in this guidance may not be material for all registrants. Likewise, these observations may not encompass an individual registrant's particular facts and circumstances and may not address all of the material disclosure issues applicable to each registrant's circumstances. Each registrant should consider its own facts and circumstances when preparing its filings.

These observations summarize and discuss certain U.S. generally accepted accounting principles ("GAAP") and certain rules and regulations that the Commission has adopted. However, these observations are not a substitute for the Accounting Standards Codification ("ASC") or the rules and regulations of the Commission. Only the ASC and the rules and regulations themselves can provide registrants with the complete and definitive requirements applicable to their circumstances.

Asset Quality / Loan Accounting Issues

Allowance for Loan Losses

The allowance for loan losses is a material item for financial institutions. GAAP requires that a registrant establish an allowance through the recognition of a provision for loan losses when, based on all available information, it is probable that a loss has been incurred based on past events or conditions existing at the date of the financial statements. GAAP does not permit a registrant to establish allowances it cannot support with appropriate analyses, and the approach for determining the allowance

http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic5.htm

Thank You!

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