2018 Call Report Revisions and Other Reporting Changes

Federal Deposit Insurance Corporation –
Office of the Comptroller of the Currency – Federal Reserve Board

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Topics to be Covered

- Call Report changes for investments in equity securities and other equity investments
- Regulatory capital transition rule
- Call Report burden-reduction initiative and resulting Call Report revisions
- Reporting implications of the new tax law

Investments in Equity Securities and Other Equity Investments

Equity Investments

- ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, issued in Jan. 2016
  - Makes targeted improvements to U.S. GAAP
  - Changes the accounting for investments in equity securities and other equity investments
  - Effective dates of ASU 2016-01
    - Public Business Entities (PBEs) – Fiscal years beginning after Dec. 15, 2017, including interim periods within those fiscal years
      - Calendar year institutions: Effective date of changes = Jan. 1, 2018; Initial reporting = March 31, 2018, Call Report
    - Non-PBEs – Fiscal years beginning after Dec. 15, 2018, and interim periods within fiscal years beginning after Dec. 15, 2019, with early application at effective date for PBEs
      - Calendar year institutions: Effective date of changes = Jan. 1, 2019; Initial reporting = Dec. 31, 2019, Call Report

Equity Investments

- Accounting for equity investments under ASU 2016-01
  - New ASC Topic 321, Investments–Equity Securities
  - ASU applies to investments in equity securities and other ownership interests in an entity (including investments in partnerships, unincorporated joint ventures, and limited liability companies) that do not result in consolidation and are not accounted for under the equity method
  - All equity investments within scope of ASU 2016-01 will be measured at fair value through earnings, i.e., unrealized holding gains (losses) are included in earnings
    - Eliminates available-for-sale (AFS) category equity securities with readily determinable fair values not held for trading under ASC Topic 320
    - Eliminates cost method for investments in equity securities without readily determinable fair values
  - ASU does not apply to Federal Reserve Bank stock and Federal Home Loan Bank stock

Equity Investments

- Accounting for equity investments under ASU 2016-01
  - A practical expedient may be elected for each equity investment without a readily determinable fair value as an alternative to fair value measurement
    - Election permits such equity investments to be accounted for at cost, less impairment, plus or minus subsequent adjustments for observable price changes in orderly transactions for identical or similar investment of same issuer
      - Election made for each investment separately as of effective date of standard or at subsequent acquisition date
      - The value change from impairment or an observable price change is reported in current earnings

Equity Investments

- Accounting for equity investments under ASU 2016-01
  - Entries as of effective date:
    - Reclassify net unrealized gains (losses) on AFS equity securities from accumulated other comprehensive income (AOCI) to retained earnings (RE)
      - Debit (credit) AOCI; Credit (Debit) RE
      - No change to total equity capital
      - No amount to report in Call Report Schedule RI-A
    - For equity investments without readily determinable fair values:
      - If measurement alternative is elected, no entry (alternative is applied prospectively)
      - If measurement alternative is not elected, restate equity investment to its fair value as of effective date
        - » Record value change, net of tax effect, as a cumulative-effect adjustment in RE (and Schedule RI-A, item 2)

Equity Investments

- Interaction with Regulatory Capital Rules
  - As of effective date of the ASU, because of the reclassification of net unrealized holding gains (losses) on AFS equity securities from AOCI to retained earnings
    - CET1 capital increases for AOCI opt-out institutions with net unrealized gains
    - No change to CET1 capital for other institutions with net unrealized gains due to effect of regulatory capital transition rules
    - No change to CET1 capital for institutions with net unrealized losses
  - Going forward, changes in net unrealized holding gains (losses) on former AFS equity securities will be recognized in earnings (and retained earnings) each period, directly affecting CET1 capital for all institutions

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Revisions take effect in Call Report for March 31, 2018
  - Schedule RC, Balance Sheet

Dollar Amounts in Thousands	RCON	Amount	
Assets			
1. Cash and balances due from depository institutions (from Schedule RC-A):			
a. Noninterest-bearing balances and currency and coin[1]	0081		1.a.
b. Interest-bearing balances[2]	0071		1.b.
2. Securities:			
a. Held-to-maturity securities (from Schedule RC-B, column A)	1754		2.a.
b. Available-for-sale securities (from Schedule RC-B, column D)	1773		2.b.
c. **Equity securities with readily determinable fair values not held for trading**[3]	JA22		2.c.

