EY regulatory reporting brief

EY’s regulatory reporting briefs explore Federal Reserve regulatory reporting, highlighting report requirements, recent news and updates, and identifying common reporting challenges.

Spotlight on: Regulatory reporting impact of new credit loss guidance (ASU 2016–13)

Introduction

Alert for regulatory reporting professionals – DID YOU KNOW?
- Current Expected Credit Loss (CECL) is finally here
- The FRB has updated reporting requirements to address CECL and broader credit loss requirement changes
- And regulatory reporting report forms change as early as the Q1 2019 filing

Are you prepared?
- This publication is designed to help you understand the regulatory reporting impact of the new credit impairment guidance that is codified in Accounting Standards Codification (ASC) 326, Financial Instruments — Credit Losses. Specifically, the regulatory brief will discuss the upcoming requirements, relevant timelines, FR Y-9C changes by schedule, other regulatory reports impacted and their effect on the report production process.
- After reading this brief you will have a better understanding of the effects the rule will have on your organization and how to prepare for the changes.
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Section 1:
Additional background on ASU 2016–13

What you need to know about ASU 2016–13:

I. The new standard on credit losses will significantly change how entities account for credit losses for most financial assets and certain other instruments. It will apply to all entities except for foreign branches that elect to not maintain a general loan loss.

II. The new guidance is effective for calendar-year public business entities that are SEC filers in the first quarter of 2020. Early adoption is permitted beginning in 2019.

III. CECL impairment model (ASC 326—20) for financial assets measured at amortized cost defines that for trade receivables, loans, and held-to-maturity debt securities, entities will be required to estimate lifetime expected credit losses. This will result in the earlier recognition of credit losses.

IV. The available-for-sale (AFS) debt security impairment model (ASC 326—30) defines that for AFS debt securities, entities will be required to recognize an allowance for credit losses rather than a reduction to the carrying value of the asset. If expected cash flows improve, an entity will reduce the allowance and reverse the expense through income.

V. The new standard eliminates today’s separate model in ASC 310-30 for purchased credit impaired assets, which applies to loans and securities. In its place the standard provides a special day one accounting model for financial assets purchased with a more than insignificant deterioration in credit quality since origination (PCD assets).

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016–13, Financial Instruments —Credit Losses (Topic 326), which is expected to result in significant changes to the accounting for credit losses on financial instruments as well as related disclosures. The ASU requires entities to estimate an expected lifetime credit loss on financial assets ranging from short-term trade accounts receivable to long-term financings. Institutions will need to change or enhance their policies, processes and controls, including controls over historical credit loss data that will be necessary to perform key computations and to satisfy the additional disclosure requirements. They also may need to implement new information technology (IT) systems or enhance their existing systems.

The FASB developed this guidance in response to concerns that credit losses were identified and recorded “too little, too late” in the period leading up to the global financial crisis of 2008. While the new standard does not define the term “expected credit loss,” the standard explains that the allowance for expected credit losses should represent the portion of the amortized cost basis of a financial asset that an entity does not expect to collect. It also clarifies that the allowance is intended to result in the financial asset being reflected on the balance sheet at the “net amount expected to be collected.”

The Federal Reserve Board (FRB) has recently released updated reporting forms pending review of public comment across multiple regulatory reports to capture changes related to ASU 2016–13. Changes include new line items, deleted line items and changes to existing line items. Changes are focused on the FR Y-9C and are cascaded across numerous other reports. The FRB FR Y-9C comment period closed on 2/11/19 and the implementation of new forms and instructions will begin as early as 3/31/19.

The remainder of the brief will focus on the regulatory reporting impacts of ASU 2016–13. Please see the following EY publications for additional information and background on ASU 2016–13:

- Summary of the new standard on credit losses – What is changing? (13-page document)
- Comprehensive guide on credit impairment under ASC 326 (263-page document)
Section 2:
Timeline for financial and regulatory reporting ASU 2016–13 adoption

Given the staggered ASU 2016–13 adoption dates, the FRB is implementing a revised form and instructions effective as early as 3/31/19, which clarifies the requirements for ASU 2016–13 adopters, adopters in transition, and non-adopters. Additionally, the FRB plans to have further revised item captions by early 2021. The FRB expects that most institutions will implement the standard in the first quarter of 2021.

