

October 2019

EY regulatory reporting brief

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

Current Expected Credit Loss (CECL)

Impact on the FR Y-14A, FR Y-14Q and FR Y-14M reports

Spotlight: Impact of new credit loss guidance (ASU 2016-13) on the FR Y-14A/Q/M reports

Introduction

Alert for regulatory reporting professionals – did you know?

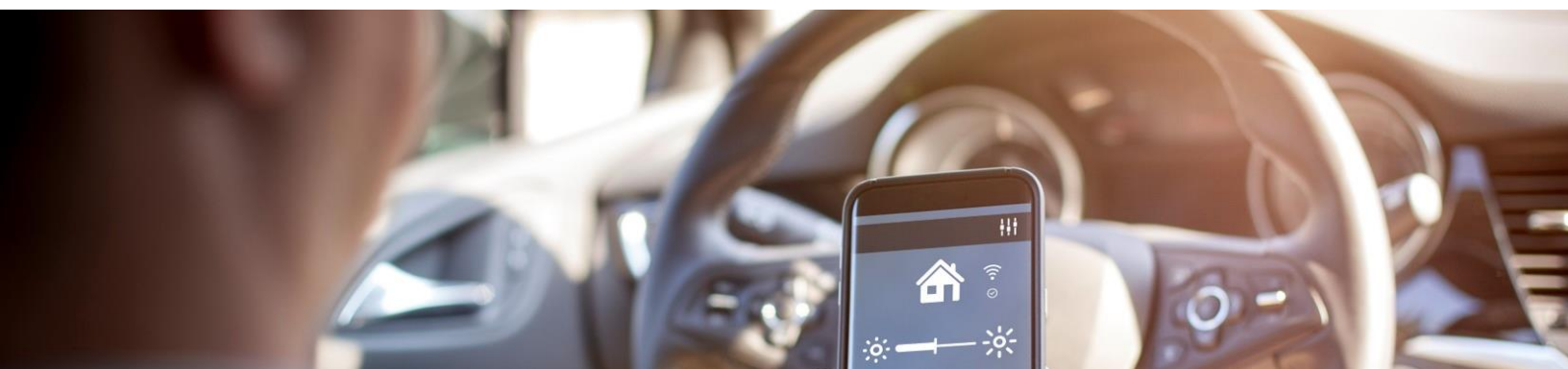
- ▶ Current Expected Credit Loss (CECL) is finally here.
- ▶ The Federal Reserve Board (FRB) has updated reporting requirements to address CECL and broader credit loss requirement changes.
- ▶ Regulatory reporting report forms change by the end of 2019.

This publication is designed to help you understand the regulatory reporting FR Y-14A/Q/M report updates to address Accounting Standards Update (ASU) 2016-13.



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Section 1: Background and overview of proposed changes

