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Accounting and Financial Reporting Issues for Financial Institutions

This article includes accounting and financial reporting topics applicable to financial institutions finalizing 2014 financial statements and preparing for 2015. Some of the topics address standards that became effective in the recent past but continue to be relevant for many financial institutions.

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A Note From the Author

To help financial institutions close out 2014 and prepare for 2015, Crowe Horwath LLP provides in this article information about recently issued and effective standards for the accounting and financial reporting of both public and private entities. Guidance that is currently in process and of interest to financial institutions also is addressed here.

Of great importance to financial institutions is the final standard issued late in 2013 that clarifies for financial reporting purposes the definition of "public." The definition crafted by the Financial Accounting Standards Board (FASB) is not based on an entity's legal form. Instead it's based on different criteria, including whether the entity is required by a law or regulation to prepare and make publicly available U.S. generally accepted accounting principles (GAAP) financial statements. As a result, many banks have found themselves deemed public for financial reporting purposes. (Most credit unions and mutual thrifts are not in the scope of the definition, because of their mutual organization.) Understanding the final definition is important for several reasons. First, most standards provide delayed effective dates for those entities that are not public, and often different disclosures are required for public and private entities. Second, any financial institution meeting the definition of a public business entity will not be able to avail itself of any of the accounting alternatives provided by the Private Company Council (PCC).

Because most of the accounting and financial standards issued in 2014 changed disclosure and presentation rather than recognition and measurement, as in 2013, financial institutions have had a relatively uneventful year in terms of guidance. Two of the new standards, however, are noteworthy. First, the standard addressing transfers to other real estate (ORE) applies because it addresses the timing of the transfer of property to ORE. Second, the standard on revenue recognition introduces pervasive changes to certain industries – but, because most financial instruments are out of the scope of the standard, the financial institutions industry is not among them. However, financial institutions need to evaluate the revenue recognition standard, particularly as it applies in the areas of asset management, credit cards, and seller-financed ORE. Other standards issued in 2014 will affect certain financial institutions, including those with repurchase agreements, certain government-guaranteed loans in foreclosure, or investments in low-income housing tax credits.

As with the effective dates of many standards issued in the past several years, the effective dates for the majority of those issued in 2014 are staggered for public and private entities. Some are applicable now for public companies and will be effective later for private entities; others already had been adopted by public companies but became effective in 2014 for private companies. A checklist of the effective dates for public companies and private companies of the final standards issued in 2014 supplements the discussions found here.

In addition, the federal financial institution regulators addressed two important financial reporting matters. First, the agencies determined that institutions that do not meet the FASB's new definition of "public" may, for call report purposes, avail themselves of the alternatives issued by the PCC. (The agencies would provide appropriate notice if they were to disallow an alternative.) Second, the agencies addressed an open practice question of whether or a not a modification of a troubled debt restructuring (TDR) must continue to be accounted for and disclosed as a TDR. The agencies provide circumstances when they would not object to a modification of a TDR no longer accounting for and disclosing as a TDR.

During 2014, the FASB has continued to work on its financial instruments project, which at one point was a joint project with the International Accounting Standards Board (IASB). The classification and measurement portion of the project has evolved from what was proposed to be a significant change in practice to making targeted improvements to the existing security and loan accounting models. For credit losses, the FASB has continued to refine its current expected credit loss (CECL) model.

With the issuance of the revenue recognition standard, the FASB checks one major convergence project off its list, though the FASB and the IASB continue to work through implementation issues using their Joint Transition Resource Group for Revenue Recognition (TRG). The two boards continue to work jointly on a leasing project that essentially will bring all leases on balance sheet. These projects, along with additional FASB projects that will affect financial institutions, are covered here. We hope you find this information valuable, and we welcome your feedback.

Sydney Garmong
Partner, Crowe Horwath LLP

From the FASB: Standards for Public and Private Entities

Definition of "Public": It's Not Just for SEC Registrants

Over the decades, the Financial Accounting Standards Board (FASB) has commonly drawn a distinction between entities that are "public" and "private." That dividing line was used for drawing a distinction for purposes of scope, disclosure, and effective dates, and varying definitions of "public" and "private" have been created along the way. As a result, FASB's Accounting Standards Codification (ASC) includes several definitions of "nonpublic" and "public." For "public," the definitions include several variations of both "public entity" and "publicly traded company." All of the definitions include, with slight variations, those entities whose stock trades in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally). For financial institutions, interpreting the phrase "quoted only locally or regionally" has been challenging.

In early 2012, the FASB added to its agenda a project to re-examine the definition of public. The decision was based on requests to clarify the existing definitions and address questions about which definition of a nonpublic entity was being used in various projects. There was also a similar need for clarity on the definition of a nonpublic entity with respect to guidance issued by the Private Company Council (PCC).

On Dec. 23, 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-12, "Definition of a Public Business Entity: An Addition to the Master Glossary," to provide a single definition of a "public business entity" (PBE) to be used in future financial accounting and reporting guidance. The definition the new standard provides does not affect existing requirements, but it applies to all standards issued after ASU 2013-12, including all standards issued in 2014.

The ASC continues to include multiple definitions of the terms "nonpublic entity" and "public entity." In one of its projects, the PCC is evaluating how changing to the new definition would affect the existing definitions and the various standards.

At essentially one paragraph long, this is one of the shortest standards ever issued, but its impact will be significant for those now deemed to be "public" for financial reporting purposes. Because of this revised definition, we believe many more financial institutions are considered public.

The following is the definition in the ASU:

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
b. It is required by the *Securities Exchange Act of 1934* (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
e. It has one or more securities that are not subject to contractual restrictions on transfer, and it 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). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Addressing the FASB's definition of a PBE in the third-quarter supplemental call report instructions, the agencies include a discussion of why institutions with more than $500 million in assets might be considered public for financial reporting purposes.

The FASB introduced a new criterion, (e), to include certain entities that are under regulatory and legal requirements to prepare U.S. generally accepted accounting principles (GAAP) financial statements and make them publicly available – which is a requirement for those banks subject to the *Federal Deposit Insurance Corporation Improvement Act of 1991* (FDICIA). Unless the institution is a mutual or has a contractual restriction on the transfer of its stock (as would commonly be the case for S-corporation banks), most institutions subject to the FDICIA are considered public for financial reporting purposes. Addressing the FASB's definition of a PBE in the third-quarter supplemental call report instructions, the agencies include a discussion of why institutions with more than $500 million in assets might be considered public for financial reporting purposes.

Given that credit unions are mutually owned (that is, members' equity does not include ownership issued in the form of securities), the definition excludes credit unions. For the same reason, most mutual thrifts are also excluded. An exception would be a mutual that has issued debt that is traded, listed, or quoted on an exchange or an over-the-counter market.

Implications for Those Deemed "Public" for Financial Reporting Purposes

The implications of being public, for financial reporting purposes, stand to be significant. The following are main differences between being public and not public:

- **Recognition and measurement.** An entity deemed a public business entity would not be able to elect any guidance issued by the PCC.
- **Effective dates.** For many standards issued by the FASB, the effective dates typically are earlier for public entities. An entity deemed to be a public business entity will follow earlier effective dates.
- **Disclosures.** For some standards, more disclosures are required for public entities. An entity deemed a public business entity would be subject to more disclosures for those standards that do have differences.

Because the determination drives the effective dates, disclosures, and perhaps recognition and measurement – and it drives the use of the PCC alternatives as well – we encourage each financial institution to evaluate carefully whether it is considered "public" for financial reporting purposes.

Other Comprehensive Income (OCI): Disclosure of Reclassifications

Currently there are differences between GAAP and International Financial Reporting Standards (IFRS) for reclassifications from accumulated OCI. Under GAAP, certain items are reclassified from accumulated OCI to net income. For example, when a debt security classified as available for sale (AFS) is sold, the associated unrealized gain or loss, which is part of accumulated OCI, is reclassified to net income as part of the realized gain or loss. Under IFRS, the unrealized gain or loss would not be reclassified to net income. The practice under GAAP is referred to as "recycling."

Because of those differing practices, the FASB sought to require disclosure of those items in order to provide comparability to IFRS. As such, one of the original requirements of ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," was to disclose reclassified amounts on the face of the financial statement or statements where the components of net income and OCI are presented. However, stakeholders raised concerns that the new presentation requirements would add unnecessary complexity to financial statements and be costly for preparers.

As a result, the board decided to reconsider that requirement and on Dec. 23, 2011, deferred the implementation of the provisions in ASU 2011-05 that relate to the presentation of reclassification adjustments. That deferral took the form of the issuance of ASU No. 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." The issuance of ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," on Feb. 5, 2013, is the culmination of the reconsideration of the requirement.

