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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[START OF TRANSCRIPT]

Tony: Ladies and gentlemen, welcome and thank you for joining our FFIEC Webinar: 2018 Call Report Revisions and Other Reporting Changes. Before we get started, we would like to mention for all of our guests connected in today that your phone lines are in a listen-only mode to minimize our background noise.

At any point during the conference, if you do have a technical issue, you can submit this via the chat window on the right-hand side of your screen. Please do address all of these technical problems to myself at "event producer". We will have a Q-and-A session at the end of the call, but you can submit your questions to us at any point throughout today's webinar by, again, using that chat window on the right-hand side of your WebEx. Please then address all of these note questions to all panelists.

With that, I'd like to introduce today's conference and hand the call over to Bob Storch, Chief Accountant at the FDIC. Bob, please go ahead.

Bob: Thank you, Tony. I'd like to welcome all of the participants who have joined us today for this FFIEC interagency webinar on Call Report revisions taking effect in 2018 and certain other reporting changes we would like to inform you about. We apologize for some challenges we had in getting the PDF file of the presentation materials posted on FFIEC's website this morning. It is there now, so hopefully you'll have access to it and will be able to have a copy as well as view the slides on the screen as we go through them. We have quite a bit of material to cover in the next 60 minutes or so. As Tony mentioned, we'll have a question-and-answer period after that. We have four topics that we'll be covering today if you want to move to the next slide.

First, we'll talk about Call Report changes that are taking effect in March related to an accounting change that affects equity securities. Andrew Overton from the FDIC will cover that topic. Then we'll move to Kevin Korzeniewski from the OCC talking about the regulatory capital transition rule and the consequences that has for Call Reports. Then we'll turn to Doug Carpenter from the Federal Reserve Board who will talk about the Call Report burden-reduction initiative and the resulting Call Report revisions. Then we'll return back to me, and I'll talk about some reporting implications of a new tax law that was enacted in December.

The questions you submit today, we're looking forward to receiving them. They can cover any of the four topics we plan to cover, but if you have questions about other Call Report matters, please, this is an opportunity to try to get them answered. If you haven't located the presentation materials, they are on the FFIEC's website. The website address is www.FFIEC.gov. If you're on the homepage, then located toward the bottom of the page, you'll see a link that says, "Reporting Forms." If you click on that, it'll take you to a page that has all the FFIEC reporting forms. Probably about two-thirds of the way down the page, you'll see the Call Report forms. Highlighted in red font is the link to the presentation material. We wanted to make it red to have it better jump out at you.

With that as preliminary information, we're looking forward to having a webinar that provides you useful information and helpful responses to your questions, and on that, we turn to the next slide and Andrew Overton from the FDIC can introduce the first topic for today. Andrew?

Andrew: Thank you, Bob. In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, ASU 2016-01, recognition and measurement of financial assets and financial liabilities. The ASU makes targeted improvements to US generally accepted accounting principles (GAAP). The ASU changes the accounting for investments in equity securities and other equity investments.

The effective dates of the ASU for Public Business Entities or PBEs are fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For calendar year institutions, the effective date of the changes is January 1, 2018 with initial reporting on the March 31, 2018 Call Report. For non-PBEs, the effective dates are fiscal years beginning after December 15, 2018, and interim periods within those fiscal years beginning after December 15, 2019, with early application or adoption at the same time as the PBEs. For calendar year institutions that are non-PBEs, the effective dates of the changes are January 1, 2019 with initial reporting on the December 31, 2019 Call Report.

On the next slide, I will go over the accounting changes for the equity securities. The ASU introduces new accounting standards codification or ASC Topic 321: Investments- Equity Securities. The 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 the scope of ASU 2016-01 will be measured at fair value through earnings. The unrealized holding gains and losses are included in earnings. The ASU eliminates the available-for-sale or AFS category for equity securities with readily determinable fair values not held for trading, formerly under ASC Topic 320. The ASU also eliminates the cost method for investments in equity securities without readily determinable fair values. In addition, the ASU does not apply to Federal Reserve Bank Stock and Federal Home Loan Bank Stock.

On the next slide, we'll talk about the practical expedient that may be elected for each equity investment without a readily determinable fair value as an alternative to fair value measurement. The 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 investments of the same issuer. Now the election should be made for each investment separately as of the effective date of the standard or at a subsequent acquisition date. The value change from the impairment or an observable price change is reported in current earnings.

Next, I will go over the journal entries for the change in equity investments. As of the effective date, the entries would be to reclassify net unrealized gains and losses on AFS equity securities. Banks would make these entries to reclassify the unrealized gains and losses from accumulated other comprehensive income or AOCI to retained earnings.

For those institutions with unrealized gains, AOCI would be debited and retained earnings would be credited. For those with unrealized losses, retained earnings would be debited and AOCI would be credited. There is no change to total equity capital, and there's also no amount to report in Call Report Schedule RI-A. Those were the changes for securities with readily determinable fair values.

For equity investments without readily determinable fair values, if the measurement alternative is elected, there is no entry because the alternative is applied prospectively. If the measurement alternative is not elected; the equity investment is restated to its fair value as of the effective date. The value change is recorded net of tax as a cumulative effect adjustment in retained earnings in Schedule RI-A, line item 2.

On the next slide, I will go over capital implications of the ASU. As I discussed in the prior slide, there is a reclassification of the unrealized holding gains and losses from AOCI to retained earnings. Common Equity Tier 1 capital or CET1 increases for those institutions that opted out of AOCI. For the AOCI opt-out institutions with net unrealized gains, there will be an increase in CET1 capital. There is no change to CET1 capital for other institutions with net unrealized gains due to the effect of regulatory capital transitions. There is also no change to CET1 capital for institutions with net unrealized losses. Going forward, changes in net unrealized holding gains or losses on former AFS equity securities will be recognized in earnings and retained earnings in each period directly affecting CET1 capital for all institutions.

In the next few slides, I will go over the Call Report items that were affected by the ASU. The revisions will take effect for the March 31, 2018, Call Report for those institutions that have adopted the ASU.

The first slide includes the changes to Schedule RC, Balance Sheet. There is an additional line item under line item 2, which is item 2.c for equity securities with readily determinable fair values not held for trading.

On the next slide, there is a footnote that has an update to line item 7 on Schedule RC-B, Securities. That line item is still completed by institutions that have not adopted ASU 2016-01.

On the next slide, there is a new line item which is on Schedule RC-M, the memoranda schedule. There is a new line item, item 4, which replaces the prior line items discussed in the previous slide, item 7 on Schedule RC-B, for those institutions that have adopted ASU 2016-01. That line item is the cost of equity securities with readily determinable fair values not held for trading. Specifically, the line item replaces item 7 for those insured state banks with grandfathered equity securities.

On the next slide, we'll talk about the income statement effect of the Call Report. On Schedule RI, Income Statement, there is an additional line item to report the unrealized holding gains and losses on equity securities not held for trading. This line item is to be completed only by institutions that have adopted ASU 2016-01. Then, for Schedule RC-K, Quarterly Averages, there is a caption change to reflect the ASU for line item 4.

