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FMS Financial Managers Society
New York/New Jersey Chapter

2015 EAST COAST REGIONAL CONFERENCE

Accounting, Financial Reporting & Selected Regulatory Developments
September 21, 2015

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Washington, DC

Agenda

- Accounting and Financial Reporting Issues for Financial Institutions
  - Recently effective and issued Accounting Standards Updates (ASUs)
  - In the Pipeline
  - Major Projects
- Developments from the Federal Banking Agencies
- Developments from the SEC and PCAOB
  - Big Picture Initiatives

Recently Effective / Issued Standards

- Definition of a Public Business Entity (ASU 2013-12)
- Business Combinations
  - Push Down (ASU 2014-17 and ASU 2015-08)
  - Goodwill Amortization (ASU 2014-02) ★
  - Intangibles (ASU 2014-18) ★
- Receivables
  - Transfers to ORE (ASU 2014-04)
  - FHA Guarantees (ASU 2014-14)
- Transfers and Consolidations
  - *Amendments to the Consolidation Analysis (ASU 2015-02)*
  - Repurchase Agreements (ASU 2014-11)
  - *Consolidated Collateralized Financing Entities (CLOs, CDOs) (ASU 2014-13)*
  - *VIEs in Leasing Arrangements (ASU 2014-07)* ★

★ Private Company Council (PCC) alternative which is only available to institutions not considered "public"

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Recently Effective / Issued Standards

- Other
  - Investments in Qualified Affordable Housing Projects (ASU 2014-01)
  - Revenue from Contracts with Customers (ASU 2014-09)
  - Presentation of Debt Issuance Costs (ASU 2015-03)
  - *Fair Value Measurement Level for NAV (ASU 2015-07)*
  - *Disclosures about Short-Duration Contracts (ASU 2015-09)*

★ Private Company Council (PCC) alternative which is only available to institutions not considered "public"

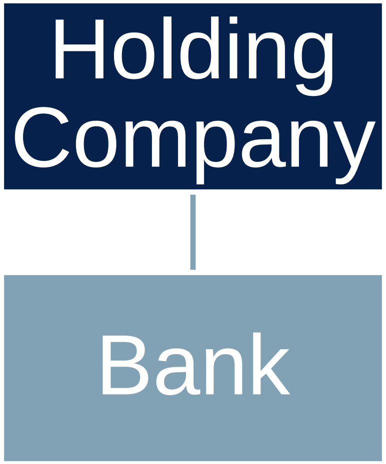
Definition of a Public Business Entity

- FASB ASU 2013-12, "Definition of a Public Business Entity"
  - Issued December 23, 2013
  - Adopted to address the existing multiple public/private company definitions in the ASC
- Implications
  - Definition covers not just entities that file with the SEC
  - Public-private distinction is gaining importance because of the differences for:
    - Effective dates
    - Disclosure
    - Recognition and measurement (e.g., PCC alternatives)
  - Definition based on meeting 1 of 5 criterion, including:
    - It has one or more securities not subject to contractual restrictions on transfer, **and** is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods)
      - Must meet both conditions

Criterion "e"

Definition of a Public Business Entity

- Required by regulation to prepare U.S. GAAP financial statements and make them publicly available
  - Part 363 of the FDIC's regulations has a requirement for institutions with $500 million or more in total assets
  - If the institution is a subsidiary of a holding company, the annual financial statement requirement generally can be satisfied at the holding company level
  - If the institution uses its own financial statements (and meets the first condition of criterion "e"), it is a public business entity
  - If the holding company's financial statements are used, which entity would a public business entity?



Business Combinations: Pushdown Accounting

- FASB ASU 2014-17, "Business Combinations (Topic 805) – Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)
  - Provides option to apply pushdown accounting when acquirer obtains control of reporting entity.
    - Threshold for applying pushdown is consistent with the threshold for change-in-control events in ASC Topic 805 "Business Combinations" and ASC topic 810 "Consolidation"
  - If elected, acquired entity's separate financial statements would reflect the new basis of accounting established by the acquirer's accounting
  - If not elected, acquired entity discloses that it has undergone a change-in-control event, but has elected to continue using its historical basis
  - Effective upon issuance (November 18, 2014); applies prospectively
- SEC's Office of the Chief Accountant and Division of Corporation Finance released SAB Topic No. 115, which rescinds SAB Topic 5.J and brings SEC guidance into conformity with ASU 2014-17.
  - FASB issued ASU 2015-08 in May 2015 to amend the SEC guidance in the FASB Codification to reflect the SEC staff rescinding SAB Topic 5.J.