<p>Background</p> <p>In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, which introduced the CECL methodology for estimating allowances for credit losses. The new credit losses standard changed several aspects of existing US generally accepted accounting principles (GAAP), such as introducing a new credit loss methodology, reducing the number of credit impairment models, replacing the concept of purchased credit-impaired (PCI) assets with that of purchased credit-deteriorated (PCD) financial assets, and changing the period over which firms should estimate expected credit losses on off-balance sheet exposures.</p> <p>Federal Reserve Board response</p> <p>The FRB is proposing to address the revised accounting for credit losses under the FASB's ASU 2016-13, <i>Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>, and implement the CECL accounting methodology across the FR Y-14 reports.</p> <p>The proposed changes to the FR Y-14 reports mirror the related changes to the consolidated financial statements for holding companies for CECL, as appropriate. Please see the related regulatory brief covering the FR Y-9C impact of ASU 2016-13 and additional CECL background.</p> <p>Revised FR Y-14 forms and instructions should be available to capture changes for institutions that have adopted ASU 2016-13 by December 31, 2019. Forms will be updated upon full adoption or, at the latest, as of March 31, 2023, to reflect the CECL changes.</p> <p>Key considerations</p> <ul style="list-style-type: none"> ▶ Data sourcing: given granularity of data required for FRY14 schedules, data sourcing, modeling and reporting teams must be sure data is available at the required level ▶ Data quality checks: given initial reporting of numbers, additional data quality checks and controls must be implemented to maintain and protect data integrity ▶ Controls and reconciliation: data points that reference FR Y-9C (and supporting guidance) must properly reflect figures ▶ Business-as-usual (BAU) process: as data sourcing/data providers may change given updated requirements, a standard BAU process must be developed (with supporting dry runs to facilitate a smooth transition) <p>The next section outlines the proposed FR Y-14 changes, by schedule, for CECL.</p>	<p>Listed below are the FR Y-14 schedules with proposed changes.</p> <p>Proposed updates to FR Y-14A:</p> <ul style="list-style-type: none"> ▶ Schedule A.1.a (Income Statement) ▶ Schedule A.1.b (Balance Sheet) ▶ Schedule A.1.d (Capital) ▶ Schedule A.2.a (Retail Balance and Loss Projections) ▶ Schedule A.3 (AFS/HTM Securities) ▶ Schedule A.7 (Pre-Provision Net Revenue (PPNR)) ▶ Schedule F (Business Plan Changes) <p>Proposed updates to FR Y-14Q:</p> <ul style="list-style-type: none"> ▶ Schedule B (Securities) ▶ Schedule D (Regulatory Capital Transitions) ▶ Schedule G (PPNR) ▶ Schedule H (Wholesale) ▶ Schedule K (Supplemental) ▶ Schedule M (Balances) <p>Proposed updates to FR Y-14M:</p> <ul style="list-style-type: none"> ▶ Schedule A (First Lien) ▶ Schedule B (Home Equity) ▶ Schedule D (Credit Card)
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Section 2:

FR Y-14A – Deep dive on the FRB response to ASU 2016-13

Below are the detailed changes identified for each FR Y-14A schedule based on the FRB's response to ASU 2016-13.

FR Y-14A, Schedule A.1.a (Income Statement):

- ▶ The form and instructions will be revised to capture changes in allowances for credit losses on loans and leases (ALLL), held-to-maturity (HTM) and available-for-sale (AFS) debt securities. The following items would be renumbered with the suffix "a." These items would continue to capture allowances, provisions or charge-offs for loan and lease losses for institutions that have not yet adopted CECL:
 - ▶ Item 68, "ALLL, prior quarter"
 - ▶ Item 91, "Provisions for loan and lease losses during the quarter"
 - ▶ Item 114, "Net Charge-offs during the quarter" (Note: Item 114a would be revised to "Net charge-offs during the quarter on loans and leases")
 - ▶ Item 115, "Other ALLL Changes"
 - ▶ Item 116, "ALLL, current quarter"
- ▶ Two additional suffixes will be added to each of the above items (noted as "b" and "c") to capture amounts associated with HTM and AFS debt securities reported by institutions that have adopted ASU 2016-13. Finally, a total item would be added to derive the sum of the above items. For institutions that have not adopted ASU 2016-13, this total line item would represent the allowance for loan and lease losses under the current incurred loss standard.

FR Y-14A, Schedule A.1.b (Balance Sheet):

- ▶ The form and instructions will be revised to specify which assets should be reported net of an allowance for credit losses. Institutions that have adopted ASU 2016-13 would report these amounts net of any applicable allowance for credit losses:
 - ▶ Item 1, "Held to Maturity"
 - ▶ Item 120, "Securities Purchased Under Agreements to Resell"
 - ▶ Item 129, "Other Assets"
- ▶ Institutions that have adopted ASU 2016-13 would reflect allowance for credit losses on loans and leases in the following items:
 - ▶ Item 110, "Allowance for Loan and Lease Losses"
 - ▶ Item 111, "Net of Unearned Income and Allowance for Loan and Leases Losses"



FR Y-14A, Schedule A.1.d (Capital):

