Draft Revisions to the Instructions to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) for the Proposed Credit Loss Accounting Revisions Proposed to Take Effect March 31, 2019

These draft instructions, which are subject to change, reflect the proposed revisions to the FFIEC 002 that would take effect March 31, 2019, as described in the federal banking agencies' final Paperwork Reduction Act Federal Register notice for this proposal that was published on February 14, 2019.

Draft as of February 15, 2019

Draft Revisions to the Instructions to the FFIEC 002
Proposed to Take Effect March 31, 2019

Contents

Institutions that have adopted ASU 2016-13 should exclude accrued interest receivable on interest-bearing assets that is reported elsewhere on Schedule RAL.

~~which cannot properly be reported in Asset items 1(a) through 1(g) of this schedule.~~

Include:

(1) Income earned or accrued but not collected on loans, securities, and other interest-bearing assets.

(2) Prepaid expenses (i.e., those applicable as a charge against operations in future periods).

(3) Accrued interest on securities purchased.

(4) Cash items not conforming to the definition of "Cash items in process of collection" found in the instructions to Schedule A, item 1.

(5) Credit or debit card sales slips in process of collection until the reporting branch or agency has been notified that it has been given credit (thereafter report in Schedule A, item 3 or 4, as appropriate).

(6) Derivative instruments with nonrelated parties that have a positive fair value that are held for purposes other than trading.

(7) Purchased computer software, net of accumulated amortization, and unamortized costs of computer software to be sold, leased, or otherwise marketed capitalized in accordance with the provisions of ASC Subtopic 985-20, Software—Costs of Software to Be Sold, Leased or Marketed (formerly FASB Statement No. 86, "Accounting for the Cost of Computer Software to Be Sold, Leased, or Otherwise Marketed").

(8) Bullion not held for trading (e.g., gold or silver).

(9) Original art objects, including paintings, antique objects, and similar valuable decorative articles (report at cost, unless there has been a decline in value, judged to be other than temporary, in which case the object should be written down to its fair value).

(10) Cash surrender value of life insurance policies for which the branch or agency is the beneficiary.

(11) The book value, less accumulated depreciation or amortization, of all premises, equipment, furniture and fixtures. Any method of depreciation conforming to acceptable accounting principles may be used. Do *not* deduct mortgages or other liens on such property (report in Liability item 4(f)).

Include:

(a) Premises that are actually owned by the reporting institution and that are entirely or partly occupied (or are to be occupied, if under construction) by the reporting institution.

(b) Leasehold improvements, vaults, and fixed machinery and equipment.

(c) Remodeling costs to existing premises, real estate acquired and intended to be used for future expansion, and parking lots, whether adjoining or not adjoining the reporting institution's premises, that are owned by the reporting institution and that are used by its customers or employees.

(d) All furniture, fixtures, and movable equipment.

(e) The amounts assigned to leases acquired in purchase and assumption transactions.

(f) The amount of stocks and bonds that indirectly represent premises, equipment, furniture or fixtures. For institutions that have adopted ASU 2016-01 (see the General Instructions for Schedule RAL, Memorandum items 1 through 4), report such stocks and investments at (i) fair value or (ii) if chosen by the reporting institution for an equity investment that does not have a readily determinable fair value, at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.

(g) The amount of capital lease property (with the reporting institution as lessee)—premises, furniture, fixtures, and equipment. See the discussion of "accounting with branch or agency as lessee" contained in the "lease accounting" section of the Glossary.

, and any allowance accounts. This includes any allowance for loan losses, or, for institutions that have adopted ASU 2016-13, any allowance for credit losses.

Home Loan Bank stock are carried at cost and evaluated for impairment.

(17) All other assets not specifically mentioned herein nor in Asset items 1(a) through 1(g), such as items temporarily held in suspense accounts. See the entry for "suspense accounts" in the Glossary.

(18) The liability to the reporting institution of its customers on drafts and bills of exchange that have been accepted by the reporting institution, or its agents, and that are outstanding (that is, not held by the reporting branch or agency) on the date of the report. Amounts reportable in Liability item 4.f., "Other liabilities to nonrelated parties" cannot be netted against this item or vice versa. Similarly, participations in acceptances—regardless of form or terminology—cannot be netted from this item. For further information, see the Glossary entry for "bankers acceptances."