On slide 14, Schedule RC-F, Other Assets, there's a caption change to reflect the new terminology, equity securities without readily determinable fair values.

Then on the next slide, for Schedule RC-R, Regulatory Capital, Part I, the footnotes will be updated to reflect that for Schedule RC-R, there will be an impact on capital that was discussed previously. Finally, on the last slide, Schedule RC-R, Regulatory Capital, Part II, line item 2.b, there's another change to the caption to reflect the new terminology for the AFS equity securities with readily determinable fair values not held for trading.

That wraps it up for my portion of the presentation, and I will hand it over to Kevin for Regulatory Capital transitions.

Kevin: Thank you, Andrew. I'll be discussing the Regulatory Capital transition rules' reporting impact on Schedule RC-R. While not necessary, if you like to follow along on Schedule RC-R, Part I, I'll note specific line items affected in a few minutes. You can look at either the 051 or 041 version of the schedule as all the references will be the same. While not every change in the rule affects every institution, the rule will affect reporting for most institutions.

Starting with the basics, the final rule was published on November 21 of last year. The rule had an effective date of January 1 of this year and some institutions may have already started incorporating the changes in the rule for capital planning or internal reporting purposes. However, the first impact for public reporting starts with March 31 Call Report. Who's affected by the rule? The transition rule applies to all non-advanced approaches institutions subject to the agencies' capital rules, essentially all community banks and many midsize and regional banks.

What's the rule do? Back in 2013 when the agencies significantly revised their capital rules, they included a number of transition provisions. Recognition of capital instruments that no longer qualified under the new rules were gradually phased out, while deductions and higher risk weights required by the new rules were gradually phased in. These transitions were originally designed to fully implement many of their related provisions starting in 2018. The Regulatory Capital Transition Rule maintains a number of the transitions applicable in 2017 into 2018 for non-advanced approaches institutions.

With that background, moving on to the next slide, let's dive into the specific transitions affected by the transition rule. Most of the provisions in the rule impact three categories of assets held by many institutions: mortgage servicing assets, deferred tax assets due to temporary differences and investments in capital instruments of unconsolidated financial institutions. Each of these categories is subject to limits on how much can be included in regulatory capital. Generally, any amount of mortgage servicing assets, deferred tax assets from temporary differences and both significant and non-significant investments in common stock of unconsolidated financial institutions in excess of 10% of common equity tier one capital must be deducted. The transition rule maintains the deduction at 80% of each of these items over the 10% limit instead of requiring full deduction.

If you're following along, these items are reported on Schedule RC-R, Part I, lines 11, 13, 14 and 15. In addition, any significant, or non-significant, investments in other capital instruments that are not common stock of unconsolidated financial institutions are subject to comparable limits. The transition rule similarly maintains the deduction at 80% of any amount of these items over the applicable limits instead of requiring full deduction. The deduction amounts are calculated and recorded in Schedule RC-R, Part I, lines 24 or 33, depending on whether the instruments qualify as additional tier one or tier two capital.

The capital rule also requires a deduction if the sum of mortgage servicing assets, deferred tax assets from temporary differences and significant investments in the common stock of unconsolidated financial institutions, is greater than 15% of common equity tier one capital. This is calculated on Schedule RC-R, Part I, line 16. The method to calculate the 15% limit in the capital rule is somewhat complex. However, the 2013 capital rule also provided a simpler approach to calculate the 15% limit through 2017, and the transitions rule maintains the use of that simpler approach in 2018.

Next, the transition rule maintains a 100% risk weight for any amounts of mortgage servicing assets, deferred tax assets due to temporary differences and significant investments in common stock of unconsolidated financial institutions that are not deducted from regulatory capital. Without the transition rule the risk weights for these assets were scheduled to increase to 250% beginning in 2018.

Furthermore, the transition rule allows institutions to continue to include up to 20% of minority interest over applicable limits, referred to as non-qualifying minority interest that would otherwise not have been includable in common equity tier one or tier two capital. These items are reported on Schedule RC-R, Part I, lines 4, 22 and 29, respectively.

I'd like to wrap up this section of the presentation with two notes. First, the transition rule maintains some but not all of the transitions included in the 2013 Capital Rule at the 2017 levels. Some of the transitions from the 2013 rule will be fully implemented for all institutions for the March 31 Call Report. These transitions primarily relate to whether certain items that must be deducted from regulatory capital, are deducted from common equity tier one capital or from the broader tier one capital.

Second, I mentioned earlier that the transition rule maintains the transitions at the 2017 levels into 2018. However, the transition rule did not include an expiration date for this treatment, which means that the modified transition provisions would continue to apply into the future until the agencies issue new capital rules to change that treatment. Thank you.

Now I'll turn it over to Doug to discuss the Call Report Burden-Reduction Initiative.

Doug: Thank you Kevin. Let's go ahead and turn to slide 21. The FFIEC launched a formal initiative in December 2014 to identify potential opportunities to reduce burden associated with Call Report requirements for community banks and to respond to industry concerns about the cost and burden associated with the Call Report.

The formal initiative, which was supported by the adoption of a set of guiding principles that Call Report data item should meet, was comprised of actions in several areas. One action included an acceleration of the start of the statutorily mandated review of the existing Call Report data items, a review that otherwise would not have commenced until 2017.

As mandated by section 604 of the Financial Services Regulatory Relief Act of 2006, the federal banking agencies are required to review the information and schedules that are filed by an insured depository institution in its report of condition within one year of the legislation's enactment, and then perform a similar review every five years thereafter.

After completing this review, the agencies are directed to reduce or eliminate reporting requirements that are no longer necessary or appropriate. To facilitate this review, users of Call Report data items at the FFIEC member entities participated in a series of nine surveys that began in July 2015 and ended in February 2017. This survey review process was different from surveys conducted to support prior statutory reviews, as it was delivered to survey participants in multiple parts which allowed participants to focus on providing well-developed responses concerning their usage of related Call Report schedules and specific data items.

Survey participants represented a wide variety of functional areas from all FFIEC member entities that use the Call Report, including research analysts, resolution specialists, safety and soundness examiners, compliance examiners, policy development specialists, trust specialists, accounting policy analysts, capital market specialists, economists, attorneys and other specialists. As an integral part of the surveys users were asked to identify items they defined as essential in order to perform their supervisory, or other public policy responsibility, or to comply with laws and regulations. To support their responses, participants were required to provide written comments on how these essential data items are used in the performance of their job function, the frequency with which each data item is needed, and the population of institutions from which each data item is needed.

Based on the survey comments, analysis of Call Report data, and stakeholder input, staff then identified, clarified and validated which parts of the Call Report were essential and used by various FFIEC member entity stakeholders, and then also identified data items that should be considered for elimination, less frequent collection, or new or upwardly revised reporting thresholds.