3. Item 2.c is to be completed only by institutions that have adopted ASU 2016-01, which includes provisions governing the accounting for investments in equity securities. See the instructions for further detail on ASU 2016-01.

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Schedule RC-B, Securities

	Held-to-maturity				Available-for-sale				
	(Column A) Amortized Cost		(Column B) Fair Value		(Column C) Amortized Cost		(Column D) Fair Value		
Dollar Amounts in Thousands	RCON	Amount	RCON	Amount	RCON	Amount	RCON	Amount	
7. Investments in mutual funds and other equity securities with readily determinable fair values[2, 3]					A510		A511		7.
8. Total (sum of items 1 through 7) (total of column A must equal Schedule RC, item 2.a) (total of column D must equal Schedule RC, item 2.b)	1754		1771		1772		1773		8.

3. Item 7 is to be completed only by institutions that have not adopted ASU 2016-01, which includes provisions governing the accounting for investments in equity securities. See the instructions for further detail on ASU 2016-01.

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Schedule RC-M, Memoranda
  - New item 4 replaces Schedule RC-B, item 7, column A, for insured state banks with grandfathered equity securities

4. **Cost of equity securities with readily determinable fair values not held for trading[1]**	JA29		4.

1. Item 4 is to be completed only by insured state banks that have adopted ASU 2016-01, which includes provisions governing the accounting for investments in equity securities, and have been approved to hold grandfathered equity investments. See instructions for further detail on ASU 2016-01.

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Schedule RI, Income Statement

Dollar Amounts in Thousands	RIAD	Year-to-date Amount	
e. Total noninterest expense (sum of items 7.a through 7.d)	4093		7.e.
8. a. **Income (loss) before unrealized holding gains (losses) on equity securities not held for trading, applicable income taxes, and discontinued operations (item 3 plus or minus items 4, 5.m, 6.a, 6.b, and 7.e)**	HT69		8.a.
b. **Unrealized holding gains (losses) on equity securities not held for trading**[3]	HT70		8.b.
c. Income (loss) before applicable income taxes and discontinued operations **(sum of items 8.a and 8.b)**	4301		8.c.
9. Applicable income taxes (on **item 8.c**)	4302		9.
10. Income (loss) before discontinued operations (item 8.c minus item 9)	4300		10.
11. Discontinued operations, net of applicable income taxes*	FT28		11.

3. Item 8.b is to be completed only by institutions that have adopted ASU 2016-01, which includes provisions governing the accounting for investments in equity securities. See the instructions for further detail on ASU 2016-01.

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Schedule RC-K, Quarterly Averages

Dollar Amounts in Thousands	RCON	Amount	
Assets			
4. **All other debt securities[2] and equity securities with readily determinable fair values not held for trading[3]**	B560		4.
9. Total assets[5]	3368		9.

3. For institutions that have adopted ASU 2016-01, which includes provisions governing the accounting for investments in equity securities, quarterly averages for equity securities with readily determinable fair values should be based on fair value. For institutions that have not adopted ASU 2016-01, quarterly averages for equity securities with readily determinable fair values should be based on historical cost.

5. The quarterly average for total assets should reflect securities not held for trading as follows:
   a) Debt securities at amortized cost.
   b) For institutions that have adopted ASU 2016-01, equity securities with readily determinable fair values at fair value. For institutions that have *not* adopted ASU 2016-01, equity securities with readily determinable fair values at the lower of cost or fair value.
   c) For institutions that have adopted ASU 2016-01, equity investments without readily determinable fair values, their balance sheet carrying values (i.e., fair value or, if elected, cost minus impairment, if any, plus or minus changes resulting from observable price changes). For institutions that have *not* adopted ASU 2016-01, equity investments without readily determinable fair values at historical cost.

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Schedule RC-F, Other Assets

Dollar Amounts in Thousands	RCON	Amount	
4. Equity investments **without** readily determinable fair values[4]	1752		4.