Exclude the following from this item:

(1) All assets due from or claims upon related depository institutions which are to be reflected in "Net due from" (item 2) or "Net due to" (item 5) depending upon the overall due from/to position of the reporting branch or agency vis-à-vis its related depository institutions.

(2) Holdings of bills representing purchases of securities or other assets that have not yet been delivered. Such holdings are to be reported in Loans, item 1(e).

(3) Deferred tax assets. (See the Glossary entry for "U.S. income taxes").

(4) Institutions that have adopted ASU 2016-13, which governs the accounting for credit losses, should exclude any accrued interest receivables on financial assets that are reported elsewhere on Schedule RAL.

Item 1(i) Total claims on nonrelated parties.

Report in this item the sum of items 1(a) through 1(h).

Item 2 Net due from related depository institutions.

All balances and positions due from and due to the head office and related depository institutions should be reported as a single net amount. If that single net amount is a net due from, it should be entered in this item; if the single net amount is a net due to, it should be entered in Liability item 5. (Thus, there should be a positive amount reported in *either* item 2 or item 5, but not in both items, and neither item should show negative amounts.) The positions reported in item 2 or 5 should reflect all balances due from and due to the head office and related depository institutions wherever located including unremitted profits, any statutory or regulatory capital requirement, ~~and~~ any reserve accounts~~.~~

Item 2(a) For the reporting branch or agency including its IBF.

Report the net balances due from the head office and other related depository institutions of the reporting branch or agency, including its IBF. This balance is calculated by subtracting item 1(i), column A, "Total claims on nonrelated parties," from item 4(g), column A, "Total liabilities to nonrelated parties," if item 4(g) is greater than item 1(i); otherwise, enter zero in this item.

Item 2(b) For the IBF of the reporting branch or agency.

Report the net balances due from the establishing entity, head office, and other related depository institutions of the IBF of the reporting branch or agency. This balance is calculated by subtracting item 1(i), column B, from item 4(g), column B, if item 4(g) is greater than item 1(i); otherwise, enter zero in this item.

Item 3 Total assets.

Report the sum of items 1(i) and 2(a), for item 3, column A. For column B, item 3, report the sum of items 1(i) and 2(b). These items must equal item 6, column A or B, as appropriate, "Total liabilities."

NOTE: Because of the structure of this schedule and the separate identification in item 2(b) and 5(b) of the net due from or due to position of the reporting branch or agency's IBF (if any) vis-à-vis its establishing entity, head office, and other related depository institutions, total assets of the IBF only, as reported in column B, item 3, may not be a component of total assets of the reporting branch or agency, including its IBF, as reported in column A, item 3. However, the total of IBF claims on unrelated parties or related nondepository institutions as reported in item 1(i), column B, *is* a component of item 1(i), column A.

Liabilities

Item 4(a) Total deposits and credit balances.

Report in column A the sum of the amounts reported in Schedule E, item 7, columns A, C, and D. Report in

, and any allowance accounts. This includes any allowance for loan losses, or, for institutions that have adopted ASU 2016-13, any allowance for credit losses.

nonrelated depository institutions that are not reported in items 4(a), 4(b), and 4(c) above.

Item 4(g) Total liabilities to nonrelated parties.

Report in this item the sum of items 4(a) through 4(f).

Item 5 Net due to related depository institutions.

All balances and positions due from and due to the head office and related depository institutions should be reported as a single net amount. If that single net amount is a net due to, it should be entered in this item; if the single net amount is a net due from, it should be entered in Asset item 2. (Thus, there should be a positive amount reported in either item 2 or 5, but not in both items, and neither item should show negative amounts.) The positions reported in item 2 or 5 should reflect all balances due from and due to the head office and related depository institutions wherever located including unremitted profits, any statutory or regulatory capital requirement, ~~and~~ any reserve accounts~~.~~

Item 5(a) For the reporting branch or agency including its IBF.

Report the net balances due to the head office and other related depository institutions of the reporting branch or agency, including its IBF. This balance is calculated by subtracting item 4(g), column A, "Total liabilities to nonrelated parties," from item 1(i), column A, "Total claims on nonrelated parties," if item 1(i) is greater than item 4(g); otherwise, enter zero in this item.

Item 5(b) For the IBF of the reporting branch or agency.

Report the net balances due to the establishing entity, head office, and other related depository institutions of the IBF of the reporting branch or agency. This balance is calculated by subtracting item 4(g), column B, from item 1(i), column B, if item 1(i) is greater than 4(g); otherwise, enter zero in this item.