Business Combinations: Goodwill (PCC alternative)

- FASB ASU 2014-02, “Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)”
    - Issued Jan. 16, 2014
  - Permits a private company to elect an alternative to amortize goodwill over 10 years (or less than 10 years unless another useful life is demonstrably more appropriate)
    - Available for goodwill (ASC 805) except for public business entities and not-for-profit entities
    - Test for impairment when have trigger event
  - Permits an accounting policy election to perform impairment testing at the entity-level or the reporting unit level
    - Simplifies the goodwill impairment test by eliminating step two of the impairment test
  - Applied prospectively for existing goodwill and new goodwill recognized in the first annual period beginning after Dec. 15, 2014, and interim an annual periods thereafter
  - Early adoption is permitted
- FASB has added an agenda project to its agenda to consider accounting for goodwill for all entities

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Business Combinations: Intangible Assets (PCC Alternative)

- FASB ASU 2014-18, "Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination"
  - Issued Dec. 23, 2014
- A private company may elect <u>not</u> to recognize the following intangible assets:
  - Customer-related intangible assets (CRIs) unless they are capable of being sold or licensed independently from the other assets of a business
    - Some CRIs that may meet the criterion for recognition include mortgage servicing rights and core deposits
  - Non-competition agreements (NCAs)
- Current disclosures continue to apply under this accounting alternative
- If elected:
  - Apply prospectively for all business combinations; no option to apply retrospective application
  - Must adopt ASU 2014-02 (the PCC alternative to amortize goodwill)
- FASB added a separate project to its agenda for PBEs (and NFPs)

Receivables: Transfers to ORE

- FASB ASU 2014-04, “Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the EITF)”
  - EITF Issue 13-E
  - Issued Jan. 17, 2014
- Scope limited to consumer mortgage loans collateralized by residential real estate
- An in-substance repossession or foreclosure occurs upon either:
  - (a) The creditor obtains legal title to the residential real estate property upon completion of a foreclosure. A creditor may obtain legal title to the residential real estate property even if the borrower has redemption rights that provide the borrower with a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.
  - (b) The borrower conveys all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor.

Receivables: Transfers to ORE

- Disclosures
  - Carrying amount held as a result of obtaining physical possession
  - Recorded investment for which formal proceedings are in process
- Transition & Effective Dates
  - Early adoption is permitted; modified retrospective or prospective
  - Public - annual periods, and interim periods within, beginning after Dec. 15, 2014
  - Private - annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015

Receivables: FHA & VA (& USDA) Guarantees

- FASB ASU 2014-14, “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure,” issued Aug. 8, 2014 (EITF 13-F)
  - Addresses how creditors classify government-guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration (FHA) and the U.S. Department of Veterans Affairs (VA)
    - Some creditors account for the guarantee as a separate unit of account, while others do not. Classification categories range from loans to other real estate or other receivables.
- Upon foreclosure, a government-guaranteed mortgage loan be transferred from loans to other receivables when certain conditions are met
- Effective dates
  - Public business entities for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2014.
  - For all other entities, the amendments are effective for annual periods ending after Dec. 15, 2015, and interim periods beginning after Dec. 15, 2015.
  - Applies using a modified retrospective approach by recording a cumulate-effect adjustment to equity as of the beginning of the fiscal year of adoption.