Now if we can turn to slide 22. As another action under the initiative, the agencies conducted and participated in several outreach efforts to better understand, through industry dialogue, the aspects of reporting institutions Call Report preparation process that are significant sources of reporting burden, including where manual intervention by institution staff is necessary to report particular information. As an initial step toward improving this understanding, representatives from the FFIEC member entities visited nine community banks during the third quarter of 2015. In addition, in the first quarter of 2016, two bank trade groups - the Independent Community Bankers of America and the American Bankers Association - each organized three conference call meetings with small groups of community bankers in which representatives from the FFIEC member entities participated. During the visits to banks and the conference call meetings, the bankers explained how they prepared the Call Reports at the respective institutions and identified which schedules, or data, items take a significant amount of time, and/or manual processes to complete.

In addition, the agencies also considered comments regarding the Call Report received during the Economic Growth and Regulatory Paperwork Reduction Act review, referred to as the EGRPRA review. EGRPRA requires that the FFIEC, and the federal banking agencies, conduct a review of their regulations to identify outdated or otherwise unnecessary regulatory requirements imposed on insured depository institutions. In conducting this review, the agencies held five public outreach meetings across the country from December 2014 through December 2015.

As a third action under the initiative, the agencies considered the feasibility and merits of creating a less burdensome version of the Call Report for smaller institutions. Together with consideration of the outcomes of the first portion of the user surveys, the public outreach conducted and a review of existing reporting requirements, the agencies proposed a new streamlined FFIEC 051 Call Report for eligible small institutions, generally institutions with total assets less than one billion dollars.

Finally, as a fourth action under this initiative, the banking agencies would conduct periodic industry outreach through teleconferences and webinars … like today, to explain upcoming reporting changes and clarify technical reporting requirements.

Now turning to slide 23. The Call Report Burden-Reduction Initiative is a multiphase effort to streamline the Call Report, with each phase reflecting a proposal to revise the Call Report as published in the Federal Register. The first, or phase one proposal, published on August 15, 2016, proposed the creation of the streamlined FFIEC 051 report and other burden-reducing revisions to the FFIEC 041 and FFIEC 031 reports.

The revisions to the 041 and 031 reports were developed based on the evaluation of the results of the first three surveys of Call Report users at the FFIEC member entities. This phase one proposal was implemented as of March 31, 2017.

The second phase proposal was published on June 27, 2017. The proposed burden-reducing revisions to Call Reports in this phase were developed based on the evaluation of the results of user surveys four through seven, as well as the reconsideration of the results of user surveys one through three. Although originally proposed for implementation as of March 31, 2018, in response to industry comment, the implementation date for these proposed revisions was delayed to June 30, 2018.

The third phase proposal was published on November 8, 2017. The proposed burden-reducing revisions to the Call Reports in this phase were developed based on the evaluation of the results of user surveys eight and nine, as well as a reconsideration of the results of user surveys one through seven. The proposed implementation date for the phase three revisions is June 30, 2018.

Moving on to slide 24. As I just discussed, the agencies implemented an initial set of burden-reducing revisions through the finalization of the phase one proposal on March 31, 2017. The phase one revisions affected 37 items on the FFIEC 031, 33 items on the FFIEC 041, and 1,039 items on the FFIEC 051 compared to the number of items collected on the 041 prior to the creation of the 051. Note that this number for the FFIEC 051 includes approximately 300 items previously collected on the 041 at institutions with less than one billion dollars in total assets who were already exempt from reporting due to existing reporting thresholds in the 041.

The table on this slide summarizes the overall number of changes implemented in this phase of the Call Report burden-reduction initiative, with breakouts by the following revision types: the net removal of items, the change in reporting frequency from quarterly to semiannual, the change in reporting frequency from quarterly to annual, and the addition of new or increased thresholds for reporting certain items, limiting the scope of institutions subject to reporting these data items.

The phrase, “items removed, net,” reflects the effects of consolidating existing items, adding control totals, and for the FFIEC 051, relocating individual items from other schedules to the new Schedule SU, Supplement Information, some of these which were also consolidated in Schedule SU.

Turning to slide 25. In phases two and three, the agencies proposed additional burden-reducing revisions affecting 649 items on the FFIEC 031, 611 items on the 041, and 167 items on the 051. The table on this slide summarizes the overall number of changes from the second and third phases of the initiative, again with breakouts by revision type. However, in this case, the phrase, “Items to be removed, net,” reflects the effect of consolidating existing items and relocating individual items to other schedules. As previously mentioned, these revisions will take effect June 30, 2018.

Now, turning to slide 26. In this slide, I provide examples of data items removed on the FFIEC 051 as proposed in the phase two and phase three Federal Register notices. The proposed effective date for these changes is June 30, 2018. In the first example, the agencies proposed to remove Schedule RC-A, Cash and Balances Due from Depository Institutions, in its entirety from the 051. This schedule is currently completed by institutions with $300 million or more in total assets.

In the second example, the agencies proposed to consolidate securities brokerage and investment banking fees and commission income items into a combined item, consolidate three insurance activities income items into a combined item, remove a securitization income item, and remove a nondeductible interest expense item collected in the memoranda section of the income statement. Securitization income would then be included within other noninterest income.

In the third example, the agencies proposed to consolidate the reporting in Schedule RC-B, Securities: institutions' holdings of US government agency obligations, which are currently reported in eight data items that reflect breakouts of the amortized cost and fair value of such available-for-sale securities and held-to-maturity securities into four data items; to consolidate the reporting of structured financial product holdings by type – that is cash, synthetic, and hybrid, which are currently reported in 12 data items into four data items; and to remove 28 memoranda data items which provide detail on holdings of structured financial products by underlying collateral for referenced assets.

In the fourth example, the agencies proposed to remove three data items that provide detail on unused commitments, namely; two items on unused credit card lines and one item on unused securities underwriting commitments.

Now, turning to slide 27. In this slide, I provide examples of reductions in reporting frequency and of new or increased reporting thresholds for the FFIEC 051 report. In the first example, the agencies proposed to reduce the frequency of collection for data items of components of other noninterest income and other noninterest expense reported on Schedule RI-E, Explanations, from quarterly to annual as of December 31.

In the second example, the agencies proposed to reduce reporting frequency of 12 data items in Schedule RC-C, Part I, Loans, and Schedule RC-N, Past Due and Nonaccrual Loans, that collect information on the outstanding balance and the past due status of purchased credit impaired loans, from quarterly to semi-annually as of June 30 and December 31.

In the third example, the agencies proposed to increase the percentage portion of the existing threshold for the reporting of other noninterest income components and other noninterest expense components in Schedule RI-E. The proposed threshold for disclosing components of other noninterest income and other noninterest expense would be amounts greater than $100,000 that exceed 7% of total noninterest income and total noninterest expense, respectively, reported on the income statement. This threshold percentage is currently 3%. Note that the agencies previously increased the dollar portion of this reporting threshold from $25,000 to $100,000 effective September 30, 2016.

In the fourth example, the agencies proposed to increase the threshold for reporting the components of fiduciary and related services income in Schedule RC-T, Fiduciary and Related Services. For institutions with total fiduciary assets greater than $100 million but less than or equal to $250 million that do not meet the fiduciary income test of quarterly reporting, the agencies proposed to no longer require reporting of 15 income data items. There would be no change to the reporting requirements applicable to these items for all other institutions.