Item 6 Total liabilities.

Report the sum of items 4(g) and 5(a) for item 6, column A. For column B, item 6, report the sum of items 4(g) and 5(b). These items must equal item 3, "Total assets," column A or B, as appropriate.

NOTE: Because of the structure of this schedule and the separate identification in item 2(b) and 5(b) of the net due from or due to position of the reporting branch or agency's IBF (if any) vis-à-vis its establishing entity, head office, and other related depository institutions, total liabilities of the IBF only, as reported in column B, item 6, may not be a component of total liabilities of the reporting branch or agency, including its IBF, as reported in column A, item 6. However, the total of IBF claims on unrelated parties as reported in item 4(g), column B, *is* a component of item 4(g), column A.

Memoranda

General Instructions for Memorandum Items 1, 2, 3.a, 3.b, and 4:

Memorandum items 1 through 4 are for additional information on the reporting branch or agency's securities reported in Schedule RAL, items 1(b) and 1(c), which are securities not held for trading. Memorandum items 1 and 2 are for held-to-maturity securities and Memorandum items 3.a and 3.b are for available-for-sale securities.

Memorandum item 4 is for equity securities with readily determinable fair values not held for trading and is to be completed only by institutions that have adopted FASB Accounting Standards Update No. 2016-01 (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investments in mutual funds, and eliminates the concept of available-for-sale equity securities. ASU 2016-01 requires holdings of equity securities (except those accounted for under the equity method or that result in consolidation), including other ownership interests (such as interests in partnerships, unincorporated joint ventures, and limited liability companies), to be measured at fair value with changes in fair value recognized through net income. However, an institution may choose to measure equity securities and other equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Institutions that have not adopted ASU 2016-01 should leave Memorandum item 4 blank and report the fair value and historical cost (not amortized cost)

INSTRUCTIONS FOR THE PREPARATION OF

Loans
Schedule C

For institutions that have adopted ASU 2016-13, the allowance for loan losses is the allowance for credit losses on loans and leases.

Part I. Loans and Leases— General Instructions

Loans (and lease financing receivables) are extensions of credit resulting from either direct negotiation between the bank and its customers or the purchase of such assets from others. See the Glossary entries for "loan," "placements," and "lease accounting" for further information.

The amounts reported in Column A are for the reporting branch or agency, *including* its IBF, and those reported in Column B are for the reporting branch or agency's IBF only. If the reporting branch or agency has *no* IBF, *no* amounts are to be reported in Column B. The shaded items in the IBF column reflect the fact that certain types of assets are not permissible for IBFs (refer to the Glossary entry "International Banking Facility (IBF)" for a further discussion). Unless otherwise specified, the item instructions pertain to both the reporting branch or agency, including its IBF, and the IBF only. At times the instructions may discuss assets that are permissible for the branch or agency but not for the IBF. Report in the IBF column only those permissible IBF assets.

Report the aggregate book value of all loans and leases to nonrelated institutions (including related nondepository institutions) before deduction of any general "Allowance for loan losses," which is to be reflected in Schedule RAL, item 2(a) or 5(a) and is to be reported in Schedule M, Part IV, item 1, but *net* of any specific reserves established for specific loans, or portions thereof, that available information confirms are uncollectible. Each item in this schedule should be reported *net* of (1) unearned income (to the extent possible) and (2) deposits accumulated for the payment of personal loans (hypothecated deposits). Net unamortized loan fees represent an adjustment of the loan yield and should be reported in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or from total loans in item 10, "Less: Any unearned income on loans reflected in items 1–8 above," of this schedule. Net unamortized direct loan origination costs should be added to the related loan balances in each item of this schedule. Loans held for sale should be reported at the lower of cost or fair market.

If the bank has elected to apply the fair value option to any loans held for investment or held for sale, it must also report the fair value and unpaid principal balance of these loans in the appropriate subitems of Schedule Q, Memorandum items 3 and 4, respectively.

Exclude all loans and leases held for trading purposes (report in Schedule RAL, item 1(f), "Trading assets"). Also exclude all intrabranch or intraagency transactions and all transactions with related depository institutions. However, include transactions with related *nondepository* institutions. See the Glossary entries for "related institutions" and "transactions with related institutions" for additional discussion.