Transfers & Consolidations: Repurchase Agreements

- FASB ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures"
  - Issued June 12, 2014
- Two primary objectives
  - Requires repo-to-maturity agreements and repurchase financings to be accounted for as secured borrowings
  - Requires new disclosures
    - Certain sales economically similar to repurchase agreements
      1. The carrying amount of assets derecognized (sold)
      2. The amount of gross proceeds received at the time of derecognition
      3. The information about the transferor's ongoing exposure to the economic return o
      4. The amounts that are reported in the balance sheet arising from the transaction, such as those represented by derivative contracts
    - Repurchase agreements accounted for as secured borrowings

      Broad applicability

      1. A disaggregation of the gross obligation by the class of collateral pledged
      2. The remaining contractual time to maturity of the agreements
      3. The potential risks and the related collateral pledged including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed

Transfers & Consolidations: Repurchase Agreements

- Transition
  - Cumulative-effect adjustment as of beginning of period of adoption
- Effective Dates

	Public Business Entities	Non-Public Business Entities
Accounting changes	• Interim or annual beginning after Dec. 15, 2014. • Earlier application is prohibited.	• Annual beginning after Dec. 15, 2014 • Interim beginning after Dec. 15, 2015 (w/ option to apply beginning after Dec. 15, 2014)
Disclosure: certain sales	• Interim and annual beginning after Dec. 15, 2014	• Annual beginning after Dec. 15, 2014 • Interim beginning after Dec. 15, 2015
Disclosure: secured borrowings	• Annual beginning after Dec. 15, 2014 • Interim beginning after Mar. 15, 2015	• Annual beginning after Dec. 15, 2014 • Interim beginning after Dec. 15, 2015

Other: Affordable Housing Tax Credit Investments

- FASB ASU 2014-01, “Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the EITF)”
    - Issued Jan. 16, 2014 (EITF Issue 13-B)
  - Provides guidance on accounting for investments made for the primary purpose obtaining low-income housing tax credits
    - Expands an investor’s ability use a net presentation of investment performance within the tax provision (as compared to equity method which generally results in pre-tax losses but post-tax profits)
      - Eligibility is primarily driven by whether substantially all of the returns from the investment are tax-related
    - Replaces the current effective yield method with the proportional amortization method
  - Transition & Effective Date
    - Retrospective
    - Public - annual periods and interim reporting periods within those annual periods, beginning after Dec.15, 2014. Early adoption permitted.
    - Private - annual periods beginning after Dec. 15, 2014, and interim periods within annual reporting periods beginning after Dec.15, 2015. Early adoption is permitted.

Other: Revenue Recognition

- ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”
  - Issued on May 28, 2014
  - Convergence project with the IASB
- Possible areas of implication for financial institutions
  - Loyalty point programs
  - Asset management fees
  - Credit card interchange fees
  - Other real estate (ORE) sales guidance
- AICPA Industry task forces (16) & FASB transition resource group
- Effective dates
    - Public business entities - effective for reporting periods beginning after Dec. 15, 2016, including interim reporting periods. Early adoption not permitted
    - Non-public business entities - effective for annual reporting periods beginning after Dec.15, 2017, and interim and annual reporting periods thereafter. Early adoption will be permitted
  - Lengthy implementation period to provide sufficient time to evaluate the financial reporting implementations and put in place processes for compliance

FASB provided a one-year delay with ASU 2015-14

Other: Presentation of Debt Issuance Costs

- FASB ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," issued April 7, 2015
  - Requires that debt issuance costs be presented as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.
- Effective Date & Transition
  - Public - fiscal years beginning after Dec. 15, 2015, and interim periods within
  - Other - fiscal years beginning after Dec. 15, 2015, and interim periods within fiscal years beginning after Dec. 15, 2016
  - Retrospective basis, with the period-specific effects reflected on the balance sheet of each period presented
- Lines of credit
  - ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting."
    - SEC staff would not object to presenting debt issuance costs as an asset and amortizing s ratably over the term, regardless of whether there are any outstanding borrowings.

Agenda

- In The Pipeline
  - Business Combinations: Measurement-Period Adjustments
  - Stock Compensation
  - *Equity Method of Accounting*
  - Goodwill

Business Combinations: Measurement-Period Adjustments

- Proposed ASU, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”
  - Part of Simplification Initiative
  - Issued May 21, 2015; comments due July 6, 2015
  - Adjustments to provisional amounts identified during the measurement period would be recognized in the reporting period in which the adjustment amount is determined
    - Would record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date
    - On August 5, 2015 the FASB Board tentatively re-affirmed its prior decisions and approved the staff to begin drafting the final standard.
  - Effective Dates
    - Public - effective prospectively for annual periods, including interim periods beginning after December 15, 2015
    - Private - a one year delay for non-public business entities (years after December 15, 2016 and interims after December 15, 2017)
    - Early adoption will be permitted

Stock Compensation

- Proposed ASU, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”
  - Part of Simplification Initiative
  - Issued June 8, 2015; comments due August 14, 2015
  - Proposes to simplify several aspects accounting guidance for employee share-based payment transactions, including:
    - income tax consequences
    - classification of awards as either equity or liabilities
    - classification on the statement of cash flows.
  - Some of the areas for simplification apply only to nonpublic entities.