- ▶ A revision will be made to item 54, “Allowance for loan and lease losses includable in tier 2 capital,” to indicate that institutions that have adopted CECL should use the adjusted allowances for credit losses¹ instead of allowance for loan and lease losses in calculating regulatory capital.
- ▶ Guidance will be added to the following items within FR Y-14A, Schedule A.1.d, indicating that institutions that have adopted ASU 2016-13 and have elected to apply the transition provision should include or exclude, as outlined in the FR Y-9C, the applicable portion of the CECL transitional amount:
 - ▶ Item 20, “Retained earnings”
 - ▶ Item 39, “DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold”
 - ▶ Item 54, “Allowance for loan and lease losses includable in tier 2 capital”
 - ▶ Item 77, “DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs”
 - ▶ Item 85, “Average total consolidated assets”

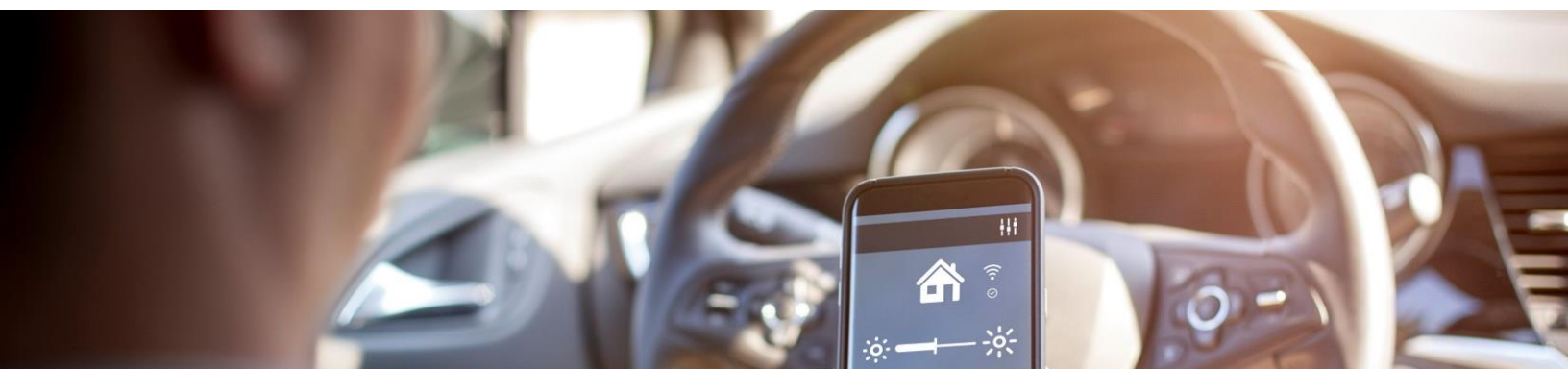
FR Y-14A, Schedule A.2.a (Retail Balance and Loss Projections):

- ▶ Instructions will be revised to indicate that institutions that have adopted ASU 2016-13 would not need to file item 7, “Cumulative Interim Loan Losses – Non-PCI,” or item 8, “Cumulative Interim Loan Losses, PCI.” Upon reporting institutions’ full adoption of ASU 2016-13, or, at the latest, as of March 31, 2023, items 7 and 8 would be eliminated (effective for fiscal years starting 9/2022).
- ▶ The PCI fields would be reported only for firms that have not adopted ASU 2016-13. These items would continue to be reported for each applicable mortgage type.

FR Y-14A, Schedule A.3 (AFS/HTM Securities):

- ▶ Institutions that have adopted ASU 2016-13 would not report Subschedules A.3.a, A.3.b and A.3.c. Additionally, Subschedule A.3.a will also be eliminated for those institutions. Subschedules A.3.b and A.3.c would be eliminated upon full adoption of ASU 2016-13, or, at the latest, as of March 31, 2023. The final outstanding date proposal is expected to complete by 2023.
- ▶ The three subschedules will be replaced with two new subschedules – A.3.f (Expected Credit Loss and Provision for Credit Loss – HTM securities) and A.3.g (Expected Credit Loss and Provision for Credit Loss – AFS securities) – to be filed by all institutions that have adopted ASU 2016-13. The new subschedules would aim to collect basic credit loss and reserve information on HTM and AFS securities, respectively, such as the security asset class, accounting intent, amortized cost, total allowance for credit losses and cumulative expected lifetime loss and provision for credit loss across the projection horizon.