All loans are classified according to security, borrower, or purpose. Loans covering two or more classifications are sometimes difficult to classify. In such instances, classify the entire loan according to the major criterion.

Report in this schedule all loans that the reporting institution has sold under repurchase agreements that mature in more than one business day. Also report in this schedule all loans and leases on the books of the reporting institution even if on the report date they are past due and collection is doubtful. Exclude any loans or leases the reporting branch or agency has sold or charged off. Also exclude assets received in full or partial satisfaction of a loan or lease (unless the asset received is itself reportable as a loan or lease) and any loans for which the branch or agency has obtained

INSTRUCTIONS FOR THE PREPARATION OF

Due from/Due to Related Institutions in the U.S. and in Foreign Countries
Schedule M

General Instructions

Schedule M covers transactions of the reporting branch or agency with *related* institutions, both in the U.S. and in foreign countries. (For the definition of "related institutions," see the entry for "related institutions" in the Glossary section of these Instructions.) Parts I and II of the schedule deal with due from/due to relationships of the reporting branch or agency, including its IBF, with related *depository* institutions (with Part I covering such relationships of the entire reporting branch or agency *including* its IBF and Part II covering *only* those of its IBF). Part III deals with the transactions of the reporting institution (including its IBF) with related *nondepository* institutions. Part IV, item 1, reflects the amount of the general allowance for loan losses, if any, carried on the books of the reporting branch or agency, including its IBF. Part IV, item 2, reflects the amount of other real estate owned. Although this information does not relate specifically to due from/due to transactions, it is collected in Schedule M as confidential information. Part V collects data on derivatives and off-balance sheet items with related *depository* institutions.

Parts I, II, and III require the reporting of the due from/due to relationships on a gross basis, i.e., without netting due from and due to items against each other.

The detail required in Parts I, II, and III is by location and type of related institution, *not* by type of claim or liability. In the information required on the schedule, a distinction is made between related institutions "domiciled in the United States" and those "domiciled outside the United States." For purposes of this schedule (and only this schedule), domiciled in the United States means offices domiciled in the 50 states of the United States and the District of Columbia; domiciled outside the United States (non-U.S.) means offices domiciled in a foreign country, in Puerto Rico, or in a U.S. territory or possession.

All of the items in this schedule require the reporting of amounts outstanding as of the report date, with the exception of Memoranda items 1(a) and 1(b) in Part I, which call for averages of daily amounts outstanding during the preceding quarter.

All individual branch or agency data reported on this schedule are regarded as confidential by the Federal Financial Institutions Examination Council.

Instructions for Part I

Part I covers the gross due from/due to relationships of the reporting institution (including its IBF) with its head office and other related *depository* institutions (including any related U.S. bank's nondepository subsidiaries that are consolidated on the related U.S. bank's Consolidated Report of Condition) both in the U.S. and in foreign countries. *Exclude* from Part I transactions between the reporting branch or agency and its own IBF (report in Part II, item 2).

The scope of Part I is determined by the scope of the *net* due from/due to items that are shown in column A of Schedule RAL—Asset item 2(a) or Liability item 5(a). That is, report on the appropriate lines of Part I all the gross due from relationships (column A) and all the gross due to relationships (column B) with related *depository* institutions that are reflected in Schedule RAL in Asset item 2(a), column A (Net due from related depository institutions) or in Liability item 5(a), column A (Net due to related depository institutions). Include all such due from and due to items regardless of how they arose and regardless of the nature of any instrument involved. Thus, the gross due from and gross due to items to be reported will include claims *between* the reporting branch or agency

or, for institutions that have adopted ASU 2016-13, which governs the accounting for credit losses, the allowances for credit losses on financial assets, as applicable, or, for institutions that have adopted ASU 2016-13, allowances for credit losses,

and any related depository institutions arising in connection with:

(1) deposits of any kind;

(2) loans and borrowings of any kind;

(3) overdrafts, federal funds and repurchase and resale agreements;

(4) claims resulting from clearing activities, foreign exchange transactions, bankers acceptance transactions (see Glossary entry for "bankers acceptances"), and other activities;

(5) capital flows and contributions;

(6) gross unremitted profits and any accounting or regulatory allocation entered on the books of the reporting branch or agency (or its IBF) that ultimately affect unremitted profits such as statutory or regulatory capital requirements, reserve accounts, net unrealized gains or losses on available-for-sale securities, accumulated gains (losses) on cash flow hedges, and allowance for loan losses~~,~~ and any provision for income taxes if the branch or agency pays U.S. income taxes on behalf of their parent (See the Glossary entry for "U.S. income taxes");

NOTE: Consistent with ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), intercompany derivatives between a U.S. branch or agency and a related party, including the reporting branch or agency's parent bank, may qualify for hedge accounting if it meets the criteria outlined in ASC Topic 815.