Goodwill for Public Business Entities

- On Dec. 10, 2013, FASB added a project to its agenda for goodwill for public business entities and not-for-profit entities
- Exploring four alternatives:
  - The PCC alternative
    - Amortize goodwill over 10 years (or less if more appropriate)
    - Test for impairment upon the occurrence of a triggering event
    - Make an accounting policy election whether to test goodwill for impairment at the entity level or at the reporting unit level
  - Amortization of goodwill over its useful life not to exceed a maximum number of years
  - Direct write-off of goodwill
  - Simplified impairment test
- Staff is performing additional research on the amortization of goodwill, with a focus on identifying the most appropriate useful life if goodwill were amortized, and on simplifying the impairment test
- No decisions have been made

Agenda

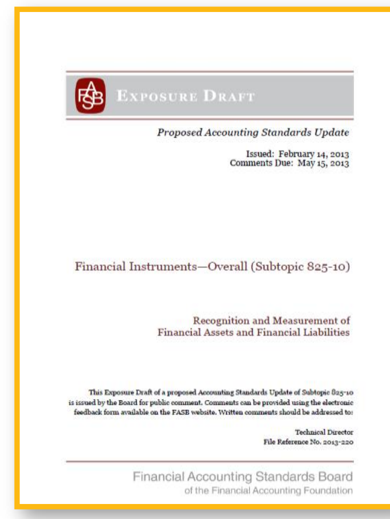
- Major Projects
  - Financial Instruments
    - Classification and Measurement
    - Credit Impairment
  - Leases

Accounting for Financial Instruments

	Classification & Measurement	Credit Losses / Impairment	Hedging
FASB	Proposal issued Feb. 14, 2013	Proposal issued Dec. 20, 2012	Started re-deliberations Feb. 25, 2015
IASB	Finalized changes to IFRS 9 July ‘14	Finalized changes to IFRS 9 July ‘14	Micro – Final Nov. ‘13 Macro – DP April ‘14

Classification and Measurement

- Proposed ASU, “Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”
  - Issued February 14, 2013; comments due May 15, 2013
- Addresses the feedback the FASB received about its 2010 exposure draft
- Offered the possibility of closer convergence with the IASB’s proposal, “Classification and Measurement: Limited Amendments to IFRS 9” which was issued on November 28, 2012


EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: February 14, 2013
Comments Due: May 15, 2013

Financial Instruments—Overall (Subtopic 825-10)

Recognition and Measurement of Financial Assets and Financial Liabilities

This Exposure Draft of a proposed Accounting Standards Update of Subtopic 825-10 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director
File Reference No. 2013-220

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Classification and Measurement

- Classification or Category
  - Decided to retain the existing separate classification models for loans and securities
    - Debt securities - HTM, AFS, Trading
    - Loans - HFI, HFS
- Equity investments –
  - Measured at (FV/NI), except for equity method investments and those that qualify for the practicability exception
  - Practicability exception for investments without a “readily determinable fair value”
    - Measured at cost minus impairment, if any, **plus or minus changes resulting from observable price changes** in orderly transactions for an identical investment or a similar investment of the same issuer
    - Not available for broker-dealer (ASC 940) or investment companies (ASC 946)
    - Impairment – one step, using impairment indicators
  - Equity method investments
    - Decided to remove from the scope of this project

Classification and Measurement

- Financial liabilities (deposits, debt)
  - If measured using the FV option, the portion of the change caused by a change in instrument-specific credit risk should be presented separately in OCI (not NI)

