Southeast Bankers Outreach Forum

Emerging Accounting Topics

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The opinions expressed are those of the presenter and are not those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or its Board of Governors.
TOPICS

- FASB Proposal – Accounting for Credit Losses
- Private Company Council (PCC)
- Transfer of mortgage loans to OREO
- Subsequent Restructuring of a TDR
FASB: ACCOUNTING FOR CREDIT LOSSES

Background

- G20 requested in April 2009 that standard setters “strengthen accounting recognition of loan-loss provisions...”

- Weaknesses identified in the current standard
  - Delayed recognition of credit losses due to “probable” and “incurred” thresholds
  - Inability to consider forward-looking information
  - Use of multiple models
Goals

- **Broaden the information set considered**
  - Internally and externally available information
  - Past events, current conditions, and reasonable and supportable assumptions about the future
  - Quantitative and qualitative factors specific to borrowers and the economic environment, including underwriting standards

- **Replace numerous impairment models with one**
  - Applicable to almost all debt instruments not carried at fair value through net income

- **Result in earlier recognition of losses**
  - Through Current Expected Credit Loss (CECL) model
The Current Expected Credit Loss (CECL) Model

- Recognizes an allowance for credit losses on the basis of the current estimate of contractual cash flows not expected to be collected

- Extends the time horizon over which “expectations” are to be formed (life of loan)

- Requires a fundamental change in the data required to estimate the allowance

- Allows firms to leverage current risk monitoring systems and techniques in the implementation of the model
FASB CECL MODEL

- **Expected losses**
  - Eliminates the probable initial recognition threshold
  - Earlier recognition

- **Single impairment model**
  - Available-for-Sale Debt Securities are excluded

- **More forward looking**
  - Consideration of past events and current conditions
  - Consideration of reasonable and supportable assumptions about the future
Overall supervisory view is positive

- Supportive of efforts to improve the accounting for credit losses
- Consistent with other reforms prompted by the financial crisis, including enhancements to regulatory capital requirements

Specific issues under consideration

- Transition impact
- Implementation challenges
- Supervisory approach
The Private Company Council (PCC) has two principal responsibilities:

• Based on criteria established by PCC and FASB, the PCC will review and propose alternatives within U.S. GAAP to address the needs of users of private company financial statements.

• The PCC also serves as the primary advisory body to the FASB on the appropriate treatment for private companies for items under active consideration on the FASB’s technical agenda.
Call Report and Y-9C

Will PCC standards be allowed for regulatory reporting?
Other Real Estate Owned

ASU 2014-04 was issued in the first quarter 2014

Addresses diversity in practice for reclassifying a loan receivable to Other Real Estate Owned (OREO)

Defines when physical possession occurs for residential real estate collateral underlying a consumer mortgage loan.
Clarifies physical possession is considered to have occurred and a loan receivable would be reclassified to OREO upon:

- The creditor obtaining legal title to residential real estate property through foreclosure even if the borrower has redemption rights or
- Completion of a deed-in-lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy the loan.

The new standard is effective for fiscal years beginning after December 15, 2014 and early adoption is permitted.

Therefore, financial institutions could early adopt the standard as of March 31, 2014.
ACCOUNTING FOR SUBSEQUENT RESTRUCTURINGS OF A TDR

- Background
- Varying interpretations under GAAP
- Regulatory Guidance
Questions?