¹ Notice of Proposed Rulemaking regarding A.1.d (Capital): Specifically, the FRB is proposing to revise the instructions for Schedule A.1.d to indicate that institutions that have adopted CECL should use the adjusted allowances for credit losses instead of allowance for loan and lease losses in calculating regulatory capital. Language would be added as of December 31, 2019, indicating this guidance on Schedule A.1.d., item 54, “Allowance for loan and lease losses includable in tier 2 capital.” Upon reporting filers’ full adoption of ASU 2016-13, or, at the latest, reports as of March 31, 2022, the caption would be updated to reflect the new credit loss terminology.



- ▶ A statement will be added in Appendix A.5 of the FR Y-14A indicating that institutions that have adopted ASU 2016-13 should submit supporting documentation on their other comprehensive income, expected credit loss and provision projections as outlined in the instructions.
- ▶ The scope of Subschedules A.3.d and A.3.e will be expanded to include data related to only AFS and equity securities, as institutions that have adopted ASU 2016-13 would no longer report impaired HTM securities in these subschedules.

FR Y-14A, Schedule A.7 (PPNR):

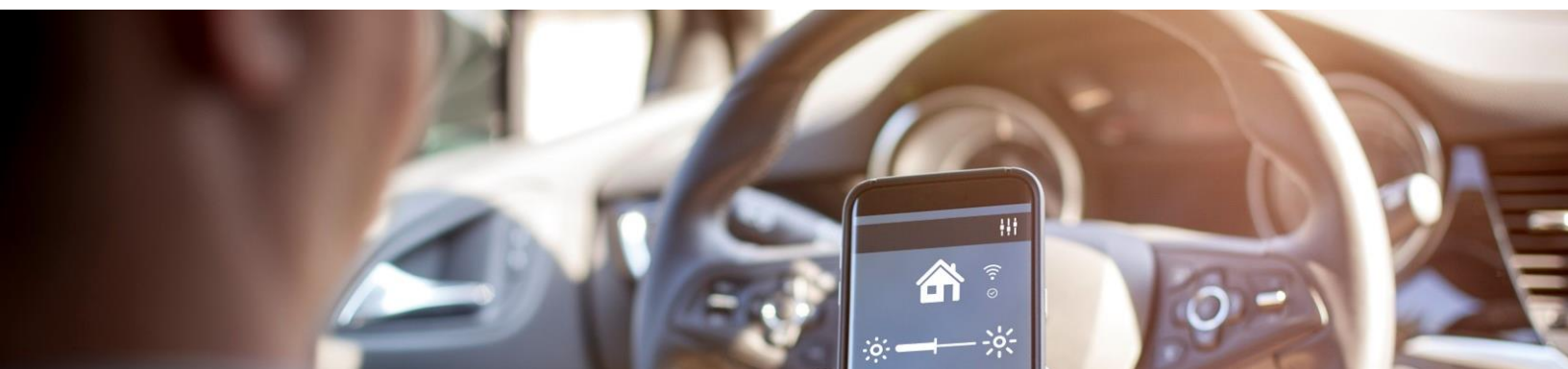
- ▶ Updates will be made to FR Y-14A, Subschedules A.7.a, A.7.b and A.7.c, to indicate that institutions that have adopted ASU 2016-13 should not report gains and losses on AFS and HTM securities, including changes in credit loss provisioning, as a component of PPNR.
- ▶ References to PCI will be eliminated within Subschedule A.7.c upon full adoption of ASU 2016-13 by all report filers, or, at the latest, as of March 31, 2023. A footnote to item 50, "Carrying Value of Purchased Credit Impaired Loans," would be added to indicate that institutions that have adopted ASU 2016-13 should report, instead, the carrying value of PCD loans in this item.
- ▶ A footnote will be added to item 51 indicating that institutions that have adopted ASU 2016-13 should report the net accretion of discount on loans included in interest revenues in this item.