- Deferred Tax Assets on AFS
  - Proposal: Evaluate the need for a valuation allowance on a deferred tax asset related to unrealized losses on a financial instrument classified as FV/OCI separately from the entity’s other deferred tax assets
  - Revised: Evaluate in combination with other DTAs

- Fair value option
  - Proposal: Eliminate unconditional FV option
  - Revised: Decided to retain the existing FV option in GAAP

Classification and Measurement

- Disclosure
  - Disclosure in the notes for all financial assets and financial liabilities grouped by measurement category and form of financial assets

  - Equity securities measured using the practicability exception
    - Disclose carrying amount, adjustments made due to observable changes and impairment charge

  - FAS 107 table
    - Non-public – re-affirmed decision to drop
    - Public - require disclosure on the either the face of balance sheet or in the note, in accordance with ASC topic 820; also required to disclose the hierarchy level (1, 2, 3)

Key point!

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Classification and Measurement

- Disclosure
  - Bifurcated embedded derivatives
    - Prospectively disclose carrying amount, measurement attribute, and B/S line item where the bifurcated embedded derivatives and related host contracts are presented (exposed – comment period ending 4/30/2015)
  - Core deposit liabilities
    - Had proposed disclosures for public business entities only; decided not to retain
- Transition
  - Modified retrospective with 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. Practical expedient for nonmarketable equity securities will be prospectively applied.
- Timing for final standard
  - FASB has signaled the final standard is expected in Q4 2015

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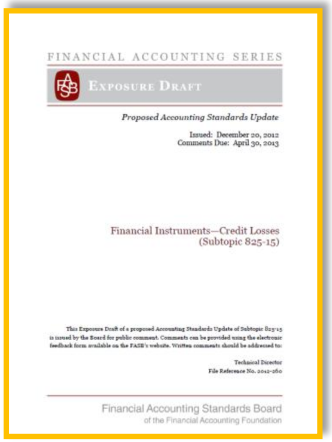
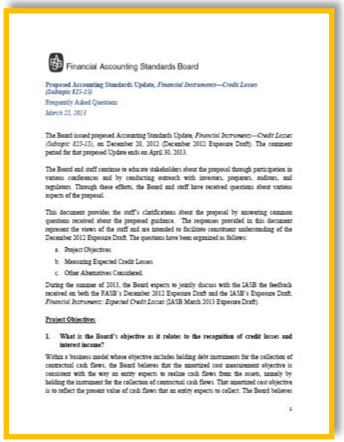
Current Expected Credit Loss

Credit Impairment: The CECL Model

- FASB Proposed ASU, “Financial Instruments: Credit Losses” (Subtopic 825-15)
  - Issued on December 20, 2012
  - Comments were originally due April 30, 2013; on March 28, the FASB decided to extend the deadline to May 31, 2013
  - Newly created subtopic, “Financial Instruments: Credit Losses (Subtopic 825-15)”
  - Proposed U.S. GAAP guidance is only 27 pages
  - Proposed ASC changes represent 94 pages
- FASB FAQ
  - Issued on March 25, 2013 (16 pages)
- Expected to have a broad scope

Generally financial instruments measured at amortized cost





The CECL Model: Defined

- 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 collectibility 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

  - Departs from the incurred loss model which means the probable threshold is removed
    - Removes the prohibition on recording day one losses

The CECL Model: Beyond The Forecast

- Project the expected losses as far as can reasonably estimate
  - Revert to a historical average loss experience for the future periods beyond which the entity is able to make or obtain reasonable and supportable forecasts

Example	Historical Experience	Forecast Period (Years 1-2)	Periods Beyond Forecast (Years 3 and beyond)
Portfolio A	Historical Loss Experience	Expected Losses in Forecast Period	Expected Losses based on Reverting to Historical Loss Experience

  - Permitted to revert over:
    - (a) the financial asset's estimated life on a straight-line basis or
    - (b) a period and in a pattern that reflects the entity's assumptions about expected credit losses over that period
  - Disclose pattern of reversion
  - Changes in the reversion period would represent a change in estimate rather than a change in accounting policy

The CECL Model: Unit of Account, Life, Risk of Loss & Models

- Required to evaluate financial assets on a collective (pool) basis when similar risk characteristics exist
- For an individual financial asset, an entity should consider relevant internal information and should not ignore relevant external information
- Determine estimates of the expected life of a financial asset considering expected prepayments
  - Do not consider expected extensions, renewals, or modifications – unless anticipate executing a TDR
- Should always reflect the risk of loss, even when remote; however, not required to recognize a loss the risk of nonpayment is > zero yet the amount of loss would be zero.
- In addition to discounted cash flow modeling, not prohibited from using loss-rate methods, probability-of-default methods, or a provision matrix using loss factors
  - Different models may be used on different asset types, or combined to use on one asset type, to develop an estimate of credit losses.

