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Banking & Securities
Accounting and Financial Reporting Update

November 4, 2013

Financial Services Industry

Contents

Foreword

November 4, 2013

We are pleased to announce our sixth annual accounting and financial reporting update for the banking and securities sector.

The publication is divided into three sections: (1) "Updates to Guidance," which highlights changes to accounting and reporting standards that banking and securities entities need to start preparing for now; (2) "On the Horizon," which discusses standard-setting topics that will affect banking and securities entities as they plan for the future; and (3) "Other Topics" that may be of interest to entities in the banking and securities sector.

The 2013 accounting and financial reporting updates for the investment management, insurance, and real estate sectors are available (or will be available soon) on US GAAP Plus, Deloitte's new Web site for accounting and financial reporting news.

In addition, don't miss our upcoming publication, *SEC Comment Letters — Including Industry Insights*, which discusses our perspective on topics that the SEC staff has focused on in comment letters issued to registrants over the past year, including an analysis of comment letter trends in each financial services sector.

As always, we encourage you to contact your local Deloitte office for additional information and assistance.

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Introduction

The banking and securities sector has continued to gain momentum in 2013. Increased U.S. interest rates, an improving housing market, and increased profitability and capital ratios have helped make 2013 a better year for banks. However, as the sector prepares for implementation of the Volcker Rule[1] in the year ahead, profitability will depend on the regulatory environment.

Economic Growth

Profits in the banking and securities sector have improved since the economic downturn. In the securities sector, such improvement is largely a result of revenues from equity and fixed income trading. Commercial customers invested more heavily, mortgage activity and credit card spending increased, and loans have largely been paid on time. Credit quality has also improved, resulting in a decline in nonperforming loans, which was a major factor in the sector's profitability through net interest income growth. Upcoming regulations may affect profitability in the years ahead.

Regulatory Reform

Although the Volcker Rule became effective on July 21, 2012, the Fed granted a two-year extension for banks to comply with and implement the rule and for regulators to work on its provisions. During this extension, banks are still required to act in "good faith" to comply with the rule in 2014. The rule may affect profitability, most notably the limitations on proprietary trading along with a separate requirement of Federal Reserve Regulation E for customers to elect overdraft coverage, reducing the fees banks are able to charge on their deposit accounts. Capital requirements are higher under the new Basel III capital standards, which, although they do not come into full effect until 2019, may affect a bank's planning. This year's annual stress tests by the Fed indicate that banks are up to the challenge of the stricter requirements, with nearly all of the firms meeting the requirements for minimum capital levels.

The SEC[2] has amended its reporting rules to enhance safeguards for customer assets held by securities firms. These amendments require broker-dealers to file additional reports with the SEC to indicate compliance with the financial responsibilities rules, as defined, and to have these reports, as well as their financial statements, audited under PCAOB standards.

IFRS Convergence

The incorporation of IFRSs into the U.S. domestic financial reporting system has been heavily debated since the SEC's initial IFRS roadmap was released in 2008. Since then, the SEC has undertaken several projects to further explore the possibility of adopting IFRSs. The SEC formalized many of these efforts in its 2010 work plan, which directed the SEC staff to evaluate six topics related to whether and, if so, when and how to incorporate IFRSs into the U.S. financial reporting system. In July 2012, the SEC staff released a final report summarizing its findings related to the work plan; however, the report did not discuss recommendations for U.S. incorporation or implementation of IFRSs. The SEC has not yet decided whether IFRSs will be adopted partly because of delays in the finalization of the FASB's and IASB's convergence projects related to revenue, leases, and financial instruments. However, the culmination of these projects, along with increasing international pressure, may prompt the SEC to make a decision in the near future. Registrants are encouraged to be aware of developments as they arise.

For additional information about industry issues and trends, see Deloitte's 2013 Financial Services Industry Outlooks.

[1] The Volcker Rule (Section 619 of the Dodd-Frank Act) limits the amount of speculative investments that large financial firms are permitted to have on their balance sheets.

[2] For a list of abbreviations used in this publication, see Appendix C.

Updates to Guidance

Balance Sheet Offsetting

Background

In December 2011, the FASB issued ASU 2011-11[1] (subsequently codified in ASC 210-20), which established new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments and their potential effect on the entity's financial position, and in January 2013, the FASB clarified the scope of the ASU 2011-11 offsetting disclosure requirements by issuing ASU 2013-01 (also codified in ASC 210-20) — collectively, "the ASU."

The requirements are effective for all entities for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods.

Scope

ASU 2013-01 limits the scope of the required offsetting disclosures to the following instruments or transactions:

- "Recognized derivative instruments accounted for in accordance with [ASC] 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with either [ASC] 210-20-45 or [ASC] 815-10-45."
- "Recognized derivative instruments accounted for in accordance with [ASC] 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either [ASC] 210-20-45 or [ASC] 815-10-45."

The ASU clarifies that only derivatives accounted for in accordance with ASC 815, including bifurcated embedded derivatives, are within the scope of the disclosure requirements. Instruments that meet the definition of a derivative in ASC 815 but that are subject to one of the scope exceptions under ASC 815 are outside the scope of the disclosure requirements.

Required Disclosures

Under ASC 210-20-50-3 and 50-4, an entity must disclose, at a minimum, the following information "in a tabular format, separately for assets and liabilities, unless another format is more appropriate":

> a. The gross amounts of those recognized assets and . . . liabilities
>
> b. The amounts offset in accordance with the guidance in [ASC] 210-20-45 and [ASC] 815-10-45 to determine the net amounts presented in the statement of financial position
>
> c. The net amounts presented in the statement of financial position [i.e., (a)–(b)]
>
> d. The amounts subject to an enforceable master netting arrangement or similar agreement not otherwise included in (b) [along with the] amounts related to financial collateral (including cash collateral)
>
> e. The net amount after deducting the amounts in (d) from the amounts in (c).

[1] For the full titles of standards, topics, and regulations, see Appendix B.

Amounts shown for items (a) through (c) should be grouped by type of instrument or transaction; however, amounts shown for items (c) through (e) may be shown by type of instrument or by counterparty. Also, the amounts reported for item (c) must be reconciled to amounts presented in the statement of financial position, and the total amount disclosed for item (d) cannot exceed the amount shown for item (c) for a given financial instrument.

An entity also must describe the rights of setoff associated with its recognized financial instruments subject to an enforceable MNA or similar agreement disclosed in item (d) above, including the nature of those rights. The tabular and qualitative disclosure requirements are minimum requirements; an entity may need to supplement these disclosures with additional qualitative disclosures to fully describe the effect of the rights of setoff and related arrangements on the entity's financial instruments and derivatives and its financial position.

See Deloitte's February 5, 2013, *Heads Up* for further discussion of the ASU 2013-01 disclosure requirements.

Transition

The disclosure guidance must be applied retrospectively for any period presented that begins before the date on which the entity initially adopts the requirements.

Interaction With IFRSs

While the balance sheet offsetting project began as a joint effort between the FASB and the IASB to eliminate significant differences between the offsetting model in U.S. GAAP and that in IFRSs, the boards ultimately decided to retain their existing offsetting accounting models and to require entities to provide more comprehensive disclosures about balance sheet offsetting. Concurrently with the FASB's issuance of ASU 2011-11, the IASB amended IFRS 7 to require essentially the same disclosures as those required by the ASU. However, the IASB has not changed the scope of its disclosure requirements since the issuance of ASU 2013-01 and, as a result, fewer financial instruments are subject to the offsetting disclosure requirements under U.S. GAAP than under IFRSs.