(7) accrued interest receivable and payable;

(8) fair value of derivatives; and

(9) any other transactions or entries (including on-balance sheet debit and credit amounts associated with off-balance sheet items) resulting in claims between the reporting branch or agency (including its IBF) and its head office and other related depository institutions.

The coverage and reporting of the *gross* due from items and the *gross* due to items *must* be such that their *net* amount as calculated and reported on item 4 of Part I equals the entry for net due from or for net due to, as appropriate, as calculated from Schedule RAL and reported on item 2(a), column A, or item 5(a), column A, of Schedule RAL.

Item Instructions for Part I

Items 1 and 2

The gross due from and gross due to relations with related depository institutions are to be reported on items 1 and 2 of Part I with detail by location and type of the related depository institutions. Separate reporting of such relations with related institutions domiciled in the U.S. and with those domiciled outside the U.S. is required in items 1 and 2: *item 1* (and its subitems) requires reporting of such relations with offices "domiciled in the United States" of related depository institutions; *item 2* (and its subitems) requires reporting of such relations with offices "domiciled outside the United States" (non-U.S.) of related depository institutions.

Include in items 1 and 2, as appropriate, the fair value of all derivatives with related depository institutions. Report positive values in column A, negative values in column B.

The reporting in item 1 of gross due from and gross due to relations with *related depository institutions domiciled in the United States* (item 1) is further divided into two parts:

Item 1(a)

Item 1(a) covers such relations with **related branches and agencies in the U.S. (including their IBFs).** For purposes of this schedule, "related branches and agencies in the U.S." includes:

(1) other U.S. branches and agencies of the reporting branch or agency's parent foreign bank, and

(2) U.S. branches and agencies of other related foreign banks.

Item 1(a) is further subdivided into two geographic components—

Item 1(a)(1) Related branches and agencies in the U.S. domiciled *in the same state as the reporting office*; and

Item 1(a)(2) Related branches and agencies in the U.S. domiciled *in other states*.

Schedule M

Institutions that have adopted ASU 2016-13, which governs the accounting for credit losses, report the allowances for credit losses, as applicable, in column B. If an institution chooses to establish them, the allowances for credit losses reportable in this item could apply to loans, leases, other financial assets measured at amortized cost and off-balance sheet credit exposures (but not available-for-sale securities, which are reported at fair value on Schedule RAL).

Item 1(b)

Item 1(b) covers the gross due from/due to relations with **offices in the U.S. of other related U.S. depository institutions (including their IBFs)**. The related U.S. depository institutions include related U.S. banks (including U.S.-domiciled *offices* of *nondepository* subsidiaries of related banks that are consolidated on the related U.S. banks' Consolidated Report of Condition), Edge and Agreement subsidiaries of related banks (both U.S. and non-U.S.), and related New York State (Article XII) investment companies. (Transactions with related U.S. banks' offices (both branches and depository subsidiaries) that are in foreign countries, Puerto Rico, and U.S. territories and possessions and transactions with non-U.S. branches and subsidiaries of related Edge and Agreement corporations and with non-U.S. offices of related New York investment companies are to be reported in item 2(c))

The reporting in item 2 of gross due from and gross due to relations with non-U.S. domiciled offices of *related depository institutions* is further divided into three parts:

Item 2(a)

Item 2(a) covers such relations with the **head office of the parent bank** of the reporting branch or agency, including unremitted profits and losses. Unremitted profits and losses should be netted and, if a net profit, reported in column B of this item or, if a net loss, reported as an adjustment to any capital contribution received from the foreign bank parent that is reported in column B. However, if the net unremitted loss exceeds the capital contribution, report the amount of the net loss in excess of the capital contribution in column A. Also include any general allowance established for loan losses (specific reserves should be netted from individual loans) and any provision for income taxes if the branch or agency pays U.S. income taxes on behalf of their parent (See the Glossary entry for U.S. income taxes").