Although the ASU requires additional disclosures, it does not change the current requirements for reporting net income or OCI in the financial statements. All of the information required by the standard already is required to be disclosed elsewhere in the financial statements. ASU 2013-02 requires an entity to:

- Present, either on the face of the statement where net income is presented or in the notes, the effects on the line items of net income of significant amounts reclassified out of accumulated OCI – but only if the item is required to be reclassified to net income in its entirety in the same reporting period. For financial institutions, an example would be the sale of an AFS debt security.
- Cross-reference to other currently required disclosures for other items that are not required to be reclassified directly to net income in their entirety in the same reporting period – for example, when a portion transferred out of accumulated OCI is initially transferred to a balance sheet account instead of directly to income or expense. For financial institutions, an example would be when expenses from a defined benefit plan (in which the expense is partially presented in OCI) are capitalized as part of the deferred costs of loan origination.

The FASB also published a "FASB in Focus" to recap ASU 2013-02.

Effective Dates

The amendments in ASU 2013-02 are effective prospectively for reporting periods beginning after Dec. 15, 2012, for public companies and after Dec. 15, 2013, for nonpublic entities.

Presentation of an Unrecognized Tax Benefit

The practices for presenting unrecognized tax benefits have been diverging. Some entities present unrecognized tax benefits as a liability, while others present unrecognized tax benefits as a reduction of a deferred tax asset. The Emerging Issues Task Force (EITF) of the FASB added this project to its agenda as Issue 13-C.

The EITF concluded that an unrecognized tax benefit, or a portion of one, must be presented in the statement of financial position as a reduction of a deferred tax asset for a net operating loss (NOL) carryforward or a tax credit carryforward – except to the extent that an NOL or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or that the entity does not intend to use the deferred tax asset for such purposes. In these situations, the unrecognized tax benefit would be presented as a liability and not combined with deferred tax assets.

The consensus was issued on July 18, 2013, in ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists."

Effective Dates and Transition

This ASU is applied prospectively for public entities for fiscal years, and interim reporting periods within those years, beginning after Dec. 15, 2013. For nonpublic entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2014. Early adoption and adoption on a retrospective basis are permitted. No additional disclosures are required.

Transfers to Other Real Estate

ASU No. 2014-04, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure," was issued on Jan. 17, 2014. This ASU addresses when the collateral securing a consumer mortgage loan should be transferred to other real estate (ORE). The EITF took up the issue because of the diversity in practice about whether the lender exercising its protective rights (such as turning off natural gas), but not seeking title, was deemed to be an in-substance foreclosure and required to be transferred to ORE.

For many financial institutions, this likely will mean a change in practice, which will delay the transfer to other real estate.

The EITF determined that a lender exercising its protective rights does not meet the definition of an in-substance foreclosure. As such, the standard clarifies, in par. 310-40-55-10A, that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, 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"
>
> [or]
>
> "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."

In other words, an asset is transferred to ORE only when the lender has obtained legal title or when a deed in lieu of foreclosure (or other legal agreement) has been completed. For many financial institutions, this likely will mean a change in practice, which will delay the transfer to ORE. The EITF also provided clarification for how redemption rights should be considered. In many jurisdictions, borrowers have a legal right for a period of time after foreclosure to reclaim the property by paying specified amounts. The EITF concluded, for several reasons, a creditor should not wait until the redemption period has expired to reclassify a loan to ORE. First, the creditor generally has the right to sell the property subject to the borrower's right of redemption. Second, the EITF observed that borrowers rarely exercise redemption rights, which is logical given the unlikelihood of a borrower paying the loan balance while unable to make monthly payments.

Additional disclosures about foreclosed residential real estate property are also required, as follows:

- The carrying amount of foreclosed residential real estate properties held at the reporting date as a result of obtaining physical possession
- The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction

Effective Dates and Transition

Amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2014. For entities other than public business entities, the amendments are effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early adoption is permitted.

The amendments in the standard may be adopted using either a modified retrospective transition method or a prospective transition method. The EITF permits the use of prospective transition to avoid the situation of transferring from ORE to loans at adoption and subsequently transferring back to ORE when title is obtained or the borrower conveys interest.

Investments in Low-Income Housing Tax Credits

ASU No. 2014-01, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects," was issued on Jan. 15, 2014. This ASU offers two important changes.

First, it broadens the ability to present the net performance as a component of income-tax expense (or benefit) rather than presenting the pretax investment performance (typically losses) separately from the tax benefits, which distorts investment performance.

Second, the ASU eliminates the effective yield method permitted in existing guidance (described in FASB ASC 323-740-35-2 and ASC 323-740-45-2) and allows an accounting policy election to use the proportional amortization method if certain conditions are met. Under that method, the initial cost of the investment is amortized in proportion to the amount of tax credits and other tax benefits received, and the net investment performance is recognized in the income statement as a component of income tax expense or benefit. Investments in qualified affordable housing projects not accounted for using the proportional amortization method would be accounted for as an equity-method investment or a cost-method investment.

Effective Dates and Transition

The amendments in this ASU are effective for public business entities for annual periods, and interim reporting periods within those annual periods, beginning after Dec. 15, 2014. For all entities other than public business entities, the amendments are effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual reporting periods beginning after Dec. 15, 2015. Early adoption is permitted. The amendments should be applied retrospectively to all periods presented. An entity that uses the effective yield method before the date of adoption may continue to apply the effective yield method for those pre-existing investments.

Revenue Recognition

In current GAAP, many different methods, as well as various depths of guidance, address revenue recognition, and they often are grounded in industry-specific guidance. In an effort to remedy the situation, the FASB and the International Accounting Standards Board (IASB) took on a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. On May 28, 2014, the two boards jointly issued their converged standard on the recognition of revenue from contracts with customers. ASU No. 2014-09, "Revenue From Contracts With Customers (Topic 606),"[1] consists of three sections:

- Section A – "Summary and Amendments That Create Revenue From Contracts With Customers (Topic 606) and Other Assets and Deferred Costs – Contracts With Customers (Subtopic 340-40)"

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[1] For an overview of ASU 2014-09, see Scott Lehman and Alex J. Wodka, "Revenue From Contracts With Customers: Understanding and Implementing the New Rules," Crowe Horwath LLP, October 2014, http://www.crowehorwath.com/ContentDetails.aspx?id=9879. For the ASU's expected effect on financial institutions, see Sydney K. Garmong, "How the New FASB Standard on Revenue Recognition May Impact Financial Institutions," Crowe Horwath LLP, July 2014, http://www.crowehorwath.com/ContentDetails.aspx?id=8854

- Section B – "Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables"
- Section C – "Background Information and Basis for Conclusions"

The new standard is intended to substantially enhance the quality and consistency of how revenue is reported while also improving the comparability of the financial statements of companies using GAAP and those using IFRS. The standard will replace previous GAAP guidance on revenue recognition in ASC 605.

Given that most financial instruments (including debt securities, loans, and derivatives) are not in the scope of the new ASU, wholesale changes are not expected for the financial institutions industry.

At just more than 700 pages, the new standard is the longest the FASB has ever issued and a major undertaking by the boards. Given the magnitude of the standard and the fact that it is not industry-specific, it is taking some time to digest.

The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, the following five steps are applied:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations (promises) in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

The challenge will be to take the core principle and accompanying steps and discern how the guidance applies. The American Institute of Certified Public Accountants (AICPA) has formed 16 industry task forces to help develop a new accounting guide on revenue recognition that will provide helpful hints and illustrative examples for how to apply the new standard. One of the task forces is dedicated to the depository institutions industry. In addition, the FASB and the IASB have formed a joint transition resource group, which consists of 15 to 20 specialists representing preparers, auditors, regulators, users, and other stakeholders. Its objective is to promote effective implementation and transition.

Given that most financial instruments (including debt securities, loans, and derivatives) are not in the scope of the new ASU, wholesale changes are not expected for the financial institutions industry. Although this project is not expected to have a significant impact on financial institutions, some areas will need to be evaluated, including:

- Loyalty point programs
- Asset management fees
- Credit card interchange fees
- Deposit account fees
- Sales of real estate

Effective Dates and Transition

For a public business entity, the guidance in ASU 2014-09 is effective for annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods within that reporting period. Early application is not permitted. For nonpublic entities, the new guidance will be required for annual reporting periods beginning after Dec. 15, 2017, and interim and annual reporting periods after those reporting periods. A nonpublic entity may elect early application but no earlier than the effective date for public entities.

The FASB also published a "FASB in Focus" article and a three-part video series that recap the new standard.

As a reminder for registrants, SEC Staff Accounting Bulletin (SAB) No. 74, Topic 11M, "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period," requires registrants to discuss the potential effects of adoption of recently issued accounting standards in registration statements and reports filed with the SEC. The objectives should be to (1) notify readers of the issuance of a standard that the registrant will be required to adopt in the future and (2) assist readers in assessing the significance of the impact the standard will have, when adopted, on the financial statements of the registrant.

As the final standard is evaluated by stakeholders, including preparers and auditors, industry implementation guidance is expected to emerge and the impact on registrants will unfold. If the impact is unknown or can't be estimated reasonably, a statement to that effect may be made. The staff expects the disclosures to evolve as more information becomes available. Until the actual impact is known, disclosure could be in the form of a range or directional trend (rather than, as now, a statement that the impact is unknown).