4. Include Federal Reserve stock, Federal Home Loan Bank stock, and bankers' bank stock.

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Schedule RC-R, Regulatory Capital, Part I. Regulatory Capital Components and Ratios

	0=No	RCOA		
a. AOCI opt-out election (enter "1" for Yes; enter "0" for No.)	1=Yes	P838		3.a.
Common Equity Tier 1 Capital: Adjustments and Deductions				
9. AOCI-related adjustments (if entered "1" for Yes in item 3.a, complete only items 9.a through 9.e; if entered "0" for No in item 3.a, complete only item 9.f):				
a. LESS: Net unrealized gains (losses) on available-for-sale securities (if a gain, report as a positive value; if a loss, report as a negative value)[1]		P844		9.a.
b. LESS: Net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures (report loss as a positive value)[2] ...		P845		9.b.

1. Institutions that entered "1" for Yes in item 3.a and have adopted ASU 2016-01, which includes provisions governing the accounting for investments in equity securities, should report net unrealized gains (losses) on available-for-sale debt securities in item 9.a. Institutions that entered "1" for Yes in item 3.a and have not adopted ASU 2016-01 should report net unrealized gains (losses) on available-for-sale debt and equity securities in item 9.a.
2. Item 9.b is to be completed only by institutions that entered "1" for Yes in item 3.a and have not adopted ASU 2016-01. See instructions for further detail on ASU 2016-01.

03/2018

Equity Investments

- Call Report Revisions for Change in Accounting for Equity Securities and Other Equity Investments
  - Schedule RC-R, Regulatory Capital, Part II. Risk-Weighted Assets

	(Column A) Totals From Schedule RC	(Column B) Adjustments to Totals Reported in Column A	(Column C)	(Column D)	(Column E)	(Column F)	(Column G)	(Column H)	(Column I)
			Allocation by Risk-Weight Category						
			0%	2%	4%	10%	20%	50%	100%
Dollar Amounts in Thousands	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount
Balance Sheet Asset Categories[2]									
2. Securities:									
a. Held-to-maturity securities	RCON D961	RCON S399	RCON D962	RCON HJ74	RCON HJ75		RCON D963	RCON D964	RCON D965
b. **Available-for-sale debt securities and equity securities with readily determinable fair values not held for trading**	RCON JA21	RCON S402	RCON D967	RCON HJ76	RCON HJ77		RCON D968	RCON D969	RCON D970

Regulatory Capital Transition Rule

Regulatory Capital Transition Rule: Overview

- Final Rule published November 21, 2017
  - https://www.gpo.gov/fdsys/pkg/FR-2017-11-21/pdf/2017-25172.pdf
- Effective January 1, 2018 (March 31, 2018 Call Report)
- Applies to all non-advanced approaches institutions

- Maintains risk-weights and transition adjustments for certain exposures applicable during 2017
- Primarily instructional revisions

Regulatory Capital Transition Rule: Details

- Maintains deduction of 80% (instead of 100%) of amounts over applicable limits for:
  - MSAs
  - Temporary Difference DTAs
  - All investments in all capital instruments of unconsolidated financial institutions
- Maintains use of simplified 15% limit deduction calculation
- Maintains 100% risk weight (instead of 250%) for amounts not deducted of:
  - MSAs, Temporary Difference DTAs, significant investments in the capital of unconsolidated financial institutions in the form of common stock
- Include in regulatory capital 20% (instead of 0%) of minority interest over applicable limits for CET1, Tier 1, and total capital minority interests

Call Report Burden-Reduction Initiative and Resulting Call Report Revisions

Call Report Burden-Reduction Initiative

- Launched by FFIEC in December 2014
- Actions include
  - Statutorily mandated review of all Call Report data items
    - Call Report data users at FFIEC member entities participated in nine surveys covering groups of Call Report schedules from July 2015 to February 2017
    - Users directed to fully explain their need for each data item they deem essential
    - Survey results were used to identify data items for consideration for removal, less frequent collection, or new or upwardly revised reporting thresholds

Call Report Burden-Reduction Initiative

- Community bank outreach to better understand institutions' Call Report processes that are significant sources of reporting burden, including
  - On-site visits to nine community institutions – 3rd quarter 2015
  - Conference call meetings with community bankers – Feb. 2016
  - Feedback provided as part of the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) process
- Evaluate feasibility and merits of creating a less burdensome Call Report for smaller institutions
  - Considered feedback from banker outreach activities and results of interagency reviews of existing Call Report data items
  - Resulted in proposal for new FFIEC 051 Call Report in Aug. 2016
- Periodic Call Report training for bankers via teleconferences and webinars