Item 2(b)

Item 2(b) covers such relations with the **non-U.S. branches and agencies of the parent bank of the reporting branch or agency**. Item 2(b) is further sub-divided into two geographic components—

Item 2(b)(1) Offices of the parent bank in the Caribbean.

Item 2(b)(1) includes offices domiciled in Puerto Rico and the U.S. territories and possessions located in the Caribbean; and

Item 2(b)(2) Other non-U.S. offices of the parent bank.

Item 2(b)(2) includes those offices of the parent bank domiciled in foreign countries outside the Caribbean and in U.S. territories and possessions outside the Caribbean.

Item 2(c)

Item 2(c) covers such relations with **other non-U.S. offices of related depository institutions**, including offices in Puerto Rico and the U.S. territories and possessions; that is, all non-U.S. offices of related depository institutions *other than* the reporting branch or agency's head office (reported in item 2(a)) and its branches and agencies (reported in item 2(b)). Transactions with foreign, Puerto Rican, and U.S. territorial branches and depository subsidiaries of related U.S. banks, of related Edge and Agreement corporations, and of related New York State (Article XII) investment companies are also to be reported in this item.

Also report in item 2(c) transactions with the foreign-domiciled offices of those U.S. nondepository subsidiaries of related U.S. banks that are consolidated in the related U.S. bank's Consolidated Report of Condition. Transactions with related U.S. banks' nondepository subsidiaries that are domiciled outside the U.S. that are *not* consolidated in the U.S. bank's Consolidated Report of Condition are excluded entirely from Part I of Schedule M since such subsidiaries are treated similarly to unrelated institutions and are not reflected in items 2(a) or 5(a) of Schedule RAL (net due from or net due to related depository institutions).

Item 3 Total.

Report, in columns A and B, the sums of the amounts reported for the preceding items as indicated on the form.

Item 4 Net due from head office and other related depository institutions.

Report the difference between columns A and B on item 3 above (i.e., item 3, column A, *minus* item 3, column B). Item 4 can be either positive or negative; if tory subsidiaries that are consolidated in the related U.S. banks' Consolidated Report of Condition. The amounts for transactions with related nondepository institutions that are to be reported in Part III are components of amounts reported on the individual line items of Schedule RAL *other than* items 2(a) and 5(a) of Schedule RAL (which the reporting institution's net due from/due to relationship with related *depository* institutions).

The gross due from and gross due to relations with related nondepository institutions are required to be reported with a breakdown between:

Item Instructions for Part III

Item 1 Related nondepository majority-owned subsidiaries in the U.S.; and,

Item 2 Related nondepository majority-owned subsidiaries in foreign countries.

Memorandum

Item M1
Part III also requires the reporting of gross due from/due to relations with those related nondepository subsidiaries included in items 1 and 2 of Part III that are wholly-owned, directly or indirectly, by the reporting institution's parent bank or by its bank holding company.

Item Instructions for Part IV

Item 1 Amount of allowance for loan losses,[1] if any, carried on the books of the reporting branch or agency including its IBF.
If the reporting branch or agency chooses to establish a general allowance for loan losses, it can do so by establishing a separate account which should be included in the amount reported in Schedule M, Part I, item 2(a), column B. Report in this item the total amount of the allowance carried on the books of the reporting institution, even if part of that allowance is applicable to other branches. If no allowance is carried on the books of the reporting institution, report a zero or the word "none," even if an allowance applicable to the loans of the reporting institution is carried on the books of the head office of the parent bank or of another branch. *Exclude* specific reserves on loans.

Institutions that have adopted ASU 2016-13, which governs the accounting for credit losses, report the allowance for credit losses on loans and leases, as applicable, in item 1.

Item 2 Other real estate owned.
Report the net book value of all other real estate owned. (NOTE: This information does not relate to due from/due to related depository institutions transactions.) *Include* as all other real estate owned:

(1) Foreclosed real estate, i.e.,

  (a) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the branch or agency has not yet received title to the property.

  (b) Real estate collateral underlying a loan when the branch or agency has obtained physical possession of the collateral, regardless of whether formal foreclosure proceedings have been instituted against the borrower.