Credit Impairment: Debt Securities

- HTM – use CECL model
  - Evaluations of expected credit losses for some debt securities likely to be similar to those previously used in practice – with the exception of the potential for required pooling of HTM debt securities

- AFS – retains “other than temporary impairment” (OTTI) concept
  - Will use an allowance instead of direct write-off (so permits reversals)
  - Will remove the criteria to consider the length of time and extent that FV < cost
  - Will remove the criterion to consider recoveries or additional declines in value post B/S

- If subsequently identified for sale, adjust the allowance to equal to the difference between fair value and amortized cost basis.

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Yield is “fixed” so existing systems can handle the amortization

Credit Impairment: PCI Assets

- Amortized cost at initial recognition = the purchase price and the associated expected credit loss at the date of purchase (Gross up approach)
  - Establish a day one allowance – significant shift from current GAAP
  - Contemplates use of existing systems
  - Must allocate non-credit component to each asset
  - Permits increases in expected cash flows to be recognized immediately

Loan—par amount	$ 1,000,000	
Loan—noncredit discount		$ 75,000
Allowance for credit losses		175,000
Cash		750,000

- Definition of PCI
  - Proposal – “significant” credit deterioration since origination
  - Revised decision – “more than insignificant” credit deterioration since origination
  - Decided not to expand the scope to apply to either
    - All acquired financial assets
    - All assets acquired in a business combination

Credit Impairment: TDRs & Collateral Dependent

- TDRs
  - Largely unchanged - Record a basis adjustment (and potentially an allowance)
    - Basis adjustment is calculated using modified contractual cash flows discounted at the original effective interest rate (allowance recorded if expect credit loss)
  - For some TDRs, might need to increase the cost basis with corresponding credit to allowance
  - Can consider prepayments and prospectively adjust yield if speed differ from expected

- Collateral Dependent
  - Retains the use of the collateral dependent method but is re-defined

    "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."*

  - For collateral dependent assets, the allowance will be measured by the difference between the collateral's fair value (less selling costs) and the amortized cost basis of the asset.

Credit Impairment: Disclosures

- Disclosures (apply to all entities)
  - Disclose factors that influenced CECL, changes factors, and reasons for changes
  - Disclose policy for writing off uncollectible receivables
  - Disclose policy for accounting for nonaccrual financial assets
  - Disclose information related to “reasonable and supportable forecasts about the future” to enable a user to understand factors that influenced the estimate of the allowance
  - Qualitatively describe the reason for changes in the extent of collateralization in collateral dependent financial assets (e.g. deterioration)
  - Retain existing AFS debt securities disclosure requirements
  - Roll-forward of the allowance for financial assets measured at amortized cost and fair value through OCI
  - Credit quality indicators by class (excluding lines of credit) on a disaggregated basis by vintage
  - Past-due information for all financial assets within the scope of CECL

Credit Impairment: Transition

- Debt Securities with prior OTTI – prospective transition
  - Amounts previously recognized in AOCI related to CF improvements will accrete to income.
  - Yield locked at adoption date and subsequent changes in expected CFs will be recorded through allowance
  - Recoveries of prior charge-offs will follow existing recovery models for loans
- PCI Assets and Certain Beneficial Interests
  - Existing PCI assets carryover and CECL allowance is established to gross-up balance
  - Yield locked at adoption date and subsequent changes in expected credit losses would be recorded through the allowance.
- All Other Assets – modified retrospective with cumulative effect adjustment to the balance sheet (credit allowance, debit retained earnings)

Includes TDRs!