Thinking It Through

Financial statement preparers should consider whether they have appropriate systems, processes, and internal controls in place to track, gather, and analyze information about rights of setoff for financial instruments and derivative instruments executed under MNAs or similar agreements. This may prove especially challenging for entities that have previously elected not to offset financial instruments under existing offsetting guidance. Preparers, along with their advisers, also should analyze the terms of any agreements related to their financial instruments and derivatives to determine whether they contain offsetting provisions and to assess whether they are legally enforceable in their jurisdiction.

Companies should consider the ASU's scope in connection with their "one-sided" MNAs (i.e., those in which the counterparty, rather than the reporting entity, has the right of offset upon default and the reporting entity lacks a mirror right). For example, a contractual agreement with a clearing member to clear derivative instruments through a central clearing counterparty (e.g., the Chicago Mercantile Exchange) may be one-sided. If the reporting entity does not, from its perspective, have an MNA or similar agreement (i.e., it has no right of offset under the arrangement), instruments subject to that arrangement would not be within the scope of that entity's offsetting disclosures. In determining whether an entity is a party to a "one-sided" MNA, the entity's accounting department would most likely need to consult with legal counsel.

In addition, companies subject to the new disclosure requirements may encounter difficulties in allocating collateral among financial instruments in the asset and liability tables. Companies that choose to group the instruments in the tables by instrument type have found it difficult to present collateral by instrument type when their portfolios are cross-collateralized by counterparty, since the collateral data are not available by instrument type. In such cases, a company will need to apply a reasonable allocation method consistently across instrument types and should consider disclosing this method. Further, both on- and off-balance-sheet collateral would be within the scope of the disclosure requirements, and companies should consider clearly labeling the columns in the tables to distinguish between recognized and unrecognized amounts. Finally, because collateral balances disclosed in accordance with the ASU may not be consistent with existing collateral disclosures because of the limits on the amounts of collateral that can be shown in the table, companies should consider providing additional information regarding overcollateralization as a supplement to the required disclosures.

EITF Issue No. 13-A, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes"

Background

In July 2013, the FASB issued ASU 2013-10, which is based on the consensus on Issue 13-A reached at the EITF's June 11, 2013, meeting. This ASU added the Fed Funds Effective Swap Rate or Overnight Index Swap Rate (collectively referred to as OIS) to the list of interest rates that entities in U.S. markets can designate as a benchmark interest rate in fair value or cash flow hedges accounted for under ASC 815-20. Rates based on direct obligations of the U.S. Department of the Treasury (UST) and the LIBOR swap rates continue to be acceptable benchmark interest rates. Entities can only apply this ASU to new hedging relationships entered into as of July 17, 2013, or to existing hedging relationships redesignated on or after that date.

The inclusion of the OIS rate as a third benchmark interest rate is expected to give risk managers greater latitude in designating a benchmark interest rate risk component, which serves as a proxy for the theoretical risk-free rate under the hedge accounting guidance in ASC 815. The ASU also removed language in ASC 815-20 that prohibited entities from designating different benchmark interests for similar hedges except in rare and justified circumstances. Thus, entities may more frequently designate different benchmark interest rates for similar hedges. However, this does not change the guidance in ASC 815 requiring entities to designate benchmark interest rates in a hedging relationship in a manner consistent with documented risk management objectives and strategies for undertaking the hedge.

ASU 2013-10 will not solve all instances of hedge ineffectiveness. For example, in fair value hedges of fixed-rate debt with LIBOR as the designated benchmark and that use LIBOR-indexed swaps, ineffectiveness in long-haul hedging strategies could exist when one discount rate is used to value the hedging instrument (e.g., OIS as a risk-free rate due to changes in market participants' views about discount rates, particularly for collateralized derivatives) and another to value the hedge item (e.g., LIBOR as the risk-free rate).

For more information about ASU 2013-10, see Deloitte's July 2013 *Financial Services Industry Spotlight*.

Thinking It Through

Many large financial institutions have already changed their pricing of derivatives to OIS discounting, while medium and small financial institutions may be contemplating or in the process of doing so. The inclusion of OIS as a benchmark interest rate for hedge accounting purposes will most likely be welcomed by many in the banking and securities industry, particularly those who have changed, or are changing, to OIS discounting for their derivatives.

Before ASU 2013-10, an entity’s risk managers could use a Fed Funds–indexed derivative; however, the entity would be required to hedge the “total interest rate risk” and could not isolate the variability in the Fed Funds effective swap rate. Although the hedging relationship could be highly effective, it would most likely have some amount of ineffectiveness that would affect earnings. Some financial institutions were reluctant to enter into OIS-based derivatives because they would have to prove that the hedges were highly effective under ASC 815 (i.e., the changes in the value of a derivative closely matched the changes in the designated risk of a hedged item). However, even with the introduction of the OIS as a third benchmark interest rate, financial institutions may face numerous front- , middle- , and back-office challenges related to their transactional, risk management, and operational approaches depending on (1) the complexity of their derivative portfolio and (2) the size and sophistication of the financial institution.

On the Horizon

Revenue Recognition

Background

In November 2011, the FASB and IASB issued a revised ED on revenue arising from contracts with customers, and they have continued to redeliberate various aspects of this proposal. The boards expect to issue a final revenue standard soon.

The proposed model is based on a core principle under which an entity "shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the proposed provisions to contracts within its scope, an entity would:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The revised ED, issued by the FASB as a proposed ASU, significantly expands the current requirements for disclosures about revenue recognition. The boards' objective in requiring the additional disclosures "is to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers." Under the proposed ASU, entities will be required to disclose both quantitative and qualitative information about (1) the amount, timing, and uncertainty of revenue (and related cash flows) from contracts with customers; (2) the judgment, and changes in judgment, exercised in applying the proposal's provisions; and (3) assets recognized from costs to obtain or fulfill a contract with a customer.

Effective Date and Transition

For public entities, the ASU would be effective for reporting periods (fiscal and interim) beginning after December 15, 2016. Early application would not be permitted; however, entities reporting under IFRSs would have the option of early adopting the standard. Nonpublic entities have the option of one of the following three alternative adoption dates:

- The public-company effective date.
- Annual reporting periods beginning after December 15, 2016, including interim periods thereafter (i.e., same initial year of adoption as public entities, but nonpublic entities would be allowed to postpone adopting the ASU during interim reporting periods in that year).
- Annual reporting periods beginning after December 15, 2017, including interim periods therein (i.e., one-year deferral).

In applying the ASU, entities would have the option of using either retrospective transition (with certain practical expedients) or a modified approach. Entities that choose retrospective application would also consider the requirements in ASC 250. Under the modified approach, an entity would recognize "the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings [at the date] of initial application." The proposed guidance would apply to contracts for which the entity has remaining performance obligations to fulfill as of the effective date but would not apply to contracts that were completed (i.e., the entity has no remaining performance obligations to fulfill) before the effective date. In the year of adoption, entities would also be required to disclose an explanation of the impact resulting from the adoption of the ASU as well as the financial statement line item and respective amount that are directly affected by the standard's application.