Foreclosed real estate received in full or partial satisfaction of a loan should be recorded at the fair value less cost to sell of the property at the time of foreclosure. This amount becomes the *"cost"* of the foreclosed real estate. When foreclosed real estate is received in full satisfaction of a loan, the amount, if any, by which the recorded amount of the loan exceeds the fair value less cost to sell of the property is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure. The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule RAL, item 4(c), "Other borrowed money."

After foreclosure, each foreclosed real estate asset must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraph). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased or decreased

[1] Institutions that have adopted ASU 2016-13 should report the allowance for credit losses on loans and leases.

INSTRUCTIONS FOR THE PREPARATION OF

Past Due, Nonaccrual, and Restructured Loans
Schedule N

Institutions that have adopted ASU 2016-13, which governs the accounting for credit losses, should report financial assets without any deductions for any applicable allowance for credit losses.

General Instructions

Report all loans, including lease financing receivables, that are past due, are in nonaccrual status, or have been restructured because of a deterioration in the financial position of the obligor. All such loans and lease financing receivables held in the reporting branch or agency and its IBF should be distributed by category and reported *net* of any specific reserves. Loan amounts should be reported net of unearned income to the extent that the same categories of loans are reported net of unearned income in Schedule C. Report the *full* outstanding balances of past due, nonaccrual, and restructured loans and lease financing receivables, as reported for purposes of Schedule C, not simply the delinquent payments.

Exclude interest earned but not collected on loans (report in Schedule RAL, item 1(h), "Other assets including other claims on nonrelated parties").

NOTE: *Exclude* all transactions of the branch or agency, including its IBF, with related depository institutions (report in Schedule M). However, include transactions with related nondepository institutions.

Definitions

Past due. For purposes of this schedule, grace periods allowed by the branch or agency, including its IBF, after a loan technically has become past due, but before the imposition of late charges, are not to be taken into account in determining past due status. Furthermore, loans and lease financing receivables are to be reported as past due when either interest *or* principal is unpaid in the following circumstances:

(1) Closed-end installment loans, amortizing loans secured by real estate, and any other loans and lease financing receivables with payments scheduled monthly are to be reported as past due when the borrower is in arrears two or more monthly payments. (Branches or agencies may use 30 days as a proxy for a month if they prefer.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

(2) Open-end credit such as charge-card plans, check credit, and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.

(3) Single payment and demand notes providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.

(4) Single payment notes providing for the payment of interest at maturity are to be reported as past due after maturity if interest *or* principal remains unpaid for 30 days or more.

(5) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

For purposes of this schedule, branches or agencies should use one of two methods to recognize partial payments on "retail credit," i.e., open-end and closed-end credit extended to individuals for household, family, and other personal expenditures, including consumer loans and credit cards, and loans to individuals secured by their personal residence, including home equity and home improvement loans. A payment equivalent to 90 percent or more of the contractual payment may be considered a full payment in computing delinquency. Alternatively, a branch or agency may aggregate payments and give credit for any partial payment received. For example, if a regular monthly installment is $300 and the borrower makes payments of only $150 per month for a six-month period, the loan would be $900 ($150 shortage times six payments), or three monthly payments past due. A branch or agency may use either or both methods for its retail credit but may not use both methods simultaneously with a single loan.

Nonaccrual. For purposes of this schedule, loans and lease financing receivables are to be reported as being in nonaccrual status if: (1) they are maintained on a cash basis because of deterioration in the financial position of the borrower, (2) payment in full of interest or principal is not expected, or (3) principal or interest has been in default for a period of 90 days or more unless the obligation is *both* well secured *and* in the process of collection.

A debt is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A debt is "in the process of collection" if collection of the debt is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status listed above, the date on which a loan reaches nonaccrual status is determined by its contractual terms. If the principal or interest on a loan becomes due and unpaid for 90 days or more on a date that falls between report dates, the loan should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

In the following situations, a loan need not be placed in nonaccrual status:

(1) The criteria for accrual of income under the interest method specified in ASC Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"), are met for a purchased impaired loan or debt security accounted for in accordance with that Subtopic, regardless of whether the loan or debt security had been maintained in nonaccrual status by its seller.

See Insert A

(2) The criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6 are met with respect to a loan or other debt instrument acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party (such as another institution or the receiver of a failed institution), including those that the seller had maintained in nonaccrual status.

(3) The loan upon which principal or interest is due and unpaid for 90 days or more is a consumer loan secured by a 1-to-4 family residential property. Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the reporting institution's net income is not materially affected. To the extent that the reporting institution has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in this schedule.