Credit Impairment: Next Steps

- FASB has formed a transition resource group (TRG)
  - Will review and identify issues <u>in advance</u> of issuing a final standard
  - Led by Larry Smith, Board member
- Effective date
  - None proposed but sought feedback on early adoption and nonpublic entities
- Timing for final standard
  - FASB has signaled the final standard will not be issued before December 2015

Data point: IASB issued revised IFRS 9 in July 2014, with Jan. 1, 2018 effective date (3 ½ years)

Leases

- Joint project with IASB
- FASB Proposed ASU, "Leases (Topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)"
  - Issued May 16, 2013; comments due Sept. 13, 2013 (638 comment letters)
  - Initial proposal issued in August 2010 (789 comment letters)
  - Project added to FASB's agenda in July 2006
- Basic concept is retained
  - Record an asset (right of use (ROU)) and liability (lease obligation)
- Lessee model
  - FASB – classification line is the same as current accounting
  - IASB – single model
- Lessor model
  - Maintaining current model with only minor updates
  - Reduced lessor disclosures

Leases

- Transition
  - Lessee – require modified retrospective for capital and operating existing at or entered into after the beginning of the earliest comparative period presented (no required transition for leases that expired before application).
  - Lessor – require modified retrospective transition approach for sales-type, direct financing, and operating leases existing at, or entered into after, the date of initial application (no required transition for leases that expired before application).
- Effective date
  - FASB acknowledges the need to permit sufficient time for implementation.
- Estimating Q4 2015 for final standard

Agenda

- Developments from the Federal Banking Agencies
  - Acceptability of PCC Alternatives
  - Modifications of a TDR
  - OCC Bank Accounting Advisory Series (BAAS)

Acceptability of PCC Alternatives for Call Reporting

- Section 37 of the Federal Deposit Insurance Act
  - "The accounting principles applicable to reports or statements required to be filed with Federal banking agencies by all insured depository institutions shall be uniform and consistent with" GAAP

> Excerpt from the March 2014 Call Report Supplemental Instructions:
> "The banking agencies are currently evaluating the legal and policy issues raised in allowing banks and savings associations that meet the private company definition to use private company accounting alternatives issued by the FASB, such as the goodwill accounting alternative in ASU No. 2014-02, for Call Report purposes. Until these issues are resolved, the agencies recommend that banks and savings associations should not apply the goodwill accounting alternative in ASU No. 2014-02 when preparing their Call Reports."

  - The agencies evaluated the legal and policy issues of permitting the use of the PCC alternatives. The agencies have deemed the use of the alternatives are acceptable from a legal and policy perspective; however, each PCC standard will be evaluated for safety and soundness objectives and a determination will be made if it is an acceptable GAAP alternative. Agencies expect to provide appropriate notice if they decide to disallow an alternative for call reporting purposes.

Included in the FFIEC Quarterly Supplemental Call Instructions (Sept. 2014)

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Included in the FFIEC Quarterly Supplemental Call Instructions (Sept. 2014)

Modifications of a TDR

- Diversity in accounting and disclosing a newly restructured loan when that loan had been previously restructured and determined to be a TDR
  - Alternatives:
    - View A: “Once a TDR, always a TDR,” regardless of subsequent restructurings
    - View B: A subsequent restructuring is a new event and the TDR evaluation at the time of the subsequent restructuring should be performed without regard to a previous restructuring that resulted in a TDR designation
    - View C: Additional interpretations that fall along the continuum between the above
- Agencies will not object to no longer treating <u>a subsequent restructuring</u> as TDR if:
  1. At the time of the subsequent restructuring the borrower is not experiencing financial difficulties (required to be documented by a current credit evaluation at the time of the restructuring).
  2. Under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower (any prior principal forgiveness on a cumulative basis is considered to be a concession)
  3. The subsequent restructuring agreement includes market terms that are no less favorable than those that would be offered for comparable new debt.

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Modification of a TDR

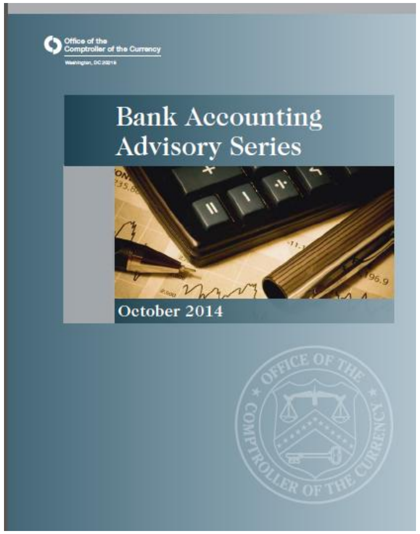
- If the restructuring is at market terms and the borrower is not experiencing financial difficulty….