Repurchase Agreements

Current accounting guidance distinguishes between repurchase agreements that settle at the same time the transferred financial asset matures (commonly referred to as a "repurchase-to-maturity" agreement) and those that settle before the transferred financial asset matures. The FASB added a project to evaluate if the distinction between the two types of repurchase agreements should be eliminated. While that was the primary reason the FASB took up the project, this standard introduces new disclosures for all repurchase agreements.

ASU 2014-11 introduces two new disclosure requirements.

On June 12, 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The changes are intended to result in greater consistency in the accounting treatment for various types of repurchase agreements. Previous accounting guidance distinguished between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle anytime before maturity. Previous guidance also required an evaluation of whether a repurchase financing – that is, transactions involving an initial transfer of a financial asset and a contemporaneous repurchase agreement – should be accounted for separately or linked. If linked, the arrangement was accounted for on a combined basis as a forward agreement. This ASU changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements.

The standard introduces two new disclosure requirements. The first requires an entity to disclose information about certain transactions that are economically similar to a repurchase agreement. It addresses transactions in which a transfer of a financial asset is accounted for as a sale and an agreement is entered into with the same transferee in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For such transactions, the transferor is required to disclose the following by type of transaction (for example, repurchase agreements, securities lending arrangements, and a sale with a total return swap):

1. The carrying amount of assets derecognized (sold) as of the date of derecognition
2. The amount of gross proceeds received by the transferor at the time of derecognition for the assets derecognized
3. The information about the transferor's ongoing exposure to the economic return on the transferred financial assets
4. The amounts that are reported in the statement of financial position arising from the transaction, such as those represented by derivative contracts.

The second disclosure increases transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The required disclosures are:

1. A disaggregation of the gross obligation by the class of collateral pledged
2. The remaining contractual time to maturity of the agreements
3. A discussion of the potential risks associated with the agreements 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.

The ASU includes, in par. 860-30-55-4, an illustrative disclosure for one approach for satisfying the quantitative disclosure requirements in items (1) and (2) above.

Effective Dates and Transition

For public business entities, the accounting changes and disclosure for certain transactions accounted for as a sale are effective for the first period (interim or annual) beginning after Dec. 15, 2014. Earlier application for a public business entity is prohibited. The disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after Dec. 15, 2014, and for interim periods beginning after March 15, 2015.

For all other entities, the accounting changes and both new disclosures are effective for annual periods beginning after Dec. 15, 2014, and interim periods after Dec. 15, 2015. These entities may elect early application and apply the requirements for interim periods beginning after Dec. 15, 2014.

	Public Business Entities	Nonpublic 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 (with 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 March 15, 2015	■ Annual beginning after Dec. 15, 2014 ■ Interim beginning after Dec. 15, 2015

Changes in accounting for transactions outstanding on the effective date are to be presented as a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period.

For all entities, the disclosures are not required to be presented for comparative periods before the effective date.

The FASB also published a FASB in Focus article describing the new ASU. A short video discussing the new guidance is also available on the FASB website.

Diversity in practice had developed in the accounting for the measurement difference in both the initial consolidation and the subsequent measurement.

Consolidated Collateralized Financing Entities

The FASB issued ASU No. 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity," on Aug. 5, 2014, to address measurement for consolidated collateralized financing entities (CFEs) – such as collateralized debt obligation (CDO) or collateralized loan obligation (CLO) entities – for reporting entities that elect or are required to account for the financial assets and financial liabilities of the collateralized financing entity at fair value. The fair value, as determined under GAAP, of a collateralized financing entity's financial assets might differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. Diversity in practice had developed in the accounting for the measurement difference in both the initial consolidation and the subsequent measurement.

The ASU provides an election to measure the financial assets and liabilities of a consolidated collateralized financing entity using either the measurement alternative in the ASU or ASC Topic 820, "Fair Value Measurement." Under the measurement alternative, the reporting entity measures both the financial assets and liabilities of the collateralized financing entity in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The ASU provides measurement guidance that depends on which one is more observable.

Effective Dates and Transition

When the measurement alternative is not elected, (1) the fair value of the financial assets and liabilities should be measured using the requirements of ASC 820, and (2) any difference should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (or loss).

The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2015. For entities other than public business entities, the amendments are effective for annual periods ending after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2016. Early adoption is permitted.

Certain Government-Guaranteed Loans Upon Foreclosure

On Aug. 8, 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure." The new guidance in ASU 2014-14 is intended to reduce diversity in how, upon foreclosure, creditors classify government-guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration (FHA) and the U.S. Department of Veterans Affairs (VA). Currently, there is diversity in practice. Some believe that the two units of account should be accounted for separately: the foreclosed real estate as other real estate owned (OREO) and the FHA-guaranteed amounts as another receivable. Others prefer to reclassify the loan but recognize the foreclosed real estate at the recorded loan balance including the guarantee. Still others suggest that the loan should continue to be classified as a loan to the FHA. Finally, some choose to reclassify the loan into other receivables for the pending claim for the total recorded loan balance, interest, and fees expected to be paid by the FHA. As a result of this diverse practice, the EITF added a project, as Issue 13-F, to its agenda.

The new guidance requires that, upon foreclosure, a government-guaranteed mortgage loan be transferred from loans to other receivables when all the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the creditor has the intent to convey the real property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. The creditor must have maintained compliance with the conditions and procedures required by the guarantee program to have the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of real estate is fixed, which is an attribute specific to VA loans.

The amount of the separate other receivable should be measured based on the amount of the loan balance, including interest, expected to be recovered from the guarantor.

Effective Dates

The amendments in ASU 2014-14 are effective for 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. The amendments in the ASU should be adopted using the same prospective or modified retrospective transition method as elected under ASU No. 2014-04, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure." Early adoption is permitted if ASU 2014-04 has been adopted already.

Going Concern

On Aug. 27, 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern." The new guidance defines management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures in the notes to the financial statements. Under existing U.S. auditing standards and federal securities laws, auditors are responsible for performing this evaluation. Until the issuance of ASU 2014-15, there was no guidance in GAAP about management's responsibilities in this regard.

Guidance in ASU 2014-15 provides principles and definitions that are intended to assist management in determining when and how the financial statements should disclose conditions and events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are issued or, for nonpublic entities, are available to be issued.

Effective Date

The amendments in ASU 2014-15 are effective for the annual period ending after Dec. 15, 2016, and for interim and annual periods thereafter. Early application is permitted.

The FASB also published a "FASB in Focus" article recapping the ASU.

Pushdown Accounting

Current GAAP offers limited guidance for determining whether and when a new accounting and reporting basis (pushdown accounting) should be established in an acquired entity's separate financial statements. SAB Topic No. 5.J, "New Basis of Accounting Required in Certain Circumstances," EITF Topic No. D-97, "Push-Down Accounting," and other comments made by the SEC Observer at EITF meetings (all of which are included in ASC 805-50-S99-1 through S99-4) provide guidance on pushdown accounting for SEC registrants. In general, the SEC requires pushdown accounting when 95 percent or more of an entity's ownership is acquired, permits it when 80 percent to 95 percent is acquired, and prohibits it when less than 80 percent is acquired. The federal banking regulators follow this guidance, which is memorialized in the call report instructions.

Because the SEC staff's guidance is applicable only to SEC registrants and financial institutions, among other entities there is diversity in practice with respect to the application of pushdown accounting. In addition, GAAP (for example, consolidation guidance) has evolved since the SEC issued guidance that posed implementation challenges. To provide authoritative guidance on whether and at what threshold an acquired entity should apply pushdown accounting, the FASB issued ASU No. 2014-17, "Business Combinations (Topic 805): Pushdown Accounting," on Nov. 18, 2014. This ASU provides an acquired entity with the option to apply pushdown accounting in its separate financial statements when an acquirer obtains control of the entity.

The threshold for applying pushdown accounting is consistent with the threshold for change-in-control events in ASC Topic 805, "Business Combinations," and ASC Topic 810, "Consolidation." An acquired entity may elect to apply pushdown accounting for each individual change-in-control event. If pushdown accounting is elected for an individual change-in-control event, that election is irrevocable. If pushdown accounting is not applied during the period in which the change-in-control event occurs, an acquired entity will still have the option to elect to apply pushdown accounting in a subsequent period to the most recent change-in-control event.

An acquired entity electing to apply pushdown accounting would reflect in separate financial statements the new basis of accounting established by the acquirer for the individual assets and liabilities of the acquired entity. Any goodwill resulting from the acquisition would be recognized in the separate financial statements of the acquired entity, but it would not recognize a bargain purchase gain in its separate income statement.

Because the call report instructions incorporate the prior SEC guidance on pushdown accounting, the federal banking agencies are evaluating the implications of the new ASU to their existing guidance.

Any acquisition-related debt incurred by the acquirer should be recognized by the acquired entity only if other standards (for example, the guidance on obligations from joint and several liability arrangements) require the debt to be recognized by the acquired entity. Requirements include disclosures allowing financial statement users to evaluate the effect of pushdown accounting on the current reporting period.