In addition, the agencies proposed to add a threshold for reporting the number and market value of collective investment funds and common trust funds by type of fund in the Memoranda section of Schedule RC-T. For institutions at which these funds have a total market value of less than $1billion dollars, the agencies proposed to no longer require the reporting of these items.

Now, turning on to slide 28. In this slide, I provide examples of data items removed, reduction in the frequency of data items reported, and an increase in reporting threshold as proposed for the FFIEC 031 and FFIEC 041 in the phase two and phase three Federal Register notices. The proposed effective date for these changes is June 30, 2018.

In the first example, the agencies proposed to consolidate the following categories of loans held for trading: combine loan detail on construction, farm land, multi-family residential, and non-farm non-residential loans into a single new item; combine certain one to four family residential loan detail into a single new item; combine consumer loan information into a single item; combine detail on construction, farm land, multi-family residential, and non-farm, non-residential loans measured at fair value into a single new item; combine certain detail of one to four family residential loans measured at fair value into a single new item; and, combine consumer loan information measured at fair value into a single item.

In the second example, the agencies proposed to consolidate the one to four family residential mortgage banking activity detail collected in Schedule

RC-P for closed-end loans and commitments under open-end loans for retail originations, wholesale originations and purchases, mortgage loans sold, mortgage loans held for sale or trading, and repurchases and indemnifications of mortgage loans. This would combine 15 data items into five data items. The agencies also proposed to consolidate two data items for noninterest income from the sale, securitization, and servicing of closed-end and open-end one to four family residential mortgage loans into one data item. In addition, the agencies proposed to remove five data items providing detail on the principal amount funded for open-end loans extended under lines of credit for each of the categories that I just listed.

In the third example, the agencies proposed to reduce the reporting frequency of 12 data items collected on Schedule RC-C, related to loans acquired in business combinations, from quarterly to semi-annually as of June 30 and December 31.

In the fourth example, the agencies proposed to add a reporting threshold of $10 billion or more in total assets before institutions must complete 52 data items providing detail on asset-backed securities and structured financial products, reflecting breakouts of the amortized cost and fair value of such available for sale securities and held-to-maturity securities.

This concludes the review of the Call Report burden-reduction initiative and the resulting Call Report revisions from the phase two and phase three proposals. I want to draw your attention to the Appendix of this presentation, starting on slide 30, where links to the FFIEC website are provided with helpful resources for the phase two and phase three proposals, such as redline draft reporting forms and instructions, as well as lists detailing the specific burden-reduction revisions that would take effect June 30, 2018, pending OMB approval.

In addition, a comprehensive report summarizing the results of the 2017 statutorily mandated review of the Call Report and the burden-reduction initiative itself, including an appendix outlining FFIEC member entities uses of the data items in the Call Report by reporting schedule, has been posted on the FFIEC's website on each of the web pages for the FFIEC 031, 041, and 051 Call Reports.

Now, turning to slide 29, I want to conclude this portion of the Call Report webinar by briefly mentioning two further potential burden-reducing proposals. As described in prior Federal Register notices of burden-reduction proposals, institutions and others have 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.

Also, as described in prior Federal Register notices, the agencies have been reviewing data reported on the FFIEC 051 and 041 Call Reports to evaluate the appropriate scope and criteria for potentially expanding the number of institutions that are eligible to file the FFIEC 051. The agencies anticipate publishing a proposal for comment on expanding the 051 eligibility criteria later this year.

Now, I will turn it over to Bob Storch to discuss the last topic for our presentation.

Bob: Thank you, Doug. If we can turn to slide 34 to talk about some of the accounting and reporting implications of the new tax law. On December 22 of last year, President Trump signed the Tax Cuts and Jobs Act into law. I am sure most people know that it reduced corporate income tax rates from what's typically a high average of 35% down to 21%. There were also other significant changes for both individual income taxes and corporate income taxes.

Accounting Standards Codification Topic 740, which is the part of US GAAP that covers income taxes, addresses the accounting for a change in tax laws or rates. Even though many of the provisions of the tax law don't take effect until 2018, the accounting requirements say that the changes in tax laws and rates have to be reflected in the financial statements in the period that the legislation is enacted. The enactment of legislation, at least for the US, occurs when the president signs a bill that's been passed by both houses of Congress into law.

The consequences of this new tax legislation led the banking agencies on January 18 to provide some guidance to institutions in the form of the Interagency Statement on Accounting and Reporting Implications of the New Tax Law.

Some of the topics that are covered in the Interagency Statement include guidance on the remeasurement of the deferred tax assets and the deferred tax liabilities, assessing the need for a valuation allowance for the deferred tax assets after this remeasurement has taken place, the effect of remeasurement of the deferred tax assets and liabilities on amounts recognized in accumulated other comprehensive income or AOCI, the use of a measurement period approach for Call Report purposes when determining the effects of the tax law. There are examples as well in that guidance. Some of those topics will be covered on the next few slides.

Turn to slide 35. By way of background, deferred tax assets and deferred tax liabilities, what are they? Well, first of all, if you're a Subchapter S institution, typically you're not going to have deferred tax assets and deferred tax liabilities for federal income tax purposes, so maybe that's an advantage. Deferred tax assets typically arise from two sources, temporary differences and operating loss or other tax credit carryforwards. Deferred tax liabilities also arise from temporary differences.

Now, there are two types of temporary differences: deductible temporary differences, which reduce taxable income in future periods, and those are the ones that lead to deferred tax assets; and taxable temporary differences, which result in additional taxable income in future periods. Those create deferred tax liabilities. Temporary differences in general occur when events are recognized in one period on the bank's books, say, for Call Report purposes or other financial reporting purposes, but are recognized in a different period on the bank's tax return. Deferred taxes are a way of reconciling between the two sets of books: the financial reporting books and the tax books.

The key in measuring a deferred tax asset or liability is that the income tax rate that will be in effect when the temporary difference reverses in the future period is the rate to use to measure the deferred tax asset or liability. But whenever tax rates change as a result of a newly enacted law, existing deferred tax assets and liabilities must be adjusted and the adjustments of those assets and liabilities is reported as a part of net income through income tax expense.

When there's a reduction in tax rates as we experienced in December, the consequence is that institutions must reduce the amount of their deferred tax assets and deferred tax liabilities because the tax benefit of a deduction in the future period when rates have been lowered is less than what the benefit of the deduction had been when the higher rates would have been in effect had the law not been changed. It works the other way with deferred tax liabilities.

Turn to slide 36. For an institution with net deferred tax assets, the reduction in deferred tax assets results in an increase in income tax expense as we're reducing an asset and the offset will be to income tax expense. Whenever you have higher income tax expense, you're going to reduce your net income, which will also affect regulatory capital. As Kevin mentioned on some of the parts of the regulatory capital transition rule, there are special treatments related to deferred tax assets, so depending on the sources of an individual institution's net deferred tax assets and whether any of these deferred tax assets had to be deducted from capital in the past, that will also have an effect on regulatory capital when these assets change.

On the other hand, if you have net deferred tax liabilities, there's a benefit. The reduction in the corporate income tax rate will reduce the net deferred tax liabilities on the balance sheet and there'll be a decrease in income tax expense, an increase in net income, and a favorable impact on regulatory capital.