Thinking It Through

Aspects of the proposed guidance that could affect banking and securities companies include the following:

- *Credit card reward programs* — The proposal may require credit card issuers to evaluate whether a reward program constitutes or is contained within a contract with a customer and, if so, whether it is a performance obligation. Entities may be required to account for customer reward programs as deferred revenue for the future benefit to be provided to the customer. This requirement may constitute a change for some financial institutions that currently apply a liability accrual expense approach. In commenting on the revised ED, some financial institutions stated their belief that the proposal's scope should not include credit card reward programs and pointed out that the cardholder receives the reward and that the transaction with the cardholder involves a financial instrument. They further argued that the point-of-sale swipe fee that the card issuer receives constitutes a revenue transaction with the third-party merchant and that the reward therefore is not associated with a revenue transaction. It remains to be seen whether the final standard will clarify whether these transactions are within its scope.

- *Underwriting fees* — The proposal will supersede guidance in ASC 940-605 specifying that underwriting fees should be recognized as revenue when the underwriting cycle is complete and allows for the presentation of underwriting fees, when recognized as revenue, on a net basis (reduced for expenses directly associated with the offering). In the absence of these requirements, entities will need to use judgment in determining both (1) the transaction price, including variable consideration, that is to be allocated to one or more performance obligations and (2) whether such performance obligations are satisfied over time or at a point in time. Furthermore, the presentation of revenues on either a gross or net basis would depend on principal-versus-agent considerations.

- *Performance-based fees* — The proposed standard would supersede the guidance in ASC 605-20 (i.e., EITF D-96) that allows entities to recognize performance-based fees either (1) at the point at which revenue would not be subject to future reversal or (2) at the amount that would be due under the contract at any point in time as if the contract had ended at that point. Entities would instead apply the standard's guidance on including variable consideration in the transaction price. The proposed guidance would require the use of judgment in the determination of whether performance-based fees (or a portion thereof) are included in the transaction price and, if so, the amount eligible to be recognized as revenue.

Because the final standard will supersede most industry-specific revenue recognition guidance, entities in the banking and securities industry will most likely identify other aspects of the standard that may result in a change in how they recognize revenue under current practice. Other examples of industry-specific guidance relevant to banking entities that may be superseded by the proposed ASU include ASC 940-605 on underwriting fees and mutual fund distribution fees (and costs), ASC 942-605 on insurance commissions and trust department operations, and ASC 948-605 on mortgage loan origination fees and loan placement fees. Entities should begin to evaluate the impact the standard may have on the accounting for revenue from contracts with their customers.

Financial Instruments Project — Classification and Measurement

Background

On February 14, 2013, the FASB released for public comment a proposed ASU on the recognition, classification, measurement, and presentation of financial instruments. Comments on the proposal were due by May 15, 2013. (See Deloitte's February 14, 2013, and August 2, 2013, *Heads Up* newsletters for an overview of the proposed ASU and a summary of feedback from stakeholders, respectively.)

Under the proposal's mixed-attribute model:

- Entities would be required to classify a financial asset into one of the following three categories on the basis of the asset's contractual cash flow characteristics and the business model in which it is managed: (1) amortized cost, (2) fair value through other comprehensive income (FV-OCI), or (3) fair value through net income (FV-NI). A financial asset meets the contractual cash flow characteristics criterion if the contractual terms "give rise on specified dates to cash flows that are solely payments of principal and interest [SPPI] on the principal amount outstanding." Generally, financial assets that fail to meet the SPPI criterion are classified and measured at FV-NI. For a financial asset that meets the SPPI criterion, an entity would perform the business model assessment to determine whether the asset should be classified and measured at amortized cost, FV-OCI, or FV-NI measurement attribute.

- Financial liabilities would be accounted for at amortized cost, with certain exceptions.

- Equity investments would be accounted for at FV-NI unless (1) they result in consolidation, (2) the equity method of accounting applies, or (3) the investment does not have a readily determinable fair value and the entity has elected to apply a practicability exception.

- Embedded features in a hybrid financial asset would no longer be analyzed for bifurcation from the host contract. Instead, entities would be required to classify hybrid financial assets in their entirety on the basis of the contractual cash flow characteristics criterion and the entity's business model. Under the proposal, features that are bifurcated under current practice may cause a hybrid financial asset to fail the SPPI test; as a result, the hybrid instrument may need to be classified as FV-NI in its entirety. How an entity evaluates various features is a key part of the redeliberations discussed below.

- The existing unconditional fair value option for financial instruments would be replaced with a conditional option.[1]

The proposal defines principal as the "amount transferred by the holder at initial recognition" and interest as "consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, which may include a premium for liquidity risk."

The proposed ASU identifies three distinct business models under which assets may be held and managed:

1. *Hold-to-collect* — Assets are held to collect contractual cash flows. Financial assets that meet the SPPI criterion and that are held in a hold-to-collect business model are accounted for at amortized cost.

[1] The proposal states that under this option, an entity may irrevocably elect to account for the following instruments at FV-NI:

> [A] group of financial assets and financial liabilities for which both of the following conditions are met:
>
> a. The entity manages the net exposure relating to the financial assets and financial liabilities (which may be derivative instruments subject to [ASC] 815) on a fair value basis.
>
> b. The entity provides information on a net exposure basis to its management. . . .
>
> [A] hybrid financial liability provided that neither of the following conditions exists:
>
> a. The embedded derivative or derivatives do not significantly modify the cash flows that otherwise would be required by the contract.
>
> b. It is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative or derivatives is prohibited.

In addition, an entity may irrevocably elect to account for an instrument that qualifies for the FV-OCI classification at FV-NI.

2. *Hold-and-sell* — Assets are held to collect contractual cash flows and sold. In other words, the entity has not determined whether it expects to hold or sell the assets. Financial assets that meet the SPPI criterion and that are held in a hold-and-sell business model are accounted for at FV-OCI or, optionally, at FV-NI.

3. *Neither of the above* —Financial assets held in neither a hold-to-collect nor a hold-and-sell business model are accounted for at FV-NI.

Recent Redeliberations

In response to comments received on the proposed ASU and on the IASB's proposed amendments in ED/2012/4, the FASB and IASB made several tentative decisions about the contractual cash flows characteristics assessment at their joint board meeting on September 18, 2013 — specifically, the definition of interest and features that may change the timing and amount of cash flows. The following summarizes the boards' tentative decisions at the meeting.

Meaning of Principal

Principal is the amount that was transferred by the current holder of the financial asset (i.e., at the investor's initial recognition).

Meaning of Interest

The underlying rationale for the SPPI test is to identify instruments that provide a basic lending-type return and for which amortized cost or FV-OCI is an appropriate measurement category. A feature that could affect a financial asset's cash flows (both in each period and on a cumulative basis) by only a de minimis amount would not cause the asset to fail the SPPI test. Elements of interest include the time value of money[2] and credit risk, and may also include consideration for costs associated with holding the financial asset over time (e.g., servicing or administrative costs), liquidity risk, or profit margin.

In assessing whether interest rate provides consideration just for the passage of time, the entity must consider (1) the currency in which the instrument is denominated, (2) the tenor of the interest rate, and (3) relevant market practices. Holders of financial assets will be required to use either a qualitative or quantitative analysis to determine whether the time value component of interest is limited to the passage of time. A fair value option will not be available to entities seeking to avoid complexities associated with performing the assessment.

In the assessment of the time value of money when the interest rate is modified (e.g., by an interest rate tenor mismatch feature):

- Entities would determine how different the contractual cash flows could be from the cash flows that would arise if there were a perfect link between the interest rate and the period for which the rate is set. For example, an instrument whose interest rate resets every month to a three-month rate would have an interest-rate-reset mismatch. An entity would compare the instrument's cash flows with those of another instrument that is identical in every way except that it resets monthly to a one-month rate.