ASU 2014-17 is effective as of its issuance date, Nov. 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event.

On the same day ASU 2014-17 was issued, the 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.

Because the call report instructions incorporate the prior SEC guidance on pushdown accounting, the federal banking agencies are evaluating the implications of the new ASU to their existing guidance.

For Private Entities: The PCC and Financial Institutions

For financial institutions, several factors should be considered when determining whether or not these standards may be used. First, the PCC alternatives are not available to any entity deemed to be a "public business entity," as discussed earlier in this article. Given that the PCC alternatives do create differences in GAAP, whether the agencies would accept the use of the alternatives for regulatory reporting purposes had been an open question. Until the agencies could evaluate the legal and policy issues of permitting the use of the PCC alternatives and whether their use meets their safety and soundness objectives, the banking agencies recommended, in the first-quarter supplemental call report instructions, that institutions not elect the alternatives.

In the third-quarter supplemental call report instructions, the agencies noted their conclusion that a bank or savings association that is a private company, as defined in GAAP (as already discussed), is permitted to use private company accounting alternatives issued by the FASB for call report purposes, except if the agencies determine that a particular alternative is inconsistent with supervisory objectives. The agencies would provide appropriate notice if they were to disallow any accounting alternative under the statutory process.

The NCUA also expects to permit the use of the PCC alternatives and plans to issue similar guidance in the near term.

While no standard issued by the PCC is available to any public business entity, the PCC does make further determinations on a standard-by-standard basis on whether or not certain industries, such as financial institutions, should be permitted to use the alternative. In fact, the PCC has determined that financial institutions may not use the alternative provided for certain interest rate swaps.

With this background, the following are standards issued by the PCC that might be available for a financial institution.

Goodwill

On Jan. 16, 2014, the FASB issued ASU No. 2014-02, "Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill," which is a consensus of the PCC and provides private companies an alternative under GAAP. The ASU allows a private company to amortize goodwill on a straight-line basis over a period of 10 years, or less if a shorter life is deemed more appropriate. It also requires a private company to make an accounting policy decision to test goodwill for impairment at either the reporting-unit level (as existing GAAP requires) or the entity level.

Under the simplified impairment model provided by the ASU, goodwill would be tested for impairment when a triggering event occurs that indicates that the fair value of the reporting unit or the company may be below its carrying value. In addition, step two of the impairment test in existing GAAP would be eliminated. PCC and FASB members believe the amortization of goodwill by private companies should reduce the likelihood of impairments and, when impairment testing is required, the ability to test at the company level and the elimination of step two of the existing requirements should significantly reduce the cost of the impairment test.

The FASB also recently added a project to its agenda to consider if the applicability of the decisions in this ASU should be extended to public business entities and not-for-profit organizations.

The standard is effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early implementation is permitted, including application to any period for which an entity's annual or interim financial statements have not yet been made available for issuance.

The FASB also published a "FASB in Focus" article and a short video describing the standard.

Identifiable Intangible Assets in a Business Combination

The PCC received feedback from private company stakeholders indicating that the benefits of the current accounting for identifiable intangible assets acquired in a business combination do not justify the related costs. In response, the PCC developed a proposal that would permit an accounting alternative. Only certain identifiable intangible assets would have to be recognized separately from goodwill: those relating to contractual rights with noncancellable contractual terms, or those relating to other legal rights, whether or not those intangible assets are transferable or separable. In other words, certain intangibles – such as customer lists and core deposit intangibles – currently are required to be identified separately from goodwill but no longer would require separate identification under the proposal.

To seek feedback, on July 1, 2013, the FASB issued for comment a proposed ASU, "Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination." The FASB also issued a "FASB in Focus" to recap the proposal. The proposal would apply to any entity, except for a publicly traded company or a not-for-profit entity, that is required to apply the acquisition method under Topic 805, "Business Combinations."

At its Sept. 16, 2014, meeting, the PCC decided that a private company may elect not 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. While many CRIs will not be required to be separated, some CRIs that may meet the criterion for recognition include mortgage servicing rights, commodity supply contracts, and core deposits.
- Noncompetition agreements (NCAs).

Current disclosures continue to apply under this accounting alternative.

If elected, the guidance would be applied prospectively for all business combinations. There would be no option for retrospective application. Also, if this alternative is elected, the PCC alternative to amortize goodwill would also have to be elected.

The FASB ratified the consensus at its Nov. 5, 2014, meeting and plans to issue a final ASU in 2014.

Also, the board added to its agenda a separate project for PBEs and not-for-profit organizations.

Consolidation for Common Leasing Arrangements

Guidance the FASB issued March 20, 2014, allows private companies to elect not to consolidate lessors under existing rules for variable-interest entities (VIEs) in certain common control leasing arrangements under ASU No. 2014-07, "Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements." Private entities that elect the option will be required to make certain disclosures about the lessor and the leasing arrangement.

Existing GAAP requires an entity to consolidate other entities in which it has a controlling financial interest. An entity has a controlling financial interest in a VIE when it has both (1) the power to direct the activities that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits of the entity that potentially could be significant to the entity. Under the ASU's amendments, a private company lessee could elect not to apply VIE guidance to a lessor if certain conditions are met.

Guidance in ASU 2014-07 is effective for annual periods beginning after Dec. 15, 2014. Early application is permitted for all entities that have not yet issued their financial statements. When the option is elected, it should be applied retrospectively to all presented periods and applied to all leasing arrangements meeting the conditions.

The FASB also published a "FASB in Focus" article and a short video that recap the standard.

Private Company Decision-Making Framework

Over the past several years, the FASB has focused on the needs of private companies. One of the first milestones occurred on July 31, 2012, with the FASB's issuance of an invitation to comment on a staff paper, "Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies." The paper included initial recommendations for how to approach decisions about whether and when to modify GAAP for private companies. The objective of the decision-making framework is to help the FASB and the PCC to identify the unique needs of private company financial statement users and to evaluate cost-benefit considerations.

The FASB, along with the PCC, followed up on April 15, 2013, by issuing a revised invitation to comment, "Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies." This revised document reflects the views of the FASB and the PCC after they considered feedback received from stakeholders on a FASB-issued July 2012 discussion paper. Comments were due June 21, 2013, and 34 comment letters were received.

On Dec. 23, 2013, the FASB and the PCC finalized the framework with the issuance of "Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies." The FASB and the PCC will use the guide to determine whether and when to provide alternative accounting or reporting guidance for private companies reporting under GAAP.

The guide is intended to assist with identifying the different information needed by users of public company financial statements and users of private company financial statements and to point out ways to reduce the complexity and costs of preparing private company financial statements in accordance with GAAP. It describes five significant factors that differentiate the financial reporting considerations of private companies from those of public companies:

1. The number of financial statement users and their access to management
2. Investment strategies of primary financial statement users
3. Ownership and capital structures
4. Accounting resources available
5. The manner in which preparers learn about new financial reporting guidance

The guide also identifies recognition and measurement, disclosures, display, effective dates, and transition methods as areas in which financial accounting and reporting guidance might differ for private and public companies.

The FASB published a "FASB in Focus" article, a recap of the standard, and posted a video discussing the Private Company Decision-Making Framework and the new definition of a public business entity contained in ASU 2013-12.

From the Federal Financial Institution Regulators

Modifications of Troubled Debt Restructurings

An open question has been how to account for a modification of a troubled debt restructuring (TDR): whether the modified loan continues to be measured and disclosed as a TDR or whether situations exist in which the loan is no longer deemed to be a TDR. In the Federal Financial Institutions Examination Council (FFIEC) third-quarter supplemental call report instructions and in National Credit Union Administration (NCUA) Accounting Bulletin No. 14-1, the agencies note that they will not object to an institution no longer treating a subsequent restructuring as TDR under these circumstances:

1. At the time of the subsequent restructuring, the borrower is not experiencing financial difficulties, and this is documented by a current credit evaluation at the time of the restructuring.
2. Under the terms of the subsequent restructuring agreement, the institution has granted no concession to the borrower. The agencies consider any prior principal forgiveness on a cumulative basis to be a concession.
3. The subsequent restructuring agreement includes market terms no less favorable than what would be offered for comparable new debt.

Upon meeting these criteria, the following will occur:

1. The loan no longer needs to be measured as a TDR to accord with ASC Subtopic 310-10, "Receivables – Overall" (formerly FASB Statement 114) but rather measured to accord with ASC 450-20, "Contingencies – Loss Contingencies" (formerly FASB Statement 5).
2. The loan no longer needs to be disclosed as a TDR in the call report.