FR Y-14A, Schedule F (Business Plan Changes):

- ▶ Reporting guidance related to the adoption of ASU 2016-13 provided for FR Y-14A, Schedule A, applies to comparable items reported on the FR Y-14A, Schedule F. Certain items that are derived on Schedule A may need to be reported on Schedule F and would be listed in the instructions and technical documentation, as necessary.

Collection of supplemental CECL information:

- ▶ Additional items will be reported by institutions that adopt ASU 2016-13 to capture the timing and impact of CECL adoption as of December 31, 2019. Upon full CECL adoption by all report filers, or with the reports as of March 31, 2023, at the latest, these items would be deleted from the report. This would include items related to:
 - ▶ The first quarter in which a firm expects to incorporate CECL
 - ▶ The impact of the CECL transition provision on certain regulatory capital components
 - ▶ The cumulative-effect adjustment for changes in the allowance for credit losses
 - ▶ Allowances for credit losses recognized upon the acquisition of PCD assets
 - ▶ Initial effect of CECL methodology on loans and leases and HTM debt securities
 - ▶ Total allowance for credit losses
 - ▶ Allowance for credit losses on loans and leases held for investment
 - ▶ Allowance for credit losses on debt securities
- ▶ The reporting form and instructions would note that, unless otherwise specified, these items are to be completed only by holding companies that have adopted ASU 2016-13 in the stress test cycle year of adoption.



Section 3:

FR Y-14Q – Deep dive on the FRB response to ASU 2016-13

Below are the detailed changes identified for each FR Y-14Q schedule based on the FRB's response to ASU 2016-13.

FR Y-14Q, Schedule B (Securities):

- ▶ References to PCI, OTTI, ASC 310-10 and ASC 310-30 will be eliminated or replaced throughout Subschedule B.1 (Securities – Main Schedule), as these concepts do not apply to institutions that have adopted ASU 2016-13.
- ▶ A footnote will be added to the instructions for book yield and purchase date within Subschedule B.1, indicating that institutions that have adopted ASU 2016-13 should report based on the new credit loss methodology.
- ▶ The “OTTI Taken” item will be removed from Schedule B upon full adoption of CECL by all institutions. The report form and instructions for this field would include guidance stating that it is to be completed only by institutions that have not adopted ASU 2016-13.
- ▶ Items “Amount of Allowance for Credit Losses” and “Writeoffs” will be added to Subschedule B.1 that would be filed by institutions that have adopted ASU 2016-13 to properly assess the allowance established and maintained on applicable securities. Only institutions that have adopted ASU 2016-13 would report these items.

FR Y-14Q, Schedule D (Regulatory Capital Transitions):