- Contractual cash flows that could be more than significantly different from those of the benchmark instrument would cause an asset to fail the SPPI test.

- Entities should use undiscounted cash flows.

- A fair value option would not be available to entities seeking to avoid complexities associated with performing the assessment.

Regulated interest rates that involve interest rate tenor mismatches could be treated as proxies for the time value of money if the rates:

- Provide consideration for the time value of money.

[2] Time value of money is the element of the return on a financial instrument that provides consideration for just the passage of time, excluding a return for risks (such as credit and liquidity risk) and costs associated with the financial instrument.

- Do not introduce risks or volatilities that are unrelated to the elements of interest in basic lending-type relationships.

Contingent Features

For features that would affect an instrument's cash flows only upon the occurrence of a contingent event, an entity should consider both the nature of the triggering event and the resulting cash flows. The boards tentatively decided to clarify that the nature of the contingent triggering event in itself does not determine the classification of the financial asset.

The FASB and IASB disagree on how contingent features[3] that result in cash flows that are not SPPI should be assessed:

- The IASB supports retaining current guidance in IFRS 9; that is, if cash flows are not SPPI, the feature would cause the instrument to fail the SPPI condition unless it is nongenuine.[4]
- The FASB voted to allow for features that result in cash flows that are not SPPI, but only if the likelihood of the event's occurrence is remote. If, after initial recognition, the probability of the event's occurrence is no longer remote, the financial asset would be reclassified as FV-NI.

Prepayment Features

The FASB and IASB also disagree on how prepayment[5] features should be considered in the assessment of the SPPI condition:

- The IASB tentatively decided that prepayment features would not cause an asset to fail the SPPI test if the fair value of the prepayment feature is insignificant at initial recognition, the financial asset is acquired or originated with a significant premium or discount, and the financial asset is prepayable at an amount that represents par accrued and unpaid interest (and may include reasonable additional compensation for the early termination of the contract). Prepayments that substantially represent unpaid amounts of principal and interest on the principal amount outstanding, and any reasonable additional compensation for the early termination of the contract, would not cause an asset to fail the SPPI test.
- The FASB supports permitting prepayment features that result in cash flows that are not SPPI when the likelihood of occurrence of such cash flows is remote. If, after initial recognition, the probability of the occurrence of cash flows is no longer remote, the financial asset would be reclassified as FV-NI.

Next Steps

At a future meeting, the boards plan to discuss additional matters related to the cash flow characteristics test and will clarify the SPPI criterion, which will involve further redeliberations of the items discussed at the September 18, 2013, joint board meeting. The FASB will then determine whether to proceed with the SPPI criterion under the current proposal on classifying financial assets or pursue a different approach (e.g., one approach might be to retain existing GAAP requirements for evaluating embedded derivative features in hybrid financial assets). The boards will also discuss the business model assessment at a future meeting.

[3] Under the proposed ASU, a contractual term may give rise to contingent cash flows (i.e., changes in the timing or amount of cash flows) that are SPPI. A contingent term that results in cash flows that are not SPPI would cause an asset to fail to meet the SPPI criterion regardless of the probability of the contingent event's occurrence unless the contingent event is extremely rare, highly abnormal, and very unlikely to occur.

[4] Nongenuine features are features that are extremely rare, highly abnormal, and very unlikely to occur.

[5] Under the proposed ASU, prepayment provisions give rise to cash flows that are SPPI if both of the following conditions are met:

a. The provision is not contingent on future events, other than to protect . . .
   1. The holder against the credit deterioration of the issuer (for example, defaults, credit downgrades, or loan covenant violations) or a change in control of the issuer [or]
   2. The holder or issuer against changes in relevant taxation or law.

b. The prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract.

Thinking It Through

As a result of the boards' project on classification and measurement of financial instruments, banks in particular are likely to be concerned about what portions of their loan portfolios may have to be measured at FV-NI. For example, under the proposed ASU, an entity that acquires or originates a pool of instruments anticipating that one portion of the pool will be held to collect contractual cash flows and another portion will be sold, but has not identified which instruments will be held and which will be sold, must allocate a percentage of the instruments to appropriate classification categories.

More generally, some banking entities might assume that the proposed guidance would not significantly affect their financial statements because the guidance effectively retains the three current measurement categories for financial instruments: amortized cost, FV-OCI, and FV-NI. However, because of the SPPI test, the category an entity uses to classify and measure financial instruments could change. Banking entities should be aware that loans that are classified as held for sale and measured at lower of cost or fair value under current GAAP would typically be measured at FV-NI under the proposal.

While the FASB appears to have provided some clarification, the SPPI analysis may prove to be a challenging exercise upon initial implementation of the standard, particularly for instruments with unique features such as interest rate reset tenor mismatches or contingent features. An entity would need to perform the SPPI test at the instrument level to determine whether cash flows are SPPI, whereas the business model test would be performed on an aggregated basis.

Another significant aspect of the classification and measurement proposals concerns holding beneficial interests in securitization structures. The proposals include specific requirements for assessing whether the cash flows from beneficial interests meet the SPPI criteria. Those requirements include the following:

- The contractual cash flows of the beneficial interests "give rise to cash flows that are solely payments of principal and interest."
- "The underlying pool of financial instruments . . . contain[s] one or more instruments that have contractual cash flows that are solely payments of principal and interest." The pool may also include instruments that either (1) reduce cash flow variability or (2) "[a]lign the cash flows of the tranches of beneficial interests with the cash flows of the pool of underlying instruments."
- "The exposure to credit risk in the underlying pool of financial instruments that are inherent in the tranche of beneficial interest is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments."

The second criterion could permit the use of derivatives within a securitization structure when they are used to mitigate interest rate risk (i.e., swapping fixed-rate exposures for variable-rate ones to match the variable-rate notes issued by the structure) or foreign exchange risk (i.e., swapping out exposures to euros to match the USD-denominated notes issued by the structure) to meet the SPPI criteria. However, credit derivatives that create risk, such as those within a synthetic collateralized loan obligation, would not meet the SPPI criteria and would then require the use of fair value accounting for the instruments issued by the structure. Looking through the securitization structure to the underlying pool of instruments may prove challenging for investors. Entities that are unable to look through will have to default to measuring and classifying the securitization structure at FV-NI.

Lastly, subordination may cause residual and junior mezzanine tranches of beneficial interest structures to fail to meet the third criterion, resulting in their being accounted for at FV-NI.

Financial Instruments Project — Impairment

Background

After years of separately and jointly deliberating various impairment models, the FASB and IASB have each released their third of three formal proposals on recognizing credit losses on financial assets, with the FASB issuing its proposed ASU in December 2012 and the IASB issuing its ED in March 2013. As highlighted in the table below, the boards' proposed impairment models differ in many significant respects. However, both proposed models (1) are based on a concept of expected credit losses (i.e., all contractual cash flows that the entity does not expect to collect) as opposed to incurred losses and (2) would apply regardless of the form of the asset (e.g., loan versus debt security).