Call Report Burden-Reduction Initiative

- Phase I: August 15, 2016, proposal to create the FFIEC 051 report, and revise the FFIEC 041 and FFIEC 031 Call Reports
  - Implemented March 31, 2017
- Phase II: June 27, 2017, proposal to revise the FFIEC 051, FFIEC 041, and FFIEC 031 Call Reports
  - Burden-reduction revisions implementation on June 30, 2018
- Phase III: November 8, 2017, proposal to revise the FFIEC 051, FFIEC 041, and FFIEC 031 Call Reports
  - Burden-reduction revisions proposed implementation on June 30, 2018

Phase I Data Revisions: Effective March 31, 2017

Call Report Revisions	051	041	031
Items Removed, Net	933	26	24
Change in Item Frequency to Semiannual	96		
Change in Item Frequency to Annual	10		
Items with a New or Increased Reporting Threshold		7	13

Phases II and III – Proposed Data Revisions: June 30, 2018

Proposed Call Report Revisions	051	041	031
Items Proposed to be Removed, Net	69	290	220
Proposed Change in Item Frequency to Semiannual	17	31	31
Proposed Change in Item Frequency to Annual	26	3	3
Items with a Proposed New or Increased Reporting Threshold	55	287	395

Revisions to FFIEC 051 Proposed for June 30, 2018

- Examples of Removal of Data Items
  - Schedule RC-A – Cash and Balances Due from Depository Institutions. All items removed.
  - Schedule RI (Income Statement). 3 data items on fee and commission breakouts combined into 1 data item; 2 data items on insurance activity combined into 1 data item; removal of 2 other data items.
  - Schedule RC-B (Securities). 8 data items on U.S. Government agency obligations combined into 4 data items; 12 data items on structured financial products by type combined into 4 data items; 28 data items on structured financial products by underlying collateral or reference asset removed.
  - Schedule RC-L (Off-Balance Sheet Items). 2 data items on unused credit card lines, and 1 data item on unused securities underwriting commitments removed.

Revisions to FFIEC 051 Proposed for June 30, 2018

- Examples of Reduction in Reporting Frequency
  - Schedule RI-E (Explanations). Quarterly to annual reporting of components of other noninterest income/expense.
  - Schedules RC-C, Part I and RC-N (Loans and Past Due/Nonaccrual). Quarterly to semiannual reporting of information on purchased credit-impaired loans.
- Examples of Increase in Reporting Threshold
  - Schedule RI-E (Explanations). Report components of other noninterest income/expense only for amounts greater than $100,000 that exceed 7 percent of total.
  - Schedule RC-T (Fiduciary and Related Services). Increase of fiduciary asset threshold, for exemption of reporting income information, from $100 million or less to $250 million or less; information on collective investment funds completed by banks with market value of $1 billion or more in such funds.

Revisions to FFIEC 031 and FFIEC 041 Proposed for June 30, 2018

- Examples of Removal of Data Items
  - Schedule RC-D (Trading Activity).   22 data items on loans held for trading combined into 6 data items.
  - Schedule RC-P (Mortgage Banking Activity). 17 data items on mortgage loan originations, purchases and sales combined into 6 data items; 5 other data items on mortgage loan originations, purchases and sales removed.
- Example of Reduction in Reporting Frequency
  - Schedule RC-C, Part I (Loans). Quarterly to semiannual reporting of 12 data items on loans acquired in business combinations.
- Example of Increase in Reporting Threshold
  - Schedule RC-B (Securities). 52 data items on asset-backed securities and structured financial products only reported by institutions with $10 billion or more in total assets.

Future Burden-Reducing Proposals

- Institutions and others raised concerns during the EGRPRA comment process and the Call Report review about the regulatory burden of Schedule RC-R and the associated regulatory capital rules.
  - If the agencies modify the regulatory capital rules, the agencies would also propose modifications to the associated reporting requirements on Schedule RC-R.
- The agencies are reviewing Call Report data to evaluate the appropriate scope and criteria for potentially expanding the number of institutions eligible to file the FFIEC 051.
  - The agencies anticipate publishing a proposal for comment later this year.