However, most banks in the US – this isn't true for 100% of institutions, but for the institutions that are subject to federal income taxes at the corporate level – typically have net deferred tax assets due to the temporary difference on the allowance for loan and lease losses for financial reporting purposes. The allowance amount typically would exceed the amount of the tax bad debt reserve for an institution that's allowed to have a bad debt reserve for tax purposes. For other institutions, the tax deduction is limited to actual charge-offs, so essentially the entire allowance is the temporary difference. That's the reason why most institutions have net deferred tax assets.

Go to slide 37. Because the recent tax legislation, the Tax Cuts and Jobs Act, was enacted before year-end 2017 back on December 22, when you're applying generally accepted accounting principles in Accounting Standards Codification Topic 740, the effects of the new law will be reported in the Call Report for December 31, 2017. Even though the legislation was enacted nine days before year-end, there was the requirement under the accounting standards that apply as well for Call Report purposes to remeasure deferred tax assets and liabilities and do other adjustments based on the newly enacted tax law and report those changes at year-end 2017.

Now, the interagency statement that I mentioned before acknowledges that there are some challenges for certain aspects of applying and interpreting the new tax law, not so much for the deferred tax assets and liabilities since there's simply a straight change in whatever the tax rate that had been used to measure those assets and liabilities and adjusting it to 21%, but there are other complications that may take a while to fully understand and measure the tax consequences. The interagency statement issued in January refers to guidance that the Securities and Exchange Commission and the FASB staff had provided in January as well. Actually, the SEC guidance is from December. That guidance indicates that there may be cases where an institution can really only estimate the effects of the new tax law in preparing Call Reports or financial statements as of year-end 2017, so institutions are expected to make good faith efforts using all available information to reasonably estimate the effects of the new tax law for year-end financial reporting purposes. The SEC guidance, which the FASB then extended to private companies as well, so that guidance would apply for Call Report purposes, allows the use of what's called a measurement period approach, which is a concept that applies in business combination accounting, and allows a period of up to one year following enactment of this new tax law to determine what the appropriate estimate of other tax effects would be.

Provisional amounts could be estimated for year-end 2017 reporting purposes. As more information became available and more clear guidance about the application of different provisions in the tax law became available, adjustments could be made in the period that this information becomes available and the prior Call Reports would not need to be refiled or amended to reflect adjustments to the provisional estimates. We provide the links to the SEC's Staff Accounting Bulletin and the FASB's guidance, as well, on slide 37 in case you're interested in reviewing it.

Turn to slide 38. I always find it better for myself to understand accounting policies by looking at numerical examples. We have an example of what the effect of the new tax law would be on deferred tax assets that are in existence at the date of enactment, which is December 22. If we assume, for this example, that an institution had a deductible temporary difference in 2017 before the new law of $1 million on the balance sheet, assuming the institution is subject to federal income taxes at a corporate level, there would be a deferred tax asset – using an assumed 35% tax rate – of $350,000. This deferred tax asset is expected to reverse in 2018 or thereafter when the tax rate will be 21%. The year-end 2017 Call Report would reflect in adjustment to that deferred tax asset to reflect a new tax rate of 21%. In the yearend Call Report, the deferred tax asset should be reported at $210,000, reduced from the previous $350,000, and this reduction of $140,000 would be reported as part of income tax expense together with whatever other current period income tax expense there was and any other deferred tax entries that will be recorded.

Going to slide 39, we see what the journal entries would be to reflect these adjustments to the deferred tax asset upon enactment in 2017. We're debiting income tax expense, of course, which is an increase in the expenses, and we'd be crediting deferred tax assets for $140,000. In the Call Report, the $140,000 additional income tax expense will be reported in Schedule RI, the income statement, item 9, "Applicable income taxes."

Turn to slide 40. There's a unique outcome that occurs with respect to the tax effects that are reflected in accumulated other comprehensive income. The accounting term is stranded tax effects. The example we just had on deferred taxes showed that the adjustment to the deferred tax asset goes through income tax expense.

There are certain items that are reported in accumulated other comprehensive income and those items don't pass through net income. Rather, they go through what's called other comprehensive income. When that's the case, the tax effects also go through other comprehensive income. But the adjustment that's required because of the new tax law doesn't get reported as an adjustment to other comprehensive income as part of income tax expense. This results in a disproportionate number in accumulated other comprehensive income as we'll see in an example in a couple of slides from now.

The FASB in February issued a final Accounting Standards Update to try to ameliorate this situation when looking at accumulated other comprehensive income. The most common example for banks will be the unrealized gains and losses on available-for-sale securities. The amount that's reported in accumulated other comprehensive income before the tax law change would've reflected, for example, a 35% federal income tax rate, so any unrealized gains or losses would've been reduced to a number that reflected a 35% tax rate. The adjustments for the deferred tax asset or liability associated with the unrealized gains or losses, as we saw from the previous slide, would have adjusted income tax expense and not accumulated other comprehensive income. It means that the tax effect associated with the unrealized gain or loss is a deferred tax asset or liability that's in other assets or other liabilities on the balance sheet is, in our example, at a 21% tax rate, but the tax effect in AOCI is still at a 35% tax rate.

This disproportionate pair of numbers is what's referred to as the stranded tax effects. FASB became aware of the concerns about this issue around the time the tax law was being finalized and the FASB actually approved having their staff issue a proposal on January 10, 2018, to address this issue of stranded tax effects. The final standard was issued in February, and it allows a reclassification entry that simply moves an amount between retained earnings and accumulated other comprehensive income to reflect the tax rates that are going to be in effect when the amount – for example, from the unrealized gains or losses on available-for-sale securities – actually reverses in future periods. Thus, it tries to line up the tax effect in AOCI with the tax rates that will apply in future periods.

This is not a requirement. It is an election that can be made, and it only applies to stranded tax effects resulting from the new Tax Cuts and Jobs Act, not from any other tax legislation, although FASB asked for comment on whether it should more broadly apply this election. When this reclassification occurs, it's just a movement of an amount from AOCI to retained earnings. Total bank equity capital is unchanged, so an institution, if it elects to report this reclassification – and it could do this in the year-end 2017 Call Report or it could do it in the first quarter 2018 Call Report, or later this year at its option. There would be no change in total bank equity capital as a result of this shift between two balance sheet accounts in the equity capital section of the balance sheet, so nothing should be reported in Schedule RI-A. I know that during the filing period for the year-end 2017 Call Report, there were numerous questions about how the reclassification works. We'll walk through an example and maybe that will help clarify it.

Go to slide 41. I'll try to go through this somewhat quickly, but the interagency statement from January that I referred to is the source of this example. We have a bank that purchased an available-for-sale debt security in July of 2017 for $1 million. At the end of the third quarter of 2017, there had been a decline in the fair value of this debt security. Of course, all available-for-sale debt securities are on the balance sheet at fair value, so the asset is written down by $10,000. That's the second entry you see on slide 41 for 9/30/2017, a decrease in the amount at which the available-for-sale debt security is reported to reduce it to fair value. There's a $6,500 net entry to accumulated other comprehensive income from the $10,000 decline in fair value reduced by the $3,500 tax effect because the old tax rates were in effect on September 30. There's a deferred tax asset that results for $3,500.