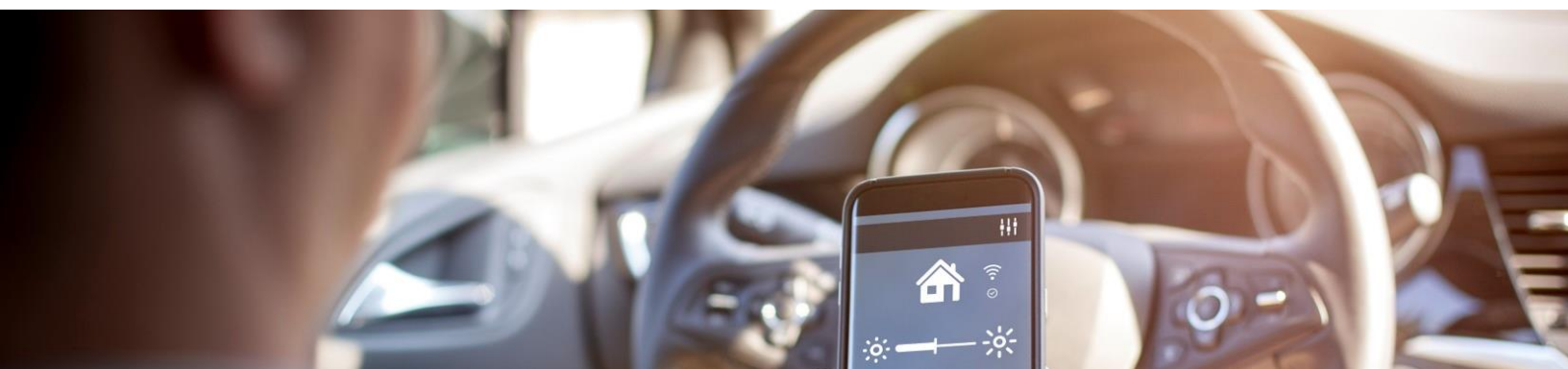
- ▶ Guidance will be added to the instructions for Schedule D to indicate that this schedule should not reflect any election of the CECL transition provision. Where applicable, institutions would continue to reference the methodology descriptions outlined within FR Y-9C, Schedule HC-R (Regulatory Capital). Note that the numbers would not necessarily tie to the FR Y-9C reports, as Schedule D requires calculations on a fully phased-in basis.
- ▶ Guidance will be added in Subschedule D.4, indicating the reporting of adjusted allowances for credit losses by institutions that have adopted ASU 2016-13 in item 23, “RWA for purposes of calculating the allowance for loan and lease losses (ALLL) 1.25 percent threshold,” and item 38, “Excess allowance for loan and lease losses.”

FR Y-14Q, Schedule G (PPNR):

- ▶ Changes to Schedule G mirror those outlined for the FR Y-14A, Schedule A.7, as applicable.

FR Y-14Q, Schedule H (Wholesale):

- ▶ Subschedules H.1 and H.2 will be revised to indicate that references and items related to ASC 310-10 and ASC 310-30 do not apply to institutions that have adopted ASU 2016-13 and to add the following items to accommodate reporting under ASU 2016-13:
 - ▶ Instructions will be updated for “Committed Exposure Global” (H.1, item 24; and H.2, item 5), “Utilized Exposure Global” (H.1, item 25), and “Outstanding Balance” (H.2, item 3) by eliminating references in the instructions to ASC 310-30 and ASC 310-10, and clarifying that all institutions should report these items consistent with the guidance in the FR Y-9C instructions, whether or not they have adopted ASU 2016-13.



- ▶ Two items will be added to both Subschedules H.1 and H.2 for the reporting of applicable allowances for credit losses under ASC 326-20 (H.1, item 102; and H.2, item 63) and applicable purchased credit deteriorated noncredit discount (or premium) (H.1, item 103; and H.2, item 64). Guidance will be added to the instructions for existing items 30 and 31 on Subschedule H.1 and items 46 and 47 on Subschedule H.2, indicating that these items would be reported as “0” by institutions that have adopted ASU 2016-13. Firms are to report under the new items (H.1, items 102 and 103; and H.2, items 63 and 64). Upon full adoption of ASU 2016-13 by all institutions, all four items will be eliminated.
- ▶ A field will be added for current maturity date to Subschedules H.1 and H.2 (items 104 and 65, respectively); only institutions that have adopted ASU 2016-13 would report this field.
- ▶ The instructions in “Reporting Specifications” of Subschedules H.1 and H.2 will be simplified to indicate that institutions should report all loan and lease financing receivables consistent with the FR Y-9C instructions and to remove certain references to ASC 310-10 and ASC 310-30. Institutions that have adopted ASU 2016-13 should report charge-offs, fair value adjustments, ASC 326-20 allowance for credit losses, and PCD noncredit discount (or premium) separately in the designated fields.

FR Y-14Q, Schedule K (Supplemental):

- ▶ A footnote will be added to the instructions and report form for Schedule K indicating that institutions that have adopted ASU 2016-13 do not need to report information for Column C, “Cumulative Lifetime Purchase Impairments and Fair Value Adjustments.” Following full adoption of ASU 2016-13 by institutions, Column C will be eliminated.