Resources for FFIEC 051

- Redlined draft FFIEC 051 report forms – March/June 2018 revisions
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC051_20180103_f_draft_march.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC051_20171107_f_draft.pdf
- Lists detailing burden-reduction revisions to FFIEC 051 data items that take effect June 30, 2018
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC051_20180103_DataElementsImpact.pdf;
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC051_20171107_DataElementsImpact.pdf
- Draft FFIEC 051 Instructions – March/June 2018 revisions
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC051_20180103_i_draft.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC051_20171121_i_draft.pdf

Resources for FFIEC 041

- Redlined draft FFIEC 041 report forms – March/June 2018 revisions
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC041_20180103_f_draft_march.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC041_20171107_f_draft.pdf
- Lists detailing burden-reduction revisions to FFIEC 041 data items that take effect June 30, 2018
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC041_20180103_DataElementsImpact.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC041_20171107_DataElementsImpact.pdf
- Draft FFIEC 041 Instructions – March/June 2018 revisions
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_20180103_i_draft.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_20171121_i_draft.pdf

Resources for FFIEC 031

- Redlined draft FFIEC 031 report forms – March/June 2018 revisions
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_20180103_f_draft_march.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_20171107_f_draft.pdf
- Lists detailing burden-reduction revisions to FFIEC 031 data items that take effect June 30, 2018
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_20180103_DataElementsImpact.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_20171107_DataElementsImpact.pdf
- Draft FFIEC 031 Instructions – March/June 2018 revisions
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_20180103_i_draft.pdf
  https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_20171121_i_draft.pdf

Reporting Implications of the New Tax Law

New Tax Law

- Tax Cuts and Jobs Act signed into law on Dec. 22, 2017
  - Reduces U.S. corporate income tax rate to 21%
  - Makes other significant changes to both corporate and individual income taxes
- GAAP requires institutions to recognize the effect of a change in tax laws or rates in the period the legislation is enacted
  - ASC 740-10-25-47
- Interagency Statement on Accounting and Reporting Implications of the New Tax Law
  - Issued Jan. 18, 2018
  - https://www.fdic.gov/news/news/financial/2018/fil18006a.pdf

New Tax Law

- Deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are measured using the enacted tax rates expected to apply to taxable income in the periods in which the DTA or DTL is expected to be settled or realized
- When a change in tax rates is enacted, institutions must adjust DTAs and DTLs and report the change in net income
  - ASC 740-10-35-4, ASC 740-10-45-15
- When the change in rates is a reduction, institutions must reduce the amounts of their DTAs and DTLs

New Tax Law

- For an institution with net DTAs, the reduction in U.S. corporate income tax rate requires a reduction of its net DTAs on the balance sheet and a corresponding increase in income tax expense
  - Reduces net income
  - Effect on regulatory capital also depends on the sources of the net DTAs and the extent to which DTAs are deducted from regulatory capital
- Conversely, for an institution with net DTLs, the reduction in U.S. corporate income tax rate requires a reduction of its net DTLs on the balance sheet and a corresponding decrease in income tax expense
  - Increases net income

New Tax Law

- Because Tax Cuts and Jobs Act was enacted before year-end 2017, effects of the new law would be reported in an institution's Call Report for Dec. 31, 2017
- Per Interagency Statement
  - Institutions expected to reasonably estimate effects of new tax law when preparing Call Reports for Dec. 31, 2017
  - Institutions may use measurement period approach described in SEC Staff Accounting Bulletin No. 118 (SAB 118) and a related FASB Staff Q&A on application of SAB 118 by private companies
  - Measurement period approach allows refinement of reasonable estimates for up to one year following enactment of new law without filing amended Call Reports for adjustments to estimates
  - https://www.sec.gov/interps/account/staff-accounting-bulletin-118.htm
  - http://www.fasb.org/cs/Satellite?c=Document_C&cid=1176169782120&pagename=FASB%2FDocument_C%2FDocumentPage

New Tax Law

Example:

Deductible temporary difference in 2017 before new tax law: $1MM

- DTA initially recorded at $350M based on 35% tax rate ($1MM x 35% = $350M)
- DTA expected to reverse in 2018 and thereafter when tax rate will be 21%
- 12/31/2017 Call Report includes DTA adjusted for new tax rate ($1MM x 21% = $210M)
- Reduction in DTA is reported in income tax expense

New Tax Law

- Journal entry to adjust DTA upon enactment in 2017:

  Debit: Income tax expense $140M

  Credit: DTA $140M

  ($350M - $210M = $140M)

Deferred Tax Asset	
350	
	140
210	

Income Tax Expense	
140	
140	

- Include $140M in Schedule RI, item 9, "Applicable income taxes"

Stranded Tax Effects in AOCI

- FASB ASU 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from AOCI”
  - ASU issued Feb. 18, 2018
  - FASB approved issuing a proposal on Jan. 10, 2018
  - Reclassification is an election; not mandatory
  - In Interagency Statement, agencies permitted institutions to apply the FASB’s proposed guidance in Call Reports for Dec. 31, 2017
  - When reclassifying, adjust Schedule RC, item 26.a, “Retained Earnings,” and item 26.b, “Accumulated other comprehensive income”
  - Because total bank equity capital unchanged, no adjustment is reported in Schedule RI-A

Stranded Tax Effects in AOCI

AFS Debt Security with unrealized loss

Facts: ABC Bank originally purchased an AFS debt security in July 2017 for $1,000,000 and designated the security as available for sale (AFS). As of September 30, 2017, the AFS debt security had a fair value of $990,000. As a result of the Tax Act, the institution's tax rate changes from 35 percent to 21 percent effective for tax years beginning on or after January 1, 2018. The fair value remains $990,000 at December 31, 2017.

Journal Entries

7/1/2017	AFS Debt Security	1,000,000		
	Cash		1,000,000	
	To record the purchase of the AFS debt security			
9/30/2017	AOCI	6,500		(unrealized loss of 10,000 net of tax at 35%)
	DTA	3,500		(unrealized loss of 10,000 x 35% tax rate)
	AFS Debt Security		10,000	
	To record the decline in fair value of the AFS debt security			

Stranded Tax Effects in AOCI

AFS Debt Security with unrealized loss

Facts: ABC Bank originally purchased an AFS debt security in July 2017 for $1,000,000 and designated the security as available for sale (AFS). As of September 30, 2017, the AFS debt security had a fair value of $990,000. As a result of the Tax Act, the institution's tax rate changes from 35 percent to 21 percent effective for tax years beginning on or after January 1, 2018. The fair value remains $990,000 at December 31, 2017.

Journal Entries (continued)

12/22/2017	Income Tax Expense	1,400		(to adjust DTA of 3,500 to 2,100 or at 21% rate)
	DTA		1,400	
	To record the remeasurement of the DTA due to change in tax rates			
12/31/2017	AOCI	1,400		
	Retained Earnings		1,400	
	To record the reclassification of the tax effect in AOCI to Retained Earnings			

Stranded Tax Effects in AOCI

T-Accounts for Example

Cash			
		1,000,000	*7/1/2017*
		1,000,000	

AFS Debt Securities			
7/1/2017	1,000,000		
		10,000	*9/30/2017*
	990,000		

AOCI			
9/30/2017	6,500		
As of 12/31/2017	1,400		
	7,900		

Retained Earnings			
		1,400	*As of 12/31/2017*
		1,400	

Deferred Tax Asset			
9/30/2017	3,500		
		1,400	*As of 12/22/2017*
	2,100		

Income Tax Expense			
As of 12/22/2017	1,400		
	1,400		

Regulatory Capital Effects

- Temporary Difference DTAs
  - Regulatory capital treatment differs based on whether DTAs could be, or could not be, realized through net operating loss (NOL) carrybacks
  - DTAs that could not be realized through NOL carrybacks that exceed deduction thresholds are deducted from CET1 capital
  - New tax law generally removes NOL carrybacks for tax years beginning on or after Jan. 1, 2018
  - As a result, all federal temporary difference DTAs become subject to CET1 capital deduction thresholds, except to extent of recoverable federal taxes paid for the current tax year

Questions and Answers