Then we go to slide 42 with the same basic facts. We now get to year-end and we've had a change in the tax law as of December 22. Our entries with that as of date – I don't suppose many banks actually recorded them on that date – will be an adjustment to the deferred tax asset of $1,400 to reduce it from $3,500 down to $2,100. The offsetting entry was a debit to income tax expense. We see that at that point there has been no change to accumulated other comprehensive income. It's still carrying the $6,500 debit balance, as our example assumes no further change in the fair value of this available-for-sale debt security.

What the new accounting standard from the Financial Accounting Standards Board allows an institution to do – again, this is an option; it's not a requirement – is to make an adjustment directly from accumulated other comprehensive income of $1,400 to retained earnings of $1,400 so that, at the end of the day, we'll have a number in accumulated other comprehensive income of a $7,900 debit, which reflects the unrealized loss of $10,000 reduced by the tax effect, which now because of the new tax law is $2,100.

If we go then to slide 43, sometimes T accounts help explain these entries a little better. You can see what the entries are to record the cash purchase of the available–for-sale debt security at the beginning of July and the decline in fair value that's recorded as of the end of the third quarter. There are no further declines in value for the rest of the year to make our example simple. We have the entries as of September 30 to accumulated other comprehensive income and deferred tax assets, a debit of $6,500 and a debit of $3,500 to equal the decline in fair value of the available-for-sale debt security. We have our adjusting entries for the change in tax rates of $1,400 as of December 22. Then, as of December 31, the reclassification from AOCI to retained earnings of $1,400. Those are the entries that would be reflected to eliminate the stranded tax effects if an institution chooses to make that election.

The final thing to talk about related to the tax law is some of the regulatory capital consequences that apply in this situation. That's on slide 44. When we talk about the regulatory capital effects of the new tax law, again, looking back at that interagency statement, and also if you're familiar with the regulatory capital rules, temporary difference deferred tax assets that can be realized through net operating loss carrybacks are treated differently from those temporary difference deferred tax assets that could not be realized through net operating loss carrybacks, in other words, those temporary difference DTAs for which realization depends on future taxable income. The deferred tax assets that are dependent on future taxable income are subject to deduction from common equity tier one capital if they exceed certain common equity tier one capital deduction thresholds.

But one of the other provisions of the Tax Cuts and Jobs Act was to eliminate the ability of institutions to use net operating loss carrybacks to recover federal income taxes paid in prior tax years. This elimination of the carryback applies to tax years beginning on or after January 1, 2018. In general, if we think about that, the realization of all federal temporary difference deferred tax assets will be dependent on future taxable income. Therefore, these deferred tax assets will be subject to the common equity tier one capital deduction threshold.

However, there has been a longstanding practice under the regulatory capital rules in looking at the treatment of deferred tax assets that is in addition to pure carryback potential, which has been in the past back two prior tax years. If an institution has paid federal income taxes for the current tax year, if all the federal temporary differences were to fully reverse as of the report date during the current tax year and create a hypothetical federal tax loss, that would enable the institution to recover the federal income taxes paid in the current year since if it had a tax loss, it wouldn't have any taxes to pay. The ability to recover the taxes paid in the current year could also be considered available, so that these temporary difference deferred tax assets may be treated in the same manner as those that are realizable through net operating loss carrybacks. There is a little glimmer of hope, so to speak, for deferred tax assets that in that limited circumstance, not all temporary difference deferred tax assets would be subject to the deduction threshold.

With that, we can open it up to questions and answers. I think we've gotten some turned in already. Maybe I should start. That might be the best way to do it. There are a couple of questions about some of the comments on equity securities. One person has asked, does Accounting Standards Update

2016-01 not apply to Federal Reserve Bank stock and Federal Home Loan Bank stock? I think that was one of the slides that Andrew reviewed. How would bankers' bank membership interests be recorded? Those are a form of equity security, but they don't get the exemption, so to speak, from ASC Topic 321, which is the new topic on equity securities. Those types of securities normally do not have fair values that are readily determinable. The measurement alternative method that Andrew talked about, which is cost adjusted for any impairment, plus or minus observable price changes, is the measurement method that can be applied to bankers' bank stock because I'm assuming, given the restrictions on ownership, it's not going to have a readily determinable fair value. An institution could choose to evaluate bankers' bank stock on an ongoing basis at fair value through net income, but that's probably not the most efficient way to measure it. We could instead apply this measurement alternative.

Then there's also a question related to – I think you had a question on this as well, Andrew – the grandfathered equity securities that says, "Is the intent on Schedule RC-M, item 4, to report only grandfathered equity securities or all equity securities currently held regardless of whether grandfathered or not?" The FDIC has a regulation that applies only to insured state banks that says if they have certain equity investments that are not permissible for national banks, they had to get FDIC permission – and this goes back to the early 1990s – to continue to hold those equity investments. That's why they're called grandfathered.

There are limits on how much an institution can hold of these grandfathered equity securities. Up until this accounting change, the FDIC has looked to Schedule RC-B, item 7, which is for investments in mutual funds and other available-for-sale equity securities. We've used that item to compare the cost and fair value as a way to monitor compliance with the grandfathered equity securities limitations. For monitoring compliance, item 7 is more of a starting point rather than the ending point because that Schedule RC-B category may include certain equity securities that a national bank could hold. Item 7 isn't purely the equity securities within the limit of the grandfathering, but to the extent the numbers that are reported for cost and fair value seem out of line with what the limitations are for the institution, then there'd be a case-by-case follow-up.

The intent is that banks have been reporting the cost basis of all available-for-sale equity securities in Schedule RC-B, item 7, column C, and the fair value in column D. The fair value is going to be reported in new item 2.c on the balance sheet, Schedule RC, but we needed to continue to capture the cost basis. I think institutions already presumably have a process and a system in place for measuring the cost basis of what have been these available-for-sale equity securities.

Item 4 of Schedule RC-M would continue to capture the cost basis of all those equity securities that were previously labeled available-for-sale. Item 4 isn't purely the grandfathered equity securities; it's all of the securities that previously have been available-for-sale. That item can be compared with the item 2.c number on Schedule RC for equity securities with readily determinable fair values that are not held for trading. Again, this new item 4 in Schedule RC-M would only be reported by those institutions that are insured state banks with grandfathered equity securities and have already adopted the new accounting standard ASU 2016-01.

Do you have a question? Are you clarifying something on that slide entry?

Andrew: I did. I would just like to clarify that earlier on slide 11, during my presentation I said that the cost item on Schedule RC-B, item 7, is reported in column C. I would like to say that it is correct for column C instead of column A, which might have been shown on the PowerPoint presentation. I also have another question on equity securities. That question is, can the bank continue to use the cost method for a 5% interest in a partnership? Or do they have to use the new method under the ASU?