Timing and Amount of Loss Recognition

The following table highlights some of the key aspects of the FASB's and IASB's proposals related to the timing and amount of loss recognition:

FASB's Proposed Model	IASB's Proposed Model
Single-measurement approach. The impairment allowance reflects the estimate of current expected credit losses (i.e., all contractual cash flows that entities do not expect to collect over the expected term of the asset). All expected credit losses are recognized at initial recognition except for PCI assets.	Dual-measurement approach. Generally,[6] the impairment allowance is measured at an amount equal to either of the following: • 12-month expected credit losses. • Lifetime expected credit losses if, as of the reporting date, the credit risk has increased significantly since initial recognition.[7] For instruments with low credit risk, an allowance equal to 12 months of expected credit losses would be measured regardless of whether there has been a significant increase in credit risk.[8]

See Appendix A for additional information.

Feedback and Next Steps

Constituents' views on the boards' proposals vary, most notably the feedback received from respondents of different types (e.g., users versus preparers) or from different geographic locations (i.e., U.S. versus international). After discussing the feedback, the boards started jointly redeliberating the proposals in September 2013. Given the disparate feedback and the general preference that each board's constituents have for that board's own model, it is unclear whether the boards will fully converge their respective standards. The boards indicated that they will explore opportunities to converge at future meetings. The FASB plans to discuss other potential impairment models (see this section's "Thinking It Through" below). The boards are not expected to issue final guidance on this topic until 2014. No effective date has been set, but constituents generally indicated that they would need at least two to three years to implement a final standard (i.e., if a standard is finalized in 2014, it should be effective no earlier than 2017).

6 Exceptions are made for (1) trade receivables without a significant financing component, (2) trade receivables with a significant financing component and lease receivables for which an entity elected the simplified approach, and (3) purchased and originated credit-impaired assets.

7 If there is objective evidence of an asset's impairment, the asset would be included in this category.

8 At the September 2013 joint meeting, the IASB tentatively decided to clarify in the final standard that the objective of the impairment model is to recognize lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk, whether on an individual or a portfolio basis. In assessing the change in the credit risk for those instruments, entities would not rely solely on delinquency information and should consider all reasonable and supportable information, including forward-looking information.

Thinking It Through

The boards' impairment project is likely to have a bigger effect on the banking industry than all other standard-setting projects. It is anticipated that as proposed, the move to an expected-loss impairment model would increase the allowance for loan losses held on a bank's balance sheets. Banks have expressed concerns regarding estimating expected credit losses over the life of an asset, believing that such losses are estimable over a shorter horizon (two years is often suggested as a reasonable period in the United States) but struggling to estimate them over any significantly longer period.

Also, banks have expressed concerns about the "day 1" loss event under this proposal, pointing out that the interest revenue (which includes a credit risk component) would only be recognized over the life of the instrument. Feedback on the IASB's proposals has also been mixed: operational concerns have been raised regarding the need to track credit migration over the life of an instrument and the identification of the appropriate threshold for moving from recognizing credit losses expected to occur within the next 12 months to lifetime expected credit losses (whether on a portfolio or an individual-instrument basis). Compared with the existing guidance on this topic, the boards' proposals on purchased credit-impaired assets seem to have some operational advantages.

It remains to be seen whether the boards can bridge their differences and, if so, what approach they will agree on. One potential model that was discussed during some of the boards' outreach activities and the FASB's recent education session is derived from the alternative view described in the IASB's ED (often referred to as a "gross-up approach"). Under the potential model, an entity would recognize a credit loss allowance for lifetime expected credit losses on the balance sheet at initial recognition but defer recognizing the loss immediately in earnings by recognizing it in OCI[9] for example. The credit loss would then be recycled from OCI to earnings over a certain period or at a point in time.[10] In addition to this model, the FASB plans to discuss other potential impairment models at future meetings.

Financial Instruments Project — Hedging

Background

The FASB and IASB continue to work on improving their respective hedge accounting models but have taken different paths to achieve that objective.

According to the IASB's project plan, the IASB plans to issue amendments to IFRS 9 by the end of the year that will introduce a new "general hedge accounting model."[11] The new model will differ significantly from the current hedge accounting model in IAS 39 in a number of ways, including in the following respects:

- Eligibility of hedging instruments.
- Accounting for the time value of money component of options and forward contracts.
- Eligibility of hedged items.
- Designation of components of nonfinancial items as hedged items.
- Qualifying criteria for applying hedge accounting.
- Modification and discontinuation of hedging relationships.
- Extension of the fair value option.
- Additional disclosures.

[9] Under the alternative view described in the IASB's ED, an entity would increase the gross carrying amount of the asset for the amount of estimated credit losses rather than recognize that amount in OCI.

[10] The FASB plans to discuss this matter further at its meeting in November 2013.

[11] The new general hedge accounting model does not address the macro hedging issues that the IASB is currently discussing. A DP on the IASB's macro hedge accounting model is expected to be issued by the end of 2013.

The IASB's new hedge accounting requirements will be effective for annual periods beginning on or after January 1, 2015. Earlier adoption will be permitted if an entity also adopts all other amendments to IFRS 9. The new hedge accounting model will represent a radical departure from current practice under IFRSs but is intended to better align the accounting framework with entities' risk management activities.

As proposed in the May 2010 ED, the FASB's approach makes fewer changes to existing hedge accounting requirements than the IASB's approach. Both boards, however, have agreed on certain changes, such as removing the requirement to retrospectively assess whether a hedging relationship is effective, introducing qualitative considerations in the evaluation of hedging relationship effectiveness, and disallowing an assumption of perfect effectiveness in hedging relationships. The FASB has not spent significant time during 2013 on the hedging phase of its financial instruments project, and it is unclear to what extent the provisions of the IASB's new model will affect the FASB's future discussions.

Thinking It Through

Financial institutions with IFRS reporting requirements are likely to react positively to the new hedge accounting requirements that could be included in IFRS 9. The most popular provisions of the new model may include those related to the qualifying criteria for applying hedge accounting and accounting for the time value component for options and forward contracts. However, banks with IFRS reporting requirements are also focusing on the second phase of the IASB's hedge accounting project on macro hedging. The IASB has held preliminary discussions on this topic and expects to issue a DP before the end of the year that will address hedge accounting for open portfolios managed under a company's risk management policies (e.g., a portfolio of loans managed for interest rate risk in which the notional amount is constantly changing as a result of originations, paydowns, prepayments, and other factors).

Consolidation Project

Background

In November 2011, the FASB issued a proposed ASU that would provide guidance on assessing whether a decision maker is acting as a principal or as an agent when performing a consolidation analysis. The proposed guidance, which would replace the indefinite deferral in ASU 2010-10 for interests in certain entities, would amend the criteria for determining whether an entity is a VIE and, if so, whether a reporting entity is the VIE's primary beneficiary. The proposal would also revise the definitions of participating and kick-out rights and amend the evaluation of limited partnerships for consolidation. See Deloitte's November 4, 2011, *Heads Up* for more information on the proposal.

See last year's *Accounting and Financial Reporting Update* for information about the feedback the FASB received on the proposed ASU.

The Board is currently redeliberating feedback received on its proposed ASU. A final ASU is not expected before the second half of 2014.

Thinking It Through

The introduction of principal-agent guidance to consolidation accounting could affect banking entities in many ways. For example, the principal-agent guidance would eliminate the deferral of ASU 2010-10 for investment funds. As a result, any funds for which a bank serves as an investment manager would no longer apply a risks-and-rewards consolidation model; instead, a fund would consider whether the bank, as an asset manager, is a principal or an agent to the fund.