Concession granted in the form of principal forgiveness?	Measurement	Disclosure in the Call Report
No	ASC 450-20 (FAS 5)	No
Yes	ASC 310-10 (FAS 114)	Not required in calendar years following if in compliance with its modified terms

- No changes to the recorded investment (unless cash is advanced or received)
  - No recoveries until any prior charge-offs are recovered
  - No reversal of interest applied against recorded investment
- May apply prospectively and to loans outstanding at Sept. 30, 2014

From the OCC

- OCC Bank Accounting Advisory Series (BAAS)
  - Updated through Oct.; issued Dec. 12, 2014
  - Issued with News Release 2014-167
  - Presented in a Q&A format
  - Covers a variety of common fact patterns for financial institutions
  - New and updated Q&As are highlighted
- New and updated topics include:
  - Acquired loans, loans held for sale, allowance for loan and lease losses, other real estate owned, quasi-reorganizations, transfers of financial assets and servicing, and asset disposition plans
  - Does not provide complete coverage of the revised regulatory capital rule, this edition is updated for the regulatory capital rule using three different color schemes to present the impacts on the regulatory capital reporting



http://www.occ.treas.gov/news-issuances/news-releases/2014/nr-occ-2014-167.html

Agenda

- Developments from the SEC and PCAOB
  - Big Picture Initiatives
    - SEC Proposed Audit Committee Disclosures
    - PCAOB Audit Quality Indicators
    - PCAOB Engagement Partner Identification

SEC Concept Release: Audit Committee Disclosures

- SEC "Possible Revisions to Audit Committee Disclosures"
  - Released July 1, 2015, comments due Sept. 8, 2015
  - Current disclosure rule – Item 407 of Reg S-K, adopted in 1999
  - SOX Act of 2002 strengthened and expanded A/C role in overseeing company's financial reporting process and overseeing independent auditor
    - Directly responsible for appointment, compensation, retention and oversight of auditor

- 74 questions into five broad categories:
  1. Audit committee oversight of the auditor
  2. Audit committee processes for appointing or retaining the auditor
  3. Qualifications of the audit firm and certain members of the engagement team selected by the audit committee
  4. Location of audit committee disclosures in commission filings
  5. Smaller reporting companies and emerging growth companies

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PCAOB Concept Release: Audit Quality Indicators (AQIs)

- PCAOB “Concept Release on Audit Quality Indicators”
  - Issued on June 30, 2015, comments are due Sept. 28, 2015
  - To seek comment on the development and uses of potential audit quality indicators
- 28 potential indicators
  - Goal of narrowing the list to a more manageable number.
- The AQIs fall into the following areas:
  - Audit Professionals
    - Availability, Competence and Focus
  - Audit Process
    - Tone at the Top and Leadership, Incentives, Independence, Infrastructure as well as Monitoring and Remediation
  - Audit Results
    - Financial Statements, Internal Control, Going Concern, Communication Between Auditors and Audit Committee as well as Enforcement and Litigation

PCAOB's Disclosure of Certain Audit Participants

- PCAOB "Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form"
  - Issued June 30, 2015, comments are due Aug. 31, 2015
  - Evolution
    - 2009 concept release sought comment on whether the engagement partner should be required to sign the auditor's report.
    - 2011 proposal for a disclosure approach instead of a signature requirement, primarily in response to commenters' concerns about liability.
    - 2013 re-proposal
      - Concerns remained that identifying in the auditor's report the engagement partner and other participants in the audit (such as independent accounting firms and certain non-accounting firms) could create both legal and practical issues under federal securities laws
  - To seek comment on a revised mechanism for disclosing the engagement partner and other participants in the audit
    - New PCAOB Form AP, "Auditor Reporting of Certain Audit Participants" which would be filed with the PCAOB

Thank You!

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