For public business entities (PBEs) that are also SEC filers, the new ASU 2016–13 standard is effective for fiscal years beginning after 12/15/2019, including interim periods within those fiscal years. For PBEs that are not SEC filers, the new standard is effective after 12/15/2020, including interim periods within those fiscal years. For other institutions, the new standard is effective for fiscal years beginning after 12/15/2021, and for interim-period financial statements for fiscal years beginning after 12/15/2021. For regulatory reporting purposes, early application of the new standard will be allowed for all institutions for fiscal years beginning after 12/15/2018, including interim periods within those fiscal years.

The below timeline memorializes the financial reporting effective and transition dates for ASU 2016–13 and overlays the related FRB regulatory reporting effective and transition dates.

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1. Standard is effective for fiscal years beginning after December 15 of prior year, which is January 1 for calendar-year-end filers
2. 3-year transition period starts from the applicable effective date
3. Comment period for other reports can be found in detail below
The changes below outline the FR Y-9C impact that ASU 2016–13 adoption has across the report schedules. Impacts include additions, removals, revision, and clarifications of line items. The FRB FR Y-9C comment period closed on 2/11/19 and implementation of new forms and instructions begin as early as 3/31/19. The reporting impact is focused on loans, HTM and AFS debt securities. Below are the detailed changes by FR Y-9C schedule:

Section 3: Deep dive on the FR Y-9C impact in FRB response to ASU 2016–13

Schedule HI — Consolidated Income Statement
- Provisions for loan and lease losses (Line item HI 4) should be updated to include the provisions for all credit losses. This results in the line item no longer reconciling to HI-B Part II, item 5.  
- Additionally, HI-B Line item 17 is no longer applicable.

Schedule HI-B — Charge-Offs and Recoveries on Loans and Leases and Changes in Allowances for Credit Losses
- For all institutions, HI-B, Part II, “Changes for Allowance in Loans and Lease Losses”, to be renamed and expanded to provisions of credit losses. This includes breaking out a single amount column into three columns by product: 1) Loans and leases held for investment, 2) Held-to-maturity debt securities, and 3) Available-for-sale debt securities.  
- HI-B memoranda (memo) line item 4 is no longer applicable.  
- HI-B memo line items 5 and 6 were added to include: provisions and allowances for credit losses measured at amortized cost.

Schedule HI-C — Disaggregated Data on the Allowance for Loan and Lease Losses
- HI-C is now being split into Part I and Part II to provide different granularities for ASU 2016–13 adopters vs. non-adopters.  
- HI-C, Part II has been added and includes disaggregated data on the allowance for credit losses. The HI-C Part II now has two columns that capture amortized cost and allowance balance, maintains the rows related to loans and adds a section (six new line items) related to held-to-maturity securities.

Notes on Income Statement Predecessor Financial Items
- Provision for loan and lease losses (line item 4) should now be reported as the provision for credit losses.

Notes on Income Statement (Other)
- New line item to report values for initial allowances for credit losses on purchased credit-deteriorated assets and held-to-maturity debt securities.  
- New line items to be completed the quarter after ASU 2016-13 adoption to capture the effect of CECL on loans and leases held for investment and held-to-maturity debt securities.

Schedule HC — Consolidated Balance Sheet
- Held-to-maturity securities (line item 2.a), securities purchased under agreement to resell (line item 3.b), allowance for loans and lease losses (line item 4.c), and other assets (line item 11) should have any applicable allowances for credit losses reported.

Schedule HC-B – Securities
- Intra-series reconciliation point between HC-B and HC has been updated to also include HI-B.
Schedule HC-C — Loans and Lease Financing Receivables
- All institutions should continue not deducting the ACL for loan and lease financing receivables.
- No longer report memo item 5 (purchased credit-impaired loans held for investment accounted in accordance with AIPA Statement of Position 03–3).
- Institutions should report only loans held for investments not considered purchased credit-deteriorated for memo line item 12.

Schedule HC-F — Other Assets
- Report balances net of any applicable allowances for credit losses.
- For all institutions, continue to include accrued interest receivable on loans, leases, debt securities, and interest-bearing assets. Clarification has been added to exclude accrued interest receivables that are reported as financial assets at their amortized cost.

Schedule HC-G — Other Liabilities
- Report allowance for credit losses on off-balance sheet exposures that are not unconditionally cancelable on HC-G line item 3 (allowance for credit losses on off-balance sheet credit exposures).