In an earlier slide, I did mention on slide 5 that the ASU applies to investments in equity securities including investments in partnerships. The new method under ASU 2016-01 would be applicable. However, as Bob mentioned, in this case where there's not a readily determinable fair value, the practical expedient would be expected as a measurement alternative, which is discussed on slide 6. It would be very similar to the cost method and we would expect that most banks would go with that practical expedient in that situation.

Bob: Doug, do you have some questions?

Doug: Sure. I can take a couple of them. First question is: will there be a single, concise, and cumulative document published for all of the Call Report changes which should take effect and each reporting date?

So, as I referenced in our presentation, the Appendix to the presentation provides links for each reporting form. The redlined version of the forms and the redlined instructions do illustrate all of the burden reduction revisions and the associated instruction changes that will take effect as of June 30, 2018. It also reflects the reporting changes for the accounting changes in equity investments that will take effect this quarter, March 31, 2018. So, there is that one document that does illustrate at least the cumulative changes to the report.

Also, there are links on those pages for a list that actually, for each reporting form lists out the details of each individual reporting item and the associated MDRM number that was revised . These would be the burden reductions that would go into effect for June 30, 2018.

In terms of a narrative discussion though, no, there is no plan to combine the narrative discussions that were contained in the phase two and phase three notices.

Then quickly going on to another question. The question states that Schedule RI-E will change from quarterly to annual frequency, but the redlined version of the FFIEC 041 does not indicate the change. Actually only certain items on Schedule RI-E change from quarterly to annual, specifically items 1.a through 1.j, and 2.a through 2.p, not the entire schedule. The change in frequency for these specific items is specified on the redlined form.

Bob: Doug, this is Bob Storch again. I got a similar question asking about instructional materials and so forth. It asked about the availability of the March 2018 instruction book update and the Supplemental Instructions and whether they'd be available within a week. I would say they would be. I think we're pretty close to having them ready to go. We're just waiting for all the final senior management sign-offs where that's necessary on these materials. But as you said, there are drafts of the instructional changes for March and there are really only two major types of changes.

For the transition rule changes that Kevin talked about, there is a link on each of the three Call Report webpages on the FFIEC's website to the Schedule RC-R instruction revisions pertaining to the transition rule.

Then, under the section on those three webpages that covers the June 2017 Call Report proposal, which included the equity securities changes that are in effect for March 31, there's an instruction book update there. My recollection is that for those redlined drafts, there are some minor technical edits that are being made in the final version, but the substance of those instructions is pretty much the same. So those are available. They may not be as clean to look at as a nice instruction book, but those documents should be ready certainly within one week.

Do you have any other questions, Doug?

Doug: Yes, one other here. Maybe I can use some help in answering this, but the question is will there be changes to the UBPR as a result of implementation of the FFIEC 051 and reduction of the 041 and 031?

So, my understanding is that the UBPR has already been updated for the changes that went in to effect for March 31, 2017, meaning the creation of the 051 report and the burden reductions to the 031 and 041 reports, again, that were implemented in 2017. I believe that was communicated to the industry, but I can't put my fingers on that now.

Regarding the proposed burden reductions for June, I would believe that the UBPR folks wouldn't have to wait until it's actually approved by OMB before they make the changes and actually implement sometime shortly after the June 30 reporting date.

Bob: Although I would anticipate they are preparing for those changes because the people who are involved with the preparation of the UBPR have been participating and observing all the agencies' discussions of the proposals that Doug has talked about. There is a keen awareness on the part of the people who prepare and design the UBPR that these changes are coming, including the changes that are in effect for March 31 related to equity securities.

Kevin, did you have a question or are you still figuring out the answer?

Kevin: I have a question related to the burden reduction initiative. The question is: are the June 30 burden reduction revisions final? If not, when?

So, the phase two burden reduction revisions are final. The second notice for those was published on January 8 of this year and the agencies have received final approval from the Office of Management and Budget.

Regarding the phase three revisions, the second notice has been approved by all of the agencies and it's currently available on the FFIEC's website. If you click on the link to press releases and the March 30, 2018 press release has an attachment that has that second notice for the phase three revisions.

Now, legally, we still have to publish this notice in the federal register with the 30-day comment period and then the Office of Management and Budget has 30 days after that to issue their final approval. However, for planning purposes, I would recommend that institutions plan to incorporate the changes described in that notice attached to the press release for June 30.

Bob: Thank you, Kevin. Some more questions related to equity securities. One comment is about slide 14, which shows the revisions to Schedule RC-F for the equity securities accounting changes that are in effect for March 31, and it's questioning whether the comments I made about bankers' bank stock, how that aligns with treatment of Federal Reserve stock and Federal Home Loan Bank stock. This maybe a bit confusing. The footnote is simply saying that item 4 of Schedule RC-F is the item that you report Federal Reserve stock, Federal Home Loan Bank stock, and bankers' bank stock . That item in and of itself isn't telling you what the appropriate accounting is for those three types of securities.

The updated instructions for item 4 indicate that, with the exception of the Federal Reserve and Federal Home Loan Bank stocks that are not covered by the new accounting standard, all the other securities, including bankers' bank stock, that are reported in item 4 would be subject to the new measurement method, either fair value or, as would make more sense, the practical expedient alternative of using cost less any impairment plus or minus observable price changes.

There's also a question about the treatment of Farmer Mac stock. I don't recall off the top of my head whether that has a readily determinable fair value or not. Farmer Mac may have more than one class with one that has a readily determinable fair value and the other one that doesn't, but I know the existing instructions, and even as they'll be updated, would indicate whether that stock, and if there's multiple classes, which class has to be reported – if the institution has adopted the new accounting standard – on the balance sheet in new item 2.c for equity securities with readily determinable fair values not held for trading or whether it would be reported here in Schedule RC-F, item 4, "Equity investments without readily determinable fair values."

Go ahead.

Margot: This is Margot Schwadron from Capital Policy of the OCC**.** I have two questions here.

First, confirm for Schedule RC-R that advanced approaches entities will report in March 2018 the fully implemented capital rule (i.e., no transition). So, the transition rule applies only to non-advanced approaches banks. The transition elements covered by that rule would not apply to advanced approaches banks. There is one transition item that continues through 2022, and that's for certain non-qualifying capital instruments. Advanced approaches banks can continue to use that transition piece through 2022.

The second question is: any thoughts on where we may be headed with HVADC to replace HVCRE specifically definition, clarification, and lowering of the risk weight? This refers to the simplification NPR that the agencies issued. We received many comments on that NPR and at this point, we're just discussing on an interagency basis how to proceed and how to react to those comments. So, I can't give you a timeframe or direction at this point.

Bob: Thank you, Margot. This is Bob Storch. I said at the outset we could ask questions about topics other than what's covered here. Apparently, we've gotten multiple questions about this subject and we'll just read the question.

Will guidance be issued on Accounting Standards Update 2017-07 on the presentation of pension and post-retirement benefit plan costs on the first quarter Call Report and FR Y-9C. I can't speak to the FR Y-9C. Perhaps, Doug can when we get there.

The short answer is yes. This accounting standard changes how the cost components of pension and post-retirement benefit plans are reported in the income statement once an institution adopts ASU 2017-07, which for public business entities with a calendar year fiscal year takes effect in the first quarter of 2018, so it's live this quarter.