As a general rule, a nonaccrual loan may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the reporting institution expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection. For purposes of meeting the first test for restoration to accrual status, the reporting institution must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for "nonaccrual status," (1) the loan has been restructured in a troubled debt restructuring and qualifies for accrual status, (2) the asset is a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with ASC 310-30 and it meets the criteria for accrual of income under the interest method specified in that Subtopic~~,~~ or (3) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and certain repayment criteria

Insert A

For institutions that have adopted ASU 2016-13, any outstanding purchased credit-impaired loans and debt securities as of the adoption date should prospectively be accounted for as purchased credit-deteriorated loans and debt securities. Any remaining noncredit discount on such loans and debt securities should be accreted into interest income at the effective interest rate on the adoption date of ASU 2016-13 if a loan or debt security is not required to be placed in nonaccrual status. For purchased credit-deteriorated loans acquired after the adoption date, ASU 2016-13 refers to ASC Subtopic 310-10 for guidance on recognition of interest income. For purchased credit-deteriorated loans with common risk characteristics that are aggregated and accounted for as a pool for allowance measurement purposes under ASU 2016-13, the determination of nonaccrual or accrual status should be made at the individual loan level, not at the pool level.

Institutions that have adopted ASU 2016-13 should report in columns A and B asset amounts without any deduction for allowances for credit losses.

are met. For further information, see the Glossary entry for "nonaccrual status."

Restructured and in compliance with modified terms. For purposes of this schedule, restructured loans and leases are those loans and leases whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal, regardless of whether such loans and leases are secured or unsecured, regardless of whether such credits are guaranteed by the government or by others, and (except as noted in the following paragraph) regardless of the effective interest rate on such credits.

Once a loan or lease has been restructured because of such credit problems, it continues to be considered restructured until paid in full. However, a restructured loan or lease that is in compliance with its modified terms and yields a market rate (i.e., the recorded amount of the obligation bears an effective interest rate that at the time of the restructuring is greater than or equal to the rate that the branch or agency is willing to accept for a new extension of credit with comparable risk) need not continue to be reported as "restructured and in compliance with modified terms" in calendar years after the year in which the restructuring took place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a restructured loan. Also, a loan to a purchaser of "other real estate owned" by the reporting branch or agency for the purpose of facilitating the disposal of such real estate is not considered a restructured loan. For further information, see ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings").

Report as "restructured and in compliance with modified terms" all restructured loans and leases as defined above that are in compliance with their modified terms, that is, restructured loans and leases (1) on which *no* contractual payments of principal or interest scheduled under the modified repayment terms are due and unpaid or (2) on which contractual payments of both principal *and* interest scheduled under the modified repayment terms are less than 30 days past due. *Exclude* from "restructured and in compliance with modified terms" all restructured loans secured by 1-to-4 family residential properties and all restructured loans to individuals for household, family, and other personal expenditures. (However, any restructured loans of these two types that subsequently become past due 30 days or more or are placed in nonaccrual status should be reported accordingly.)

Column Instructions

Report in columns A and B (except for Memoranda item 2) the full outstanding balances (not just delinquent payments) of loans, including lease financing receivables, that are past due and upon which the branch or agency, including its IBF, continues to accrue interest, as follows:

(1) In column A, report closed-end monthly installment loans, amortizing loans secured by real estate, lease financing receivables, and open-end credit in arrears two or three monthly payments; other multipayment obligations, with payments scheduled other than monthly, when one scheduled payment is due and unpaid for 30 through 89 days; single payment and demand notes providing for payment of interest at stated intervals after one interest payment is due and unpaid for 30 through 89 days; single payment notes providing for payment of interest at maturity, on which interest *or* principal remains unpaid for 30 through 89 days after maturity; unplanned overdrafts, whether or not the branch or agency is accruing interest on them, if the account remains continuously overdrawn for 30 through 89 days.

(2) In column B, report the loans, including lease financing receivables, as specified above on which payment is due and unpaid for 90 days or more.

Report in columns A and B of Memoranda item 2 the fair value, if positive, of all interest rate, foreign exchange rate, equity, and commodity and other contracts or which a required payment by the branch or agency's counter-party is due and unpaid for 30 through 89 days and due and unpaid for 90 days or more, respectively.

Exclude from columns A and B all loans and lease financing receivables that are in nonaccrual status and