A subsequently restructured loan that has cumulative principal forgiveness should continue to be measured in accordance with ASC 310-10. However, consistent with ASC 310-40-50-2, "Troubled Debt Restructurings by Creditors, Creditor Disclosure of Troubled Debt Restructurings," the loan would not be required to be reported in the call report in calendar years following the restructuring if the subsequent restructuring meets both of these criteria:

1. Has an interest rate at the time of the subsequent restructuring that is not less than a market interest rate
2. Is performing in compliance with its modified terms after the subsequent restructuring

To recap, if the restructuring is at market terms and the borrower is not experiencing financial difficulty:

Concession granted in the form of principal forgiveness (on a cumulative basis)?	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

Even though the loan need no longer be measured for impairment as a TDR or disclosed as a TDR, the recorded investment in the loan should not change at the time of the subsequent restructuring (unless cash is advanced or received). The agencies also remind that no recoveries should be recognized until collections on amounts previously charged off have been received. In addition, any interest payments previously applied to the recorded investment should not be reversed at the subsequent restructuring.

Institutions may choose to apply this guidance prospectively to subsequently restructured loans that meet the conditions for removing the TDR designation. Institutions also may choose to apply this guidance to loans outstanding as of Sept. 30, 2014, for which there has been a previous subsequent restructuring that met the conditions already discussed at the time of the subsequent restructuring. However, prior call reports should not be amended.

Income Tax Allocation Agreements

On June 13, 2014, the federal banking regulators announced the issuance of "Addendum to the Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure." The guidance was issued in response to disputes between holding companies in bankruptcy and failed depository institutions about ownership of tax refunds. Courts have come to differing conclusions about the ownership of tax refunds between holding companies and depository institutions based on their interpretation of language in tax allocation agreements.

The guidance instructs insured institutions and their holding companies to review and revise their tax allocation agreements to ensure that the agreements expressly acknowledge that the holding company receives a tax refund from a taxing authority as agent for the insured institution. The guidance includes a sample paragraph that institutions could include in their tax allocation agreements to facilitate compliance.

Institutions and holding companies should implement the guidance as soon as reasonably possible, which the regulators expected would not be later than Oct. 31, 2014.

OCC Bulletin: Debt Discharged in Chapter 7 Bankruptcies

On Feb. 14, 2014, the Office of the Comptroller of the Currency (OCC) issued supervisory expectations in Bulletin 2014-4, "Secured Consumer Debt Discharged in Chapter 7 Bankruptcy." The primary purpose of the guidance is to describe: (1) the analysis needed to "clearly demonstrate and document that repayment is likely to occur," which would preclude any charge-off as required by the "Uniform Retail Credit Classification and Account Management Policy"; and (2) when post-discharge payment performance may be considered as evidence of collectibility and when the performance demonstrates both capacity and willingness to repay what is due.

When assessing the repayment analysis, no single factor determines the likelihood of repayment. Management should use judgment and consider all facts and circumstances. The analysis should document the following three factors, as quoted here directly from the bulletin:

1. The existence of **orderly repayment** terms for structured collection of the debt without the existence of undue payment shock or the need to refinance the balloon amount.
2. A history of **payment performance** that demonstrates the borrower's ongoing commitment to satisfy the debt before and through the bankruptcy proceeding.
3. The consideration of **post-discharge capacity** that indicates the borrower can make future required payments from recurring, verified income.

Established ability-to-repay requirements for new loans or sustainable loan modification programs should serve as a model for the standards for post-discharge repayment capacity. The bulletin also provides guidance on documentation, accrual status, and charge-offs.

For loans on nonaccrual, the bulletin provides guidance for posting of payments and returning discharged loans to accrual status. The OCC notes, "In a Chapter 7 bankruptcy proceeding, discharge of the obligor introduces uncertainty, and evidence supporting the expectation of full repayment requires judgment and must be credible and well documented before returning a loan to accrual status." Post-discharge payment performance may be considered as evidence of collectibility if performance demonstrates both capacity and willingness to repay the full amounts due. The bulletin provides guidance on three factors that must be considered when determining when the analysis may be performed at a pool or individual loan level: (1) monthly payments, (2) sustained performance, and (3) collateral levels.

For loan loss allowance purposes, loans that had been discharged in a Chapter 7 bankruptcy proceeding should be monitored and considered separately and generally charged down to the fair value of the collateral less costs to sell if the loans become 60 days past due.

OCC's Bank Accounting Advisory Series (BAAS)

On Dec. 12, 2014, the OCC announced, using News Release (NR) 2014-167, the issuance of its updated "Bank Accounting Advisory Series" (BAAS), dated October 2014. Topics in the BAAS, which is presented in a Q&A format, cover a variety of common fact patterns for financial institutions. While the BAAS does not represent official rules or regulations of the OCC, it does represent interpretations by the OCC's Office of the Chief Accountant – interpretations of GAAP and regulatory guidance based on the facts and circumstances presented in the series. Pages i and ii of the BAAS highlight the new and updated Q&As.

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.

Although the BAAS 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 of nonadvanced approaches banks in calendar year 2014 (light blue), nonadvanced approaches banks beginning Jan. 1, 2015 (tan), and advanced approaches banks beginning Jan. 1, 2014 (pink).

In the Pipeline: Major Projects on the FASB's Agenda

Financial Instruments

For financial institutions, the FASB had a convergence project with the IASB to address accounting for financial instruments. The FASB issued its initial exposure draft, "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)," on May 26, 2010. Although often referred to as "the fair value proposal," it also addressed recognition and measurement, impairment, and hedging.

At this point, the FASB and the IASB have chosen separate paths for their respective projects on financial instruments.

Since the original proposal, the FASB has split the project into three: (1) classification and measurement, (2) credit losses, and (3) hedging. For the first two, the FASB issued re-proposals in late 2012 and early 2013. Since that time, the FASB has been re-deliberating the proposed decisions. For classification and measurement, the board has taken a meaningful departure from its most recent proposal and is now only making targeted improvements to existing GAAP. For credit losses, the story is much different given that the FASB has chosen to stick with its current expected credit loss (CECL) model, which was unveiled in its 2012 proposal. The FASB is in the initial stages of re-deliberations on the hedging component.

At this point, the FASB and IASB have chosen separate paths for their respective projects on financial instruments.

IASB Developments

In mid-December 2011, the IASB amended IFRS 9, "Financial Instruments," to defer the mandatory effective date from Jan. 1, 2013, to Jan. 1, 2015, so that all phases of the project could have the same mandatory effective date. Subsequently, the IASB and FASB worked together in an attempt to achieve a converged solution.

On Nov. 28, 2012, the IASB issued its classification and measurement proposal. The proposal, "Classification and Measurement: Limited Amendments to IFRS 9," sought to reduce significant differences with the FASB's tentative classification and measurement model, with the goal of achieving greater international comparability in the accounting for financial instruments. The IASB followed up, on March 7, 2013, with its exposure draft, "Financial Instruments: Expected Credit Losses." The proposal retained the three-bucket approach that was developed jointly by the IASB and FASB but later rejected by the FASB, which cited operational concerns.

On July 24, 2014, the IASB announced the completion of final amendments to IFRS 9, "Financial Instruments." The amendments complete a three-phase project to replace International Accounting Standard (IAS) No. 39, "Financial Instruments: Recognition and Measurement." Previous versions of IFRS 9 had established classification and measurement requirements (issued in 2009 and 2010) and a new hedge accounting model (issued in 2013). The most recent amendments replace those earlier versions of IFRS 9. Changes include a new expected-loss impairment model that will require more timely recognition of expected credit losses.

IFRS 9 will be effective for annual periods beginning on or after Jan. 1, 2018, with earlier application permitted. The IASB has made available a project summary that provides an overview of the requirements of IFRS 9. An article available on the IASB website, "IFRS 9: A Complete Package for Investors," discusses the new standard from an investor perspective. A recording of a July 29, 2014, Web presentation and Q&A session on the final standard is also available on the IASB website.

The deliberations have moved the project from what was proposed to be a significant change in practice to making targeted improvements to the existing security and loan accounting models.

Classification and Measurement

Background

Under the initial exposure draft issued by the FASB, most financial instruments – including securities, loans, deposits, and debt (trust preferred securities, for example) – would have been measured at fair value in the balance sheet. The board has shifted from the 2010 original proposal and has proposed permitting the use of amortized cost in some cases, although the proposal's process for making the determination has become more rigorous.

The FASB digested the feedback received about the 2010 proposal and issued on Feb. 14, 2013, another proposal, intended to improve reporting for financial instruments by developing a consistent, comprehensive framework for classifying those instruments. The proposed ASU, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," offered the possibility of closer convergence with the IASB's proposal issued in November 2012.

On April 12, 2013, the FASB issued a proposed ASU, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities – Proposed Amendments to the FASB Accounting Standards Codification." The 345-page companion proposal provides a marked version of the FASB ASC changes proposed by the recognition and measurement exposure draft.

The most significant change proposed was for financial assets and was aligned with the IASB's model. While there would have been three familiar categories – (1) fair value with changes in net income (FV/NI), (2) fair value with changes in OCI (FV/OCI), and (3) amortized cost – the classification would have differed significantly from current practice. The classification and measurement of financial assets would have been based on both the characteristics of the financial assets and the entity's business strategy for the assets. That determination would be made using a two-step test.

First, a financial asset would be evaluated to determine whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Assets not meeting that test would have been required to be carried at FV/NI. Those that did meet the test would have been classified based on business strategy, which is step two. Many of the comment letters expressed concern with this test, citing unnecessary complexity with the "solely payments of P&I" test as well as the expected likelihood of inadvertently scoping many assets into the FV/NI category.