FR Y-14Q, Schedule M (Balances):

- ▶ Guidance will be added to the instructions to indicate that institutions that have adopted ASU 2016-13 should report the book value of non-PCD loans in column A, the UPB of non-PCD loans in column B, the book value of PCD loans in column C and the UPB of PCD loans in column D.
- ▶ Institutions that have adopted ASU 2016-13 will be required to report the cumulative interim loan losses in a new item, “Cumulative Interim Loan Losses,” in Schedule M.3, reported for each applicable mortgage type. This new item would be included in a new section of Schedule M.3 that would include the items “Cumulative Interim Loan Losses – Non-PCI” and “Cumulative Interim Loan Losses, PCI,” which will be moved from FR Y-14A, Schedule A.2.a.
- ▶ Upon full adoption of CECL by all institutions, the existing guidance, schedule title and column titles would be updated to reflect PCD and non-PCD terminology, and references to PCI would be eliminated.



Section 4:

FR Y-14M – Deep dive on the FRB response to ASU 2016-13

Below are the detailed changes identified for each FR Y-14M schedule based on the FRB's response to ASU 2016-13.

FR Y-14M, Schedules A (First Lien), B (Home Equity), D (Credit Card):

- ▶ Guidance will be added to the FR Y-14M data item captions and instructions that reference the “provision for loan and lease losses” or the “allowance for loan and lease losses” to indicate that institutions that have adopted ASU 2016-13 should report the “provision for credit losses” and the “allowance for credit losses,” respectively. Upon full adoption of CECL by all institutions, the following data item captions and instructions would be updated to reflect the CECL terminology:
 - ▶ Schedule A.1, item 96, “Troubled Debt Restructure Flag,” and A.1, item 119, “Loss/Write-down Amount,” and A.2, item 3, “Loss/Write-down Amount”
 - ▶ Schedule B.1, item 93, “Loss/Write-down Amount,” and B.2, item 3, “Loss/Write-down Amount”
 - ▶ Schedule D.1, item 107, “Principal Charge-off Amount – Current Month,” D.2, item 9, “ALLL Managed Balance,” item 10, “ALLL Booked Balance,” item 18, “Booked Recoveries,” item 23, “Interest and Fees Charge-off/Reversal Amount,” item 26, “Loan Loss Provision Build,” item 35, “Interest Income,” and item 36, “Fee Income”
- ▶ References and items to PCI or non-PCI will be modified to refer to PCD or non-PCD for institutions that have adopted ASU 2016-13.
- ▶ Guidance will be added to the SOP 03-3 Status/Flag field (Schedule A.1, item 92; Schedule B.1, item 60; and Schedule D.1, item 14), indicating that institutions that have adopted ASU 2016-13 would report in this field whether loans are accounted for as PCD. Upon adoption of ASU 2016-13 by institutions, the existing PCI and SOP 03-3 terminology would be eliminated, and the item captions would change to “PCD Status.”
- ▶ The instructions will be updated to indicate that institutions that have adopted ASU 2016-13 should report PCD Loans in the existing “HFI Purchased Credit Impaired” segment. After institutions have adopted ASU 2016-13, the name of the segment would be updated to “HFI Purchased Credit Deteriorated.” The allowable values for the corresponding Portfolio Segment ID field (Schedule A.2, item 1; and Schedule B.2, item 1) would contain the same guidance.
- ▶ The instructions will be updated for Unpaid Principal Balance (Net) (item 95) on Schedule B.1, to indicate that references to PCI in the definition for this item do not apply to institutions that have adopted ASU 2016-13.



Section 5: Effects of changes for filers to consider

The changes to the FR Y-14A/Q/M reporting requirements will affect the report production life cycle, and firms need to begin acting to properly plan for and incorporate the new requirements. Firms should be assessing the effects of these changes while establishing appropriate timelines along the following key areas:

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

The regulatory reporting impact of the FR Y-14 reports is just around the corner, and the time to prepare is *now*.

The views we express in this publication may continue to evolve as implementation continues and further guidance is made available. Please contact us regarding any questions about the information discussed in this brief and how to efficiently and effectively address its impact on your report production process.

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