The new principal-agent guidance could also affect many other banking structures, including securitization trusts, collateralized debt obligation vehicles, synthetic collateralized debt obligation vehicles, commercial paper conduits, and many other structured finance entities.

Repurchase Agreements

Background

The criteria under ASC 860 for determining whether the transferor maintained effective control and thus accounted for the repurchase agreement as a secured borrowing rather than as a sale (and a forward repurchase agreement) are as follows:

- "The financial assets to be repurchased or redeemed are the same or substantially the same as those transferred."
- "The agreement is to repurchase or redeem [the financial assets] before maturity, at a fixed or determinable price."
- "The agreement is entered into contemporaneously with, or in contemplation of, the transfer."

Some constituents expressed concerns about the application of the first and second bullets above. Many constituents view repos as financing transactions even though the accounting literature allows for sale accounting in some cases. They believe that the "substantially the same" and "before maturity" aspects of the first and second bullets above could be interpreted as allowing sale accounting in circumstances in which the Board did not intend to allow it. Others indicated that more robust disclosures were needed about the (1) nature of the transactions, (2) uses of funds received, and (3) impact of repos on an entity's credit standing and liquidity. In January 2013, the FASB issued a proposed ASU that would amend U.S. GAAP by requiring repos that meet the criteria for secured-borrowing accounting, including repos that settle at the maturity of the transferred assets, to be accounted for as secured borrowings rather than as sales with forward repurchase agreements.

After discussing the feedback received, the FASB continued to redeliberate its proposed ASU and made a number of tentative decisions related to the topics below at its October 2013 meeting.

Repurchase Agreements That Settle at Maturity

The Board tentatively decided to amend ASC 860 to require entities to account for repurchase agreements that settle at maturity ("repos to maturity") as secured borrowings.

Repurchase Financings

The Board tentatively decided to affirm the guidance in the proposed ASU that would eliminate the requirement in ASC 860 for entities to determine whether to account for repos entered into as part of a repurchase financing separately or as linked to the initial transfer. The Board decided that such repos would be accounted for separately, which would be consistent with the accounting for other repos.

Substantially-the-Same Criterion

The Board tentatively decided to clarify the substantially-the-same assessment under ASC 860 related to dollar-roll transactions. It decided that a dollar-roll transaction that does not include a trade stipulation would not be expected to result in the return of a substantially-the-same financial asset, whereas a dollar-roll transaction that includes a trade stipulation could, in fact, be considered to result in the return of a substantially-the-same asset. At the October 2013 Board meeting, the FASB staff clarified that dollar-roll transactions subject to this guidance that are within the scope of ASC 860 would include transactions that involve a transfer of an existing asset with a forward agreement to repurchase a TBA security.

Thinking It Through

Securities repurchased under dollar-roll transactions typically comply with SIFMA's "good-delivery" guidelines. The Board's tentative decision clarifies that for repurchased TBA securities to be considered substantially the same (under ASC 860) as the securities transferred under the first leg of the dollar-roll transaction, the dollar-roll agreement must include trade stipulations related to the type and quality of the TBA security to be repurchased. This tentative decision would reduce the amount of judgment entities would need to use in assessing what types of securities meet the substantially-the-same guidance in ASC 860.

Disclosure Requirements and Scope of Disclosures

The Board tentatively decided to require entities to disclose information about transfers of assets accounted for as sales in which there is a continuing exposure to the transferred assets. The objective of the disclosures is to give financial statement users information that helps them understand the nature of the transactions, the transferor's continuing exposure to the transferred financial assets, and the presentation of the components of the transaction in the financial statements. As specified in the meeting's summary of decisions, the Board tentatively agreed to require the following disclosures:

a. The carrying amounts of assets derecognized as of the date of the initial transfer in transactions for which an agreement with the transferee remains outstanding at the reporting date, by type of transaction (for example, repurchase agreement, securities lending, sale and total return swap, and so forth). If the amounts have changed significantly from prior periods or are not representative of the activity throughout the period, a discussion of the reasons for the change should be disclosed.

b. Information about the transferor's ongoing exposure to the transferred financial assets by type of transaction [in paragraph (a)]:

   1. A description of the arrangements that result in the transferor retaining exposure to the transferred financial assets by type of transaction

   2. The risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer

   3. As of the reporting date, the following amounts to provide users of financial statements with information about the reporting entity's maximum exposure to financial assets that are not recognized in its statement of financial position:

      i. The fair value of assets derecognized by the transferor for transactions described in paragraph (a) by type of transaction.

c. Amounts recorded in the statement of financial position arising from the transaction by type of transaction in paragraph (a), for example, the carrying value or fair value of forward repurchase agreements or swap contracts. To the extent these amounts are captured in the derivative disclosure requirements under [ASC] 815-10-50-4B, an entity should provide a cross-reference to the appropriate line item in the disclosure.

These disclosures would apply to transactions that "comprise a transfer of financial assets to a transferee and an agreement done in contemplation of the initial transfer with the same transferee that results in the transferor retaining substantially all of the exposure to the return of the transferred financial asset throughout the term of the transaction."

Transition and Reexposure

The Board tentatively decided to require entities to record a cumulative-effect adjustment to beginning retained earnings for transactions outstanding as of the period of adoption. Entities would not need to disclose any transition information beyond that already required by ASC 250.

The Board directed the staff to perform further outreach on operational aspects of the tentative decisions as well as on the effective date, the possibility of early adoption, and the applicability of the amendments to private companies. After it reviews the feedback from outreach, the Board will decide whether to expose its tentative decisions for public comment.

Thinking It Through

Many large banking institutions rely on access to the repo market to meet their short-term liquidity needs. As a result, the accounting for repurchase transactions has a significant impact on their financial reporting.

The accounting for repurchase transactions has seen its share of news headlines, whether it be the "Repo 105" transactions uncovered in the aftermath of the bankruptcy of a global investment bank during the financial crisis or the repo-to-maturity transactions used by a now bankrupt broker-dealer. These controversies and broader concerns about ambiguity related to the shadow banking system have led the FASB and U.S. regulators to focus on repurchase transactions.

On the regulatory front, the Financial Stability Board has recently recommended a number of policy frameworks covering transparency, data collection, rehypothecation, cash collateral reinvestment, bankruptcy treatment, and even minimum haircuts for non-centrally-cleared transactions. In addition, new leverage ratios proposed by U.S. banking regulators, changes to capital structure required of FBOs in the United States, Basel III capital requirements, and the new financial transaction tax proposed by the EU may all have implications on the repo market.

The disclosure requirements could prove challenging and onerous given the volume of repurchase transactions many banks may have.

Insurance Contracts

Background

On June 27, 2013, the FASB released for public comment a proposed ASU as part of its joint project with the IASB on insurance contracts. The IASB issued its second ED on this topic on June 20, 2013. Comments on both proposals were due by October 25, 2013.

The objective of the joint project is to create a consistent approach for measuring insurance contracts. While the boards have made progress in bridging their differing views over the past two years of deliberations, the proposals are not fully converged. Unlike the IASB's ED, which contains questions on only seven topics,[12] the FASB's proposal seeks constituents' views on all aspects of the proposed accounting model for insurance contracts.

The guidance in the proposed ASU would apply to all entities (i.e., not just regulated insurance companies) that issue or reinsure insurance contracts, but not to policyholders (other than holders of reinsurance contracts), and identifies two distinct models for measurement of insurance contracts: (1) the premium allocation approach (PAA) and (2) the building block approach (BBA).