Schedule HC-N — Past Due and Nonaccrual Loans, Leases, and Other Assets
- No longer report on memo item 9.a (outstanding balance) and Item 9.b (amount included in Schedule HC-N).

Schedule HC-R Part I — Regulatory Capital
- Complete new line item 2.a, which identifies whether the institution has a CECL transition election in effect as of the report date.
- Institutions that have elected to apply the transition provision should include the applicable portion of the CECL transitional amount in retained earnings (line item 2) and average total consolidated assets (line item 36).
- Institutions should report in item 30.a (allowance for loan and lease losses includable in tier 2 capital) the allowance for credit losses (ACL), as defined by regulatory capital. Additionally, institutions that have elected to apply the transition provision should subtract the applicable portion of the ACL transitional amount from line item 30.a.

Schedule HC-R Part II — Regulatory Capital
- Institutions should report as a negative number allowances included in tier 2 capital, adjustments to totals reported (column B), excluding PCD allowances for the following three-line items: 2.a (held-to-maturity securities), 3.b (securities purchased under agreements to resell), and 5 (loans and leases).
- Institutions should report the ACL for loans and leases in Schedule HC-R Part II line item 6 (allowance for loan and lease losses).
- Institutions should subtract the applicable portion of the deferred tax asset (DTA) transitional amount from all other assets (line item 8) in column B and report the allowances includable in tier 2 capital as a negative number, excluding PCD allowances.
- For ASU 2016–13 adopters, institutions should report the allowances includable in tier 2 capital as a negative number, excluding PCD allowances in on-balance sheet securitization exposures (line item 9.a) in column B.
- Institutions should report the allowances for credit losses in line items 26, 28 and 29 (risk-weighted asset-related line items).
- New memo item 5.a-5.c, which captures the amount of allowances for credit losses on purchased credit-deteriorated assets, should be completed.

Schedule HC-V — Variable Interest Entities
- Report assets net of any applicable allowance for credit losses for Schedule HC-V.
Section 4: Summary of select FRB reporting impacts in response to ASU 2016-13

Each of the below FRB reporting forms and instructions have been updated to include additions, removals, revisions, and clarifications of line items as a result of ASU 2016-13. Additionally, other reports where instructions and changes were given by the FRB were the FR 2248, FR 2320, FR 2644, FR 2866b, and FR Y-9LP/SP.

Specifically, each report below incorporates the following key changes:

**FFIEC 041 (Call Report) — Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only**
- Given the similar reporting requirements between the Call Report and the FR Y-9C, as expected, the ASU 2016-13 impact is primarily consistent. See above detailed analysis on the FR Y-9C.
- Throughout the report, new footnotes were added to give guidance for institutions who have/have not adopted ASU 2016–13.
- In the Call Report, new line items were added regarding disaggregated data on allowances for credit losses and allowances for credit losses on purchased credit-deteriorated assets.
- All revisions and additions effective 3/31/19 for reporting changes.

- New footnotes were added across applicable schedules to cover the adoption of CECL, specific to provisions for credit losses for financial assets and allowance for credit losses on loans and leases.
- New memo items and columns that were specific to schedule IS-B were added to cover held-to-maturity securities.
- The addition of data items and schedules is effective on 3/31/19.
- All revise item captions effective 3/31/21.

**FR Y-8 — The Bank Holding Company Report of Insured Depository Institutions’ Section 23A Transactions with Affiliates**
- Within the instructions of this report, changes were made regarding the insured depository allowances to add credit losses per ASU 2016–13 adoption.
- The addition of data items and schedules is effective on 3/31/19.
- All revise item captions effective 3/31/21.
Section 5: Impact considerations to regulatory reporting filers

ASU 2016–13 will impact the report production life cycle and firms need to begin acting to properly plan and action the new requirements. Firms should be assessing the impact of these changes while establishing appropriate timelines along the following key areas:

- Requirement definition and interpretation
- Updates to report requirements and data definitions
- Changes to data sourcing
- Changes to the technology platform or tactical platform used in production (e.g., updating report form templates, mapping changes)
- Testing of changes to the report production cycle
- Updates to related policies and procedures
- Training of relevant stakeholders

The regulatory reporting impact of ASU 2016–13 is just around the corner and the time to prepare is NOW.

The views we express in this publication may continue to evolve as implementation continues and further guidance is made available. Please contact us regarding any questions regarding the ASU 2016–13 regulation and how to efficiently and effectively address its impact to your report production process.
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