The board began formal re-deliberations in late 2013 and has continued through 2014. The deliberations have moved the project from what was proposed to be a significant change in practice to making targeted improvements to the existing security and loan accounting models.

Resource
Crowe published an article, "More Than an Oil Change: FASB Proposes Overhaul for Financial Assets and Liabilities," to provide an in-depth discussion of the exposure draft. In addition, Crowe expressed its views on the proposal in a comment letter to the FASB, in comment letter No. 112.

Current Status
The recent decisions reflect a meaningful change from the board's February 2013 proposal by choosing to retain the existing models for securities and loans and proceed with only making targeted improvements. At this juncture, it appears that the substantive changes will be for equity securities, deferred tax assets (DTAs) on available for sale (AFS) securities, and disclosures.

Since beginning re-deliberations in December 2013, the FASB has made the following tentative decisions:

- **Classification and measurement of financial instruments** – Retain the current GAAP classification and measurement models for financial instruments (both assets and liabilities), except for certain equity investments, which means they have tentatively decided:
  - Not continue to pursue the SPPI model for assessing the contractual cash flow characteristics of financial assets. In light of that decision, the board discussed the accounting for embedded derivative features in hybrid financial assets and decided to retain the bifurcation requirements in current GAAP. The board decided not to incorporate a test to assess the cash flow characteristics of financial assets.
  - Not to pursue an approach that focuses on the business activities that an entity uses in acquiring and managing the financial assets. The board directed the staff to conduct further analysis of targeted improvements that can be made to the current GAAP guidance for classification and measurement of loans and securities.
  - Retain the separate models in existing GAAP for determining classification of loans and securities. The board directed the staff to analyze the current GAAP definition of a security to determine whether changes are needed to more clearly distinguish the instruments to be evaluated using the securities classification model.
- **Equity investments** – Retain the proposed requirement for equity investments to be measured at fair value with changes in fair value recognized in net income (FV/NI), except for certain investments that are accounted for under the equity method of accounting and those that qualify for the practicability exception to fair value measurement. At its Nov. 12, 2014, meeting, the board asked the staff to perform additional research about the effect of this tentative decision, which effectively removes the AFS category for equity securities with readily determinable fair values.
  - Practicability exception for investments without a "readily determinable fair value"
    - Measure 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)
    - Test for impairment under the one-step model

- Investments in equity securities accounted for under the equity method of accounting
  - Retain existing GAAP and remove equity method investments from the scope of this project
- **Fair value option** – Retain the unconditional fair value option in existing GAAP under ASC Topic 825, "Financial Instruments."
- **Valuation allowance on a DTA related to debt securities classified in the AFS category** – Assess a valuation allowance for a DTA related to an AFS debt security with the other DTAs.
- **Loan commitments, revolving lines of credit, and commercial letters of credit** – Retain existing GAAP.
- **Accounting for pools of similar financial assets** – Did not provide guidance.
- **Financial assets measured at amortized cost that subsequently are identified for sale** – Retain existing GAAP.
- **Presentation** – Follow the statement of financial position presentation requirements for financial instruments in current GAAP.
- **Disclosure** – Following are the decisions made to date. Here is another example of how, for certain disclosures, the board is drawing a distinction between public business entities and private entities.
  - **Assets and liabilities** – In the footnotes, disclose all financial assets and financial liabilities grouped by measurement category (amortized cost, FV/OCI, or FV/NI, for example) and form of financial assets.
  - **Fair value for amortized cost financial instruments for public business entities** – The fair value of financial assets and financial liabilities that are measured at amortized cost in accordance with ASC Topic 820, "Fair Value Measurement" – formerly known as FASB Statement No. 107, "Disclosures About Fair Value of Financial Instruments" – would be disclosed either (a) parenthetically on the face of the statement of financial position or (b) in the notes to the financial statements. An entity would also disclose the level of the fair value hierarchy within which the fair value measurement of financial instruments measured at amortized cost are categorized in their entirety (Level 1, 2, or 3). Certain public companies already have this requirement, which was established by ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." It is currently applicable for entities not defined as a nonpublic entity under the definitions before ASU 2013-12. Disclosure about the fair value of financial assets measured at amortized cost should be disaggregated into major categories of those assets.
  - **Core deposit liabilities for public business entities** – For each annual period, disclose the balance of core deposit liabilities disaggregated by significant types of deposit accounts. Entities also would disclose the total balance of each of the significant types of deposit accounts. The final guidance would not define core deposit liability, but it would require entities to qualitatively disclose what management deems to be core deposits (that is, the components that make up the core deposit liability balance). The final guidance would include qualitative characteristics of the core deposit liabilities in the implementation guidance to help management identify core deposits. In addition, public business entities would disclose the weighted-average life of the core deposit liabilities based on the entity's historical experience. At its Nov. 12, 2014, meeting, the board asked the staff to perform additional research on these proposed disclosures.
  - **Equity securities using the practical expedient** – Disclose the carrying amount of investments that are measured using the practicability exception, as well as the amount of adjustments made to the carrying amount due to observable changes and impairment charge during the period. An entity would not have to disclose the information it considered to reach the carrying amount and upward or downward adjustments resulting from observable price changes.
  - **Bifurcated embedded derivatives** – Enhanced disclosures about bifurcated embedded derivatives would be required, including the carrying amount, measurement attribute, and line item within the balance sheet that present the bifurcated embedded derivatives and related host contracts. These disclosures would be exposed for public comment.

The board expects to complete its re-deliberations in late 2014 and issue a final standard in 2015.

Credit Losses

Background

As a follow-up to the original 2010 proposal, on Jan. 31, 2011, the FASB issued a joint proposal with the IASB for accounting for impairment of financial assets, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Impairment," which includes loans evaluated on an open pool basis (commonly referred to as "FAS 5 pools"). The proposal represented a meaningful change from the FASB's prior proposal by moving closer to an expected loss model. The more forward-looking approach to how credit impairment is recognized is thought to align more closely with the economics of credit decision-making.

Both the original proposal and the supplementary document received mixed reviews from stakeholders, so the boards decided to explore alternative models. The boards explored a "three-bucket" approach in which an allowance is established for capturing three different phases of deterioration in credit quality. However, U.S. stakeholders expressed to the FASB numerous concerns about the understandability, operability, and auditability of the three-bucket credit impairment model and whether it would reflect an appropriate measure of risk.

At its Aug. 22, 2012, meeting, the FASB developed an alternative model referred to as the "current expected credit loss (CECL) model."[2] That model retains several key concepts that have been deliberated and agreed upon jointly with the IASB, including the main concept of expected credit loss and the current recognition of the effects of credit deterioration on collectibility expectations. Unlike the three-bucket model, however, the CECL model uses a single-measurement objective (that is, a current estimate of expected credit losses) as opposed to the three-bucket model's dual-measurement approach, which requires a "transfer notion" to distinguish financial assets that are required to use a credit impairment measurement objective of "12 months of expected credit losses" from those that use a credit impairment measurement objective of "lifetime expected credit losses."

On Dec. 20, 2012, the FASB issued for public comment a revised proposal to improve financial reporting about expected credit losses. In the exposure draft, "Financial Instruments – Credit Losses (Subtopic 825-15)," the board proposed a new accounting model intended to require more timely recognition of credit losses while also providing additional transparency about an entity's exposure to credit risk. The proposal would affect all entities holding financial assets that are not accounted for at fair value through net income and are exposed to potential credit risk. Examples of such financial assets generally include trade receivables, loans, debt securities, and any other receivable that represents the contractual right to receive cash.

The various incurred-loss models currently in GAAP would be replaced by the single CECL model. This model considers more forward-looking information than is permitted under current GAAP. Under the CECL model, management would be required to use all available information, including historical experience and reasonable and supportable forecasts about the future, to estimate the cash flows it does not expect to collect.

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[2] For an overview of the various models that can be used to comply with the CECL model, see R. Chad Kellar and Matthew A. Schell, "FASB's CECL Model: Navigating the Changes," Crowe Horwath LLP, December 2014, http://www.crowehorwath.com/folio-pdf/FASBCECLModel-NavigatingChanges_FIA15904.pdf

An allowance for credit losses reflecting the current estimate of losses on financial assets held at the reporting date would be established on the balance sheet. The income statement would reflect the change in the estimate of losses (credit deterioration or improvement resulting from changes since the previous reporting date in credit risk, current conditions, and forecasts about the future) that occurred.

Resource
Crowe published an article, "Is the Third Time the Charm? The FASB Proposes Major Changes for Credit Losses," to provide an in-depth discussion of the exposure draft. In addition, Crowe expressed its views to the FASB on the proposal in comment letter No. 318.

Current Status
The FASB began re-deliberations in late 2013. For the overall approach for impairment, the board considered various alternatives, including:

- Alternative A: Continue to refine the CECL model.
- Alternative B: Develop a gross-up model.
- Alternative C: Develop a truncated model.
- Alternative D: Develop an impairment model similar to the IASB model.