The PAA is more akin to the proposed revenue recognition model, while the BBA focuses on liability measurement and overall fulfillment cash flows. An entity would be required to account for insurance contracts under the PAA if the coverage period of the insurance contract is one year or less; otherwise it would also need to consider — at contract inception — whether, during the period before a claim is incurred, there will be significant variability in the expected value of the net cash flows required to fulfill the contract. If significant variability is not expected, the entity would apply the PAA; otherwise, it would apply the BBA.

Unlike the PAA, the BBA requires an entity to establish a margin that represents the embedded profit in the insurance contract. At the inception of a contract, after discounting the unbiased probability-weighted estimate of future cash flows at a current discount rate, an entity would compute a margin equal to the amount by which the expected cash inflows exceed expected cash outflows, thus avoiding recognition of any day 1 gain. An entity would recognize the margin in net income over the coverage and settlement periods as it is released from risk.

[12] In its previous ED, the IASB sought constituents' views on other aspects of the proposed model.

The guidance in the proposed ASU would be applied retrospectively to all prior periods; however, a modified retrospective approach is available if full retrospective application is impracticable. The Board will determine an effective date for the guidance when it issues the final amendments.

For a detailed discussion of the proposed ASU, including comparisons of the proposed ASU with the IASB's ED and current U.S. GAAP, see Deloitte's August 6, 2013, *Heads Up*.

Thinking It Through

The proposed ASU could have a significant impact on certain banking entities. For example, many financial guarantee arrangements, such as mortgage guarantees, securitized asset guarantees, and trade receivable guarantees, could be within the scope of the insurance contracts standard. The scope would also most likely include liquidity facilities, standby letters of credit, and representations and warranties over transfers to securitization structures, depending on their contractual terms and whether they meet the proposal's definition of "insurance." Items within the scope of the proposed ASU would most likely be measured by using a present value approach that takes into account the probability-weighted mean of the future expected cash flows and incorporates a margin.

Note that even more financial guarantees may be within the scope of the IASB's insurance contracts ED.

To plan for an effective implementation, banking and financing entities should ensure that they are aware of the relationship between the proposal for insurance contracts and that for financial instruments (both classification and measurement and impairment).

Leases Project

Background

On May 16, 2013, the FASB and IASB issued a revised joint ED on lease accounting. The ED, released by the FASB as a proposed ASU, introduces a new accounting model that would require entities to record substantially all leases in the statement of financial position. The proposal was issued primarily to address stakeholders' concerns about off-balance-sheet financing arrangements for lessees and would improve financial statement reporting transparency related to leases. If finalized, the proposed ASU would substantially converge the FASB's and IASB's accounting models for lease arrangements.

Lessee Accounting

The proposed accounting model for lessees is based on a right-of-use (ROU) approach, which results in the recognition of all leases (except certain short-term leases) as a lease obligation and ROU asset in the lessee's statement of financial position. The boards agreed on two different lease classification approaches for determining a lessee's subsequent accounting for the ROU asset — (1) the financing lease approach (i.e., Type A leases) and (2) the straight-line-expense approach (i.e., Type B leases).

A lessee would determine which method to apply on the basis of the nature of the underlying asset (property or something other than property) and the lease terms.

Lessor Accounting

The proposed model would require lessors to classify leases similarly to the way lessees classify them (i.e., as either Type A leases or Type B leases). Type A leases would be accounted for under the receivable-and-residual approach, which requires the lessor to (1) derecognize the leased asset, (2) recognize a lease receivable for its right to lease payments over the lease term, and (3) recognize the expected value of the residual asset at the end of the lease. Type B leases would be accounted for under the operating lease approach, which would closely mirror current operating lease accounting for lessors.

Next Steps

The boards received more than 630 comment letters on the ED, which are currently being analyzed, and indicated that they will begin redeliberations in the fourth quarter of 2013. On the basis of this timeline, a final standard could be issued sometime in 2014 but is not expected to be effective any sooner than January 1, 2017 (for calendar-year reporting periods ending on December 31, 2017).

See Deloitte's May 17, 2013, *Heads Up* for more information about the revised ED.

Thinking It Through

Capital and Covenant Considerations

Companies in the banking and securities sector have expressed concerns regarding the uncertainty related to capital treatment of both the ROU asset and associated liability that will be recorded upon adoption of the proposed leasing standard. Specifically, in the absence of clear FASB or SEC guidance, many expect regulators to view the ROU asset in a manner consistent with how regulators currently view a capital lease (i.e., the asset is not considered a liquid asset). Regulators have not yet offered their views on how the ROU asset would affect a banking company's common equity tier 1 capital. Market participants are thus seeking additional clarification from the regulators to determine the impact on a bank's net capital computations.

With respect to the net capital computation for a broker-dealer institution, any illiquid asset is considered "nonallowable" and therefore requires a 100 percent capital charge. Further, for broker-dealers that use an aggregate indebtedness method to compute their net capital, the recognition of a leasing liability may increase the entity's aggregate indebtedness. Therefore, in the absence of clarifying guidance from the SEC, from the perspective of a broker-dealer that is a lessee, the net capital calculation and maximum debt-to-equity ratio required by Rule 15c3-1 of the Exchange Act may be adversely affected as a result of adoption of the proposed guidance. Finally, these changes may force a holding company to make a significant capital contribution to the broker-dealer subsidiary to ensure sufficient capital requirements.

In addition, some banking entities may hold leveraged leases. Because the existing guidance on such leases is not carried forward under the proposed standard, entities would need to evaluate them under the proposed accounting requirements. This evaluation may lead to a gross-up on the balance sheet, affecting risk-weighted assets which may have an effect on regulatory capital and potentially prompt the need to reallocate capital.

Finally, the balance sheet gross-up required for lessees under the proposed ASU may result in the need for banking and securities lessees to adjust their existing loan covenants, which could trigger a broader renegotiation of the terms of, and revisions to, loan documentation.

Operational Considerations

To determine and implement appropriate lessee and lessor accounting for contracts that are within the scope of the new leasing standard, banking and securities companies will have to collect and maintain a set of key data elements found in individual leases that they are party to. Companies that already began the data-gathering exercise in anticipation of the ratification of the ED have encountered operational challenges in tracking down contracts or terms for all leases that they entered into on an entity-wide basis. This is especially true for companies with a global footprint. The impact of the changes will not be restricted to external reporting; internal reporting information, including financial budgets and forecasts, will also be affected.

Companies that enter into any intercompany service arrangements, which are often related to real estate, technology, or equipment, will need to determine whether those arrangements qualify as a lease with respect to accounting for such arrangements in the separate-subsidiary financial statements. Thus, their administrative burden related to inventorying such contracts will increase.

EITF Issue No. 12-G, “Accounting for the Difference Between the Fair Value of Assets and Liabilities of a Consolidated Collateralized Financing Entity”

Background

In 2012, the EITF added Issue 12-G to its agenda to address the diversity in practice related to the accounting for the measurement difference that arises at initial recognition between the fair value of the assets and liabilities upon consolidation of a CFE.[13] Specifically, some entities record the initial difference between the fair value of the CFE’s assets and liabilities directly to appropriated retained earnings while others record the difference in earnings. The FASB’s July 2013 proposed ASU would amend the initial and subsequent measurement requirements for the consolidated CFE’s liabilities.