Only the service cost component of these benefit costs under the new standard should be reflected as part of compensation costs and all the other components would be reported outside of the compensation costs. The Call Report Supplemental Instructions, when they're issued, should be addressing that new accounting standard that takes effect for public business entities this quarter and we have made every attempt to align the Call Report presentation with what the standard says it should be. The Supplemental Instructions guidance would in fact indicate that the service cost component should be reported in item, I believe it is item 7.a, which is "Salaries and employee benefits," and then the remaining cost components would be reported on a net basis as other noninterest expense. So that's how we'll be addressing it there and, at some future date, we'll also revise the instructions themselves to reflect what Supplemental Instructions specifically addresses on ASU 2017-07.

Doug: Bob, that same guidance will also apply to the FR Y-9C.

Bob: Okay. Thank you, Doug. Some additional questions about grandfathered equities securities.

First, the question is, "Are these exempt from ASU 2016-01?" No, they have to be measured because they're equities securities and they're not covered by the two exemptions, which apply only to Federal Reserve Bank stock and Federal Home Loan Bank stock. Grandfathered equity securities do have to be accounted for at fair value through net income when they have readily determinable fair values, and my understanding is they typically do because they normally have been reported as available-for-sale equity securities.

Then, is it correct that national banks would not complete Schedule RC-M, item 4? That is correct. Only those insured state banks that actually have grandfathered equity securities have to complete Schedule RC-M, item 4, once they have adopted ASU 2016-01.

I don't have the draft instructions in front of me, but, generally speaking, these are equities securities that a national bank is not permitted to own that an insured state bank has owned since prior to like 1991, and the institution received approval from the FDIC to continue holding these, subject to certain limitations on the total dollar amount of these securities. The limitation looks at both fair value and cost which is why we needed to continue collecting data on cost and why we have a new Schedule RC-M item. Do you have another question, Kevin?

Kevin: Yes. I have a question on whether there's a change on how deferred tax assets related to temporary differences are handled on Schedule RC-R, Part I. So as Bob mentioned at the end of his presentation, the capital will make the distinction between deferred tax assets related to temporary differences based on whether those DTAs could or could not be realized through net operating loss carrybacks. Now, on Schedule RC-R, Part I, institutions have to deduct deferred tax assets related to temporary differences that could not be realized through net operating loss carrybacks over the 10% of common equity tier one limit.

Now, since the new tax law eliminated net operating losses going forward, that means many of those deferred tax assets that were previously realizable would have to be reclassified to DTAs that could not be realized through net operating loss carrybacks for purposes of the capital rule and thus could be subject to deduction on Schedule RC-R, Part I on line 15.

Now, for non-advanced approaches institutions, the transition rule comes in handy here because it allows institutions to deduct only 80% of the otherwise non-qualifying deferred tax assets that could not be realized through net operating losses rather than having to fully deduct those on line 15.

Doug: Thanks, Bob. I did get one question here from an institution noting that at the beginning of the second quarter, the FFIEC 031 will be required from all institutions greater than $100 billion dollars in assets regardless of whether they have a foreign office. They are trying to prepare for the change but are having trouble with the reportability attributes I guess associated with the CDR (Central Data Repository). My response there is please reach out to the… I don't know if you're a national bank, or state nonmember bank, or state member bank; but if you're a national bank or a state nonmember bank, please reach out to your FDIC analyst who will help you walk through the reportability rules for the CDR; or if you're a state member bank, please reach out to your Reserve Bank analyst for assistance with that.

Bob: Doug, this is Bob. I have a question where I think the answer is going to be similar. It says, "We are submitting test instances and receiving this edit associated with new pronouncement: Schedule RC, Concept RIADJA22 is required," which I'm not sure what that is. "We are curious why it is referencing RIAD," which is typically an income-statement-type MDRM number as it's known, "when the Call Report states RCON," just using a balance-sheet-type item. "We can't seem to clear this edit." I think that's another case where it would be appropriate for the bank to call their Call Report analyst. For state member banks, it's the Federal Reserve district bank. If it's OCC- or FDIC-supervised, it would be an analyst at the FDIC and we can have that person take a look and follow up specifically on that question.

I have one more question. I'm not sure I have a clear answer to it. It says, "Could you explain how a deferred tax asset that is due to an alternative minimum tax (or AMT) credit carryforward will be handled on Schedule RC-R? Is it deducted?"

One of the other outcomes of the tax law was that, for corporations, there's no longer an alternative minimum tax and any alternative minimum tax credit carryforwards that are reflected as deferred tax assets today will be recoverable over several years, I think maybe up through 2021 as, at least in the initial years some sort of a credit against taxes that would otherwise be paid, and then whatever else is left is recoverable in that final year, whether it's 2021 or what.

So, there is a question that we're aware of from an accounting perspective as to whether this change in the tax treatment means that what has always been reported as a deferred tax asset should instead be reported as some sort of a receivable, which wouldn't be subject to the capital rules that apply to deferred tax assets. I've heard differing answers from differing accounting firms as to whether you can or cannot do that. I think there has been some view that if it is in fact recoverable based on an institution's analysis of all the facts and circumstances, there would be a basis for no longer treating it as a deferred tax asset. The Financial Accounting Standards Board has not issued any guidance on whether this should be reported as a deferred tax asset or not, but it is an issue we're aware of.

The only thing that the FASB has said about it is that although this will now be recoverable over a certain extended period of time, it should not be discounted, but that doesn't answer the question as to whether it's a deferred tax asset or receivable. So you may want to talk to your specific regulatory agency, go through your examiner, and then see what sort of posture is being taken on that question. It may be more prudent, or safe and sound, not to make the adjustment in the first quarter, but I think that may not be the answer that all institutions would get when they look at how they think the appropriate accounting would be.

One final question. Will you be publishing this presentation and the transcript?

I assume publishing the presentation means the slides, which are posted on the FFIEC's website already. Again, if you go to www.ffiec.gov and go down the home page until you see something toward the bottom that says, "Reporting Forms," that link will take you to the webpage with links to all the different FFIEC report forms, including all the Call Reports and, at least for now, in red font is a link to the presentation materials. My understanding was that we're going to do a transcript, although it's probably going to be a few weeks before we would get it and have it fully edited and cleaned up and posted, but it would also be posted on the FFIEC's website. So that's a good final question.

We thank you all very much for staying on with us beyond the 90 minutes we had advertised as the length of this webinar. We hope that you have found it useful and that the topics are relevant to what you're planning for for March and for June in the Call Report. All the agencies' analysts receive questions on an ongoing basis so, if you have follow-up questions, contact your Call Report analyst that's assigned to you and we hope you have success, I'll say, in completing the March Call Report and the June Call Report based on the information. Look for the updated instructions and Supplemental Instructions within a week or less. It should help you as well with the March Call Report. We'll turn it back to Tony at this point. Thank you, Tony.

Tony: All right. We do want to thank all of our speakers and thank all of our guests for joining us today on the conference. That does conclude our call at this time and you may now disconnect.

[END OF TRANSCRIPT]