The board decided to continue to refine the CECL model, including the following:

- Consider available information relevant to assessing the collectibility of contractual cash flows, including information about past events, current conditions, and reasonable and supportable forecasts, when developing an estimate of expected credit losses.
- Consider relevant qualitative and quantitative factors that relate to both the environment in which the entity operates and those that are specific to the borrower, which may be based on internal information or external information (for example, as evidenced by changes in entity- or industrywide underwriting standards).
- Consider all contractual cash flows over the life of the related financial assets.
- Consider expected prepayments; should not consider expected extensions, renewals, and modifications unless anticipating executing a TDR.
- 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.
- Should always reflect the risk of loss, even when remote; however, not required to recognize a loss when the risk of nonpayment is greater than zero yet the amount of loss would be zero. In other words, if the amount of collateral is such that no loss would be recognized in the event of default, a loss need not be recognized.
- Revert to an unadjusted historical average loss experience for the future periods beyond which the entity is able to make or obtain reasonable and supportable forecasts; 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.
- In addition to using a discounted cash flow approach, may also use loss-rate methods, probability-of-default methods, or a provision matrix using loss factors.

Resource
To help financial institutions contemplate how to comply with the CECL model, Crowe has published "FASB's CECL Model: Navigating the Changes."

The board also made the following tentative decisions:

- The CECL model should apply to financial assets measured at amortized cost. Debt securities classified as available-for-sale are excluded from the scope of the CECL model and would continue to be within the scope of ASC 320, with the following modifications:
  - (1) An allowance approach would be used for recognizing impairment losses, which would allow an entity to recognize reversals of credit losses.
  - (2) ASC 320-10-35-33F(a) will be amended to remove the requirement to consider the length of time that the fair value of an available-for-sale debt security has been less than its amortized cost basis when estimating whether a credit loss exists.
  - (3) ASC 320-10-35-33F(g) will be removed. When estimating whether a credit loss exists, an entity would not be required to consider recoveries or additional declines in the fair value of an available-for-sale debt security after the balance sheet date.

In the proposal, the board reaffirmed its decisions to change the existing PCI model to establish, at acquisition, an allowance for credit losses.

- The purchased credit impaired (PCI) model will not be expanded to other financial assets. The board also decided to include a requirement that the noncredit-related discount or premium resulting from acquiring a pool of PCI financial assets should be allocated to each individual financial asset. In the proposal, the board reaffirmed its decisions to change the existing PCI model to establish, at acquisition, an allowance for credit losses. The par amount of an asset would be recorded and the noncredit discount accreted into income over the life of the asset. Also, increases in expected cash flows would be recognized immediately instead of prospectively, which is current GAAP.
- TDR classification remains relevant under the CECL model. Unlike current GAAP, any adjustment would be recognized as a basis adjustment rather than an allowance – which will limit the opportunity for reversal upon increases in cash flows. In addition, the board decided to revise the model to require that, in certain TDRs, an entity may be required to increase the cost basis of the restructured financial asset through a corresponding increase in the allowance for expected credit losses.
- For certain beneficial interests, measure and recognize an allowance for expected credit losses for which there is a significant difference between contractual and expected cash flows (consistent with the PCI guidance). Changes in expected cash flows due to factors other than credit should be accreted into interest income over the life of the asset.
- Nonaccrual guidance will be excluded from this project. However, the board decided to consider adding as pre-agenda research whether GAAP should include nonaccrual guidance.

Disclosures
- A description and discussion of the factors that influenced management's current estimate of expected credit losses, including reasonable and supportable forecasts about the future. The board decided not to explicitly require disclosure for the time period covered by the reasonable and supportable forecasts.
- The factors that influenced management's current expected credit losses, the changes in those factors, and the reasons for those changes

- The method applied to revert to historical credit loss experience for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts
- The policies for writing off uncollectible receivables (which is current GAAP)
- The policies for accounting for nonaccrual financial assets, including policies for placing financial assets on nonaccrual status (which is current GAAP)
- Qualitative disclosures relating to collateralized financial assets (which only applies to collateral-dependent financial assets)
- Past-due information for all financial assets within the scope of the CECL model

The board plans to issue a final standard in 2015.

Leases

In July 2006, the FASB and the IASB added to their agendas a long-term project to reconsider the current lease accounting guidance. The objective of this project is to comprehensively reconsider the guidance in FASB Statement No. 13, "Accounting for Leases" (Topic 840), and IAS No. 17, "Leases" – together with their subsequent amendments and interpretations – to provide users with useful, transparent, and complete information about leasing transactions. The result of this project would affect nearly every entity that engages in lease contracts.

The FASB issued its first proposed ASU on the topic "Leases (Topic 840)" in August 2010. Since issuing the initial proposal, the boards held roundtables and re-deliberated their initial conclusions. Based on the number of changes in the original proposal, the boards announced, on July 21, 2011, their intention to revise and re-expose the proposals.

On May 16, 2013, the boards issued for comment a revised proposal, "Leases (Topic 842): A Revision of the 2010 Proposed FASB Accounting Standards Update, 'Leases (Topic 840)'," which would change the standards for lease accounting for both lessees and lessors. The revised proposal takes into account comment letters and other feedback the FASB and IASB received on their original proposals. The exposure draft did not include a proposed effective date. Comments were due Sept. 13, 2013, and 528 comment letters were received. Crowe expressed its views on the proposal in a comment letter to the FASB, in comment letter No. 397.

Lessees

Most leases today are operating leases and are accounted for off balance sheet. Under the proposal, most leases for lessees would be accounted for on balance sheet. An asset would be recorded to represent the right to use the leased asset, and a liability would be recorded to represent the obligation arising from lease contracts.

Two of the concerns stakeholders expressed about the first proposal were the front-loading of expense and the classification in the income statement. Under the revised proposal, some leases would be accounted for using an approach similar to that proposed in the 2010 exposure draft, which would result in a front-loading of expense and other leases being accounted for using an approach resulting in a straight-line lease expense. The FASB has incorporated a dividing line in an effort to alleviate some of these concerns. Under this approach, a lessee would account for most existing capital/finance leases as Type A leases (that is, recognizing amortization of the right-of-use (ROU) asset separately from interest on the lease liability) and most existing operating leases as Type B leases (that is, recognizing a single total lease expense). Both Type A leases and Type B leases result in the lessee recognizing an ROU asset and a lease liability. Under the revised approach, a lessee would evaluate whether the risks and rewards have been passed (that is, determining whether a lease is effectively an installment purchase by the lessee):

	Type A	Type B
Have risks and rewards passed to lessee?	Yes	No
Lease type	Financing approach	Operating approach
Balance sheet	Right-of-use asset Lease liability	Right-of-use asset Lease liability
Income statement (characterization)	Interest expense Amortization expense	Lease expense
Pattern of expense	Front-loaded	Straight-line
Cash flow statement	Operating – cash paid for interest Financing – cash paid for principal	Operating – cash paid for lease payments

The IASB decided on a single approach for lessee accounting. Under that approach, a lessee would account for all leases as Type A leases (that is, recognizing amortization of the ROU asset separately from interest on the lease liability).

Lessors

Similarly for lessors, the proposed rules would change the criteria for recognizing lease assets, which may affect the timing and nature of revenues and expenses. Following are some of the significant aspects of the exposure draft for lessors:

- The boards decided that a lessor should determine lease classification (Type A vs. Type B) on the basis of whether the lease is effectively a financing or a sale, rather than an operating lease (that is, on the concept underlying existing GAAP and on IFRS lessor accounting). A lessor would make that determination by assessing whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.
- A lessor will be required to apply an approach substantially equivalent to existing IFRS finance lease accounting (and GAAP sales type/direct financing lease accounting) to all Type A leases. The boards decided to eliminate the receivable and residual approach proposed in the May 2013 exposure draft. In addition, the FASB decided that a lessor should be precluded from recognizing selling profit and revenue for any Type A lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the revenue recognition standard, which evaluates whether a sale has occurred from the customer's perspective.

Type B leases would be treated similarly to operating leases for lessors; that is, the lessor would retain the underlying asset and recognize lease payments into income or loss over the lease term on a straight-line or other systematic basis.

	Type A	Type B
Lease type	Financing or sale	Operating
Balance sheet	Net investment in the lease	Continue to recognize underlying asset
Income statement	Interest income and any profit on the lease	Lease income, typically straight-line
Cash flow statement	Operating – cash received for lease payments	Operating – cash received for lease payments

Next Steps

The boards are continuing their deliberations. The timing of a final standard is unknown.

In the Pipeline: Other Projects of Interest for Financial Institutions

Presentation of Debt Issuance Cost

With the goal of simplifying the presentation of debt issuance cost and more closely aligning U.S. generally accepted accounting principles with IFRS, the FASB issued the proposed ASU "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost" on Oct. 14, 2014. Under the proposed standard, debt issuance costs would be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability rather than as a deferred charge (an asset). The proposal would affect only presentation and would not change the recognition and measurement guidance for debt issuance costs. Comments on the exposure draft were due Dec. 15, 2014.

Goodwill

Based on the recommendation by the PCC to permit private entities to amortize goodwill, the FASB added, on Dec. 10, 2013, a project to its agenda on the accounting for goodwill for public business entities. The board directed the staff to perform additional outreach and research on the following four alternatives:

1. The PCC alternative (the amortization of goodwill over 10 years or less than 10 years if an entity demonstrates that another useful life is more appropriate). Goodwill would be tested for impairment upon the occurrence of a triggering event. An entity would make an accounting policy election to test goodwill for impairment at the entity level or at the reporting unit level. The amount of impairment would be the difference in the carrying value of the entity and its fair value (or the carrying value of the reporting unit and its fair value).
2. Amortization of goodwill over its useful life not to exceed a maximum number of years
3. Direct write-off of goodwill
4. Simplified impairment test

At its Feb. 12, 2014, meeting, the board discussed the four alternatives but did not make any decisions. The board directed the staff to perform additional research and outreach with public business entity stakeholders about the alternatives.

Identifiable Intangible Assets in a Business Combination

Based on the PCC's recommendation to permit private entities not to identify certain intangibles separately from goodwill, on Nov. 5, 2014, the FASB added a project to its agenda for public business entities and not-for-profit entities. The board is in the initial deliberations stage.

Interest Rate Risk Disclosures

Based on feedback received on the 2010 financial instruments proposal, the FASB explored requiring disclosures focused on liquidity and interest rate risk. On June 27, 2012, the FASB issued an exposure draft of a proposed ASU, "Financial Instruments (Topic 825): Disclosures About Liquidity Risk and Interest Rate Risk." The proposal included a meaningful increase in disclosures, with five additional tables for depository institutions as well as new qualitative disclosures.

The FASB received almost 200 comment letters, with most of the letters expressing concerns about the proposal. Some of the concerns included costs to comply, particularly because the data typically resides outside of financial reporting systems; the usefulness of the disclosures – while mostly comparable among entities, they are static and not necessarily how risk is managed; and the liability associated with forward-looking information. In comment letter No. 170, Crowe expressed similar concerns.

At its Jan. 29, 2014, meeting, the board decided to perform research on interest rate disclosures.

Several respondents suggested that the majority of the proposed disclosures by public companies are better suited for disclosure in management's discussion and analysis (MD&A). To provide information that is meaningful to users, it would seem appropriate to provide information based on how management monitors interest rate risk and liquidity risk rather than requiring disclosures that are (mostly) comparable but static and not how management necessarily manages the entity's interest rate risk and liquidity risk. Other respondents suggested that these matters should be addressed as part of the FASB's going concern project.

The project remained on FASB's agenda but was inactive. At its Jan. 29, 2014, meeting, the board decided to perform research on interest rate disclosures.

Checklist of Recently Issued and Effective FASB Pronouncements

This table summarizes recently issued and effective pronouncements that Crowe believes are most relevant for financial institutions. It does not include all of the caveats and intricacies that may accompany the adoption of a pronouncement, such as the ability to early adopt or transition provisions. The FASB provides a recap of effective dates of its recent pronouncements.

Pronouncement	Public Companies	Private Companies
Business Combinations		
ASU No. 2014-02, "Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)"	Not applicable.	The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance.
ASU No. 2014-17, "Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)"	Effective Nov. 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle.	Effective Nov. 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle.
Receivables		
ASU No. 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 FASB Emerging Issues Task Force)"	Effective for public business entities for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2014. Early adoption is permitted.	For entities other than public business entities, the amendments in this update are effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early adoption is permitted.
ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)"	For public business entities, the new standards are effective for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2014. Early adoption, including adoption in an interim period, is permitted if the entity already has adopted ASU 2014-04.	For all other entities, the new standards are effective for annual periods ending after Dec. 15, 2015, and interim periods beginning after Dec. 15, 2015. Early adoption, including adoption in an interim period, is permitted if the entity already has adopted ASU 2014-04.

Pronouncement	Public Companies	Private Companies
Comprehensive Income		
ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income"	For public entities, the amendments are effective prospectively for reporting periods beginning after Dec. 15, 2012.	For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after Dec. 15, 2013. Early adoption is permitted.
Transfers and Consolidations		
ASU No. 2014-07, "Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council)"	Not applicable.	The accounting alternative, if elected, will be effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Private companies may elect to apply the alternative earlier than the stated effective date, including for any period for which the entity's annual or interim financial statements have not yet been made available for issuance. Private companies electing the alternative are required to apply it retrospectively to all periods presented.
ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures"	For public business entities, the accounting changes and disclosure for certain transactions accounted for as a sale are effective for the first period (interim or annual) beginning after Dec. 15, 2014. Earlier application for a public business entity is prohibited. The disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after Dec. 15, 2014, and for interim periods after March 15, 2015.	For all other entities, the accounting changes and both new disclosures are effective for annual periods beginning after Dec. 15, 2014 and interim periods after Dec. 15, 2015. These entities may elect early application and apply the requirements for interim periods beginning after Dec. 15, 2014.
ASU No. 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force)"	For public business entities, the new standards are effective for annual periods, and interim reporting periods within those annual periods, beginning after Dec. 15, 2015. Early adoption is permitted as of the beginning of an annual period.	For all other entities, the new standards are effective in the first annual period ending after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2016. Early adoption is permitted as of the beginning of an annual period.
Other		
ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)"	Effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2013. Early adoption is permitted.	For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2014. Early adoption is permitted.

Pronouncement	Public Companies	Private Companies
Other (continued)		
ASU No. 2014-01, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)"	Effective for public business entities for annual periods, and interim reporting periods within those annual periods, beginning after Dec. 15, 2014. Early adoption is permitted.	For all entities other than public business entities, the amendments are effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual reporting periods beginning after Dec. 15, 2015. Early adoption is permitted.
ASU No. 2014-09, "Revenue From Contracts With Customers (Topic 606)"	For a public entity, effective for annual reporting periods beginning after Dec. 15, 2016, including interim periods within that reporting period. Early application is not permitted. A public entity is an entity that is any one of the following: (1) a public business entity, (2) a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, or (3) an employee benefit plan that files or furnishes financial statements to the SEC.	For all other entities (nonpublic entities), effective for annual reporting periods beginning after Dec. 15, 2017, and interim periods within annual periods beginning after Dec. 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as of the following: (1) an annual reporting period beginning after Dec. 15, 2016, including interim periods within that reporting period (public entity effective date), (2) an annual reporting period beginning after Dec. 15, 2016, and interim periods within annual periods beginning after Dec. 15, 2017, or (3) an annual reporting period beginning after Dec. 15, 2017, including interim periods within that reporting period.
ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern"	All entities are required to apply the new requirements in annual periods ending after Dec. 15, 2016, and interim periods thereafter. Early application is permitted.	All entities are required to apply the new requirements in annual periods ending after Dec. 15, 2016, and interim periods thereafter. Early application is permitted.

Key Abbreviations and Acronyms

AFS	Available for sale
AICPA	American Institute of Certified Public Accountants
ALLL	Allowance for loan and lease losses
AOCI	Accumulated other comprehensive income
ASC	Accounting Standards Codification (issued by the FASB)
ASU	Accounting Standards Update
CAQ	Center for Audit Quality (an AICPA affiliate)
CDO	Collateralized debt obligation
CECL	Current expected credit loss
CFE	Collateralized financing entity
CFPB	Consumer Financial Protection Bureau
CLO	Collateralized loan obligation
CMO	Collateralized mortgage obligation
EITF	Emerging Issues Task Force (a standing FASB task force)
FAS	Financial Accounting Standard (issued by the FASB)
FASB	Financial Accounting Standards Board
FCAG	Financial Crisis Advisory Group (a financial crisis task force assembled to advise the FASB and the IASB)
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council (includes CFPB, FDIC, FRB, NCUA, and OCC)
FinREC	Financial Reporting Executive Committee (a senior technical committee of the AICPA)
FRB	Federal Reserve Board
GAAP	Generally accepted accounting principles
HTM	Held to maturity
IAS	International Accounting Standard (issued by the IASC)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee (predecessor accounting standard-setter)
IFRS	International Financial Reporting Standards (issued by the IASB)
MBS	Mortgage-backed security
MD&A	Management's discussion and analysis (as required by SEC regulation)
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OCI	Other comprehensive income
PBE	Public business entity (FASB's definition of public for financial reporting purposes)
PCAOB	Public Company Accounting Oversight Board
PCC	Private Company Council (which recommends to the FASB alternatives for private companies)
SAB	Staff Accounting Bulletin (issued by the SEC)
SEC	U.S. Securities and Exchange Commission
TDR	Troubled debt restructuring
TPA	Technical Practice Aids (nonauthoritative guidance issued by the AICPA)
VIE	Variable-interest entity

Contact Information

Sydney Garmong
Partner
202.779.9911
sydney.garmong@crowehorwath.com

www.crowehorwath.com

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