Key Provisions

Under the proposed ASU, an entity that elects or is required to measure a consolidated CFE’s financial assets at fair value may also elect to use the following calculation to measure the CFE’s financial liabilities, which is based largely on the fair value of the CFE’s financial assets:

> a. The sum of the following two amounts:
>
> 1. The fair value of the financial assets held by the [CFE]
> 2. The carrying value of any nonfinancial assets held by the [CFE]
>
> b. Less the sum of the following two amounts:
>
> 1. The sum of the fair value of financial assets and the carrying value of nonfinancial assets attributable to the beneficial interest owned by the reporting entity
> 2. The carrying value of any beneficial interests that represent compensation for services rendered by the reporting entity.

An entity that makes this election would apply the calculation above at initial measurement (i.e., when it becomes the primary beneficiary of a VIE that is a CFE and therefore consolidates the CFE) and in subsequent periods. In addition, entities that consolidate a CFE would be prohibited from electing the fair value option in ASC 825 for a consolidated CFE’s financial liabilities. As a result, entities would generally measure a consolidated CFE’s financial liabilities either by using the calculation above or at amortized cost if the proposed ASU becomes effective.

Effective Date and Transition

The effective date for this Issue will be discussed at a future meeting. Under the proposed ASU, entities that previously measured a consolidated CFE’s assets and liabilities at fair value would use one of the following two transition methods: (1) prospective (i.e., reclassify amounts recorded in equity to either financial assets or financial liabilities as of the beginning of the period of adoption) or (2) retrospective (i.e., apply the updates as of the beginning of the first annual period in which ASU 2009-17 was adopted). Entities that did not previously measure a consolidated CFE’s financial assets at fair value may elect to do so at adoption but would be required to apply this final consensus prospectively as described above.

Next Steps

The EITF will further discuss this Issue at its November 14, 2013, meeting.

[13] In July 2013, the FASB issued a proposed ASU that defines a CFE as a “variable interest entity [VIE] that holds financial assets, issues beneficial interests in those financial assets, and has no more than nominal equity. The beneficial interests have recourse to the related financial assets of the [CFE] and are classified as financial liabilities. A [CFE] may hold nonfinancial assets temporarily as a result of default by the debtor on the underlying debt instruments held as assets by the [CFE] or in an effort to restructure the debt instruments held as assets by the [CFE].” Examples include collateralized debt obligation or collateralized loan obligation entities.

Thinking It Through

Most respondents do not support the measurement approach in the proposed ASU. Some indicated that the guidance on measuring the CFE's financial liabilities is ambiguous. In addition, some believe that the proposed measurement approach could result in the recognition of noneconomic net income when there are differences between the calculated carrying amount of the CFE's liabilities and the amounts paid to acquire the interests from third parties. Most respondents to the proposed ASU have indicated that they prefer an approach that focuses on the reporting entity's net economic position in the CFE (i.e., similar to the approach in the original ED).

EITF Issue No. 13-B, "Accounting for Investment Tax Credits"

Background

In April 2013, the FASB issued a proposed ASU based on EITF Issue 13-B that would make it easier for investments in affordable housing projects to qualify for the effective yield method under ASC 323-740. Currently, if certain criteria are met, an entity may elect under ASC 323-740 to (1) amortize the original cost of an investment in a manner that creates a constant yield and (2) present this amortization net with related tax credits and other tax benefits in the provision for income taxes in the income statement. At its September 2013 meeting, the EITF made tentative decisions that would (1) simplify the amortization method an entity uses and (2) further modify the criteria that must be met before an entity can elect to use this simplified amortization and presentation alternative for investment in affordable housing projects. The EITF also discussed whether it should further expand the types of tax credit investments that would qualify for the same favorable income statement presentation, ultimately deciding to defer that decision and to request that the staff perform additional work to determine whether there could be unforeseen consequences resulting from such an expansion in scope.

Currently, ASC 323-740 permits entities to elect to use the effective yield method to account for certain investments in affordable housing projects. Under this method, an entity (1) recognizes related tax credits as received, (2) amortizes the original cost of the investments in a manner that results in a constant effective yield over the period during which credits are received, and (3) presents both the credits and amortization net within the entity's provision for income taxes. These limited-partnership investments are otherwise accounted for under the cost or equity method of accounting. For an entity to apply the effective yield method under the current guidance in ASC 323-740, the investment must be an equity investment in a limited partnership that passes low-income housing tax credits (LIHTC) through to investors and for which (1) the availability of such credits is guaranteed by a creditworthy party, (2) the investor's projected yield is positive solely on the basis of the benefits or "cash flows" from the tax credits, and (3) the investor is a limited partner for both legal and tax purposes with liability limited to its capital investment. Entities must elect to apply the effective yield method to qualifying investments.

While the market size and volume for these investments have increased in recent years, fewer LIHTC investments are qualifying for the effective yield method because, some believe, the conditions are too restrictive. It is rare, for example, for investors in LIHTC projects to obtain a third-party guarantee that the related tax credits will be available, which is one of the conditions for applying the effective yield method. Further, it is not always the case that the cash flows from tax credits alone result in positive yield, which is another condition. Sometimes, a combination of both tax credits and other tax benefits is needed to achieve positive yield.

The FASB added this Issue to the EITF's agenda not only to address these concerns but also to consider whether the guidance in ASC 323-740 should instead be eliminated, since some believe that the net presentation of investment amortization with the related tax credits in the provision for income taxes makes it difficult to analyze the investment's performance.

Key Provisions

If finalized, amendments to ASC 323-740 based on the EITF's tentative decisions would permit entities to amortize — in each reporting period in proportion to the tax credits and other tax benefits received — the cost of investments in limited liability entities that operate affordable housing projects. In addition, the amortization, tax credits, and other tax benefits would be presented together in the provision for income taxes and the carrying amount of the investment would be combined with other deferred tax assets. Certain conditions must still be met; however, having a guarantee issued by a creditworthy entity that the tax credits will be available is not one of them. As stated in the minutes of the September 13, 2013, EITF meeting, the following criteria will need to be met for an entity to apply the proportionate amortization method:

- "It is probable[14] that the tax credits allocable to the investor will be available."
- "The investor does not have the ability to exercise influence over the operating and financial policies of the limited liability entity, and substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment)."
- "The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive."
- "The investor is a limited liability investor in the affordable housing project for both legal and tax purposes, and the investor's liability is limited to its capital investment."

Entities that elect to apply the proportionate amortization method to investments in affordable housing projects may also engage in other transactions (e.g., bank loans) with the investee; however, these other transactions must (1) not provide the investor with the ability to exercise significant influence over the operating and financial policies of the investee and (2) be at market rates consistent with those offered to other counterparties with similar creditworthiness. In addition, the investor must be in the business of entering into these other transactions. Investors in tax credit investments other than investments in affordable housing projects would be precluded from applying the proportionate amortization method if they entered into other transactions with the investee.

The Task Force's tentative decisions would also require entities to disclose the impact of tax credit investments on their financial statements. For example, an entity might disclose additional information for the components recognized on a net basis in the entity's tax provision during a given period, including pretax investment performance, tax credits, and other benefits.

Early application would be permitted, and the guidance in this Issue would be applied retrospectively to all periods presented. However, an entity currently using the effective yield method would be able to continue to use that method for its existing LIHTC investments.

Next Steps

The Task Force will discuss this Issue again at its November meeting to determine whether it can reach a consensus and whether to expose that consensus for further comment.

[14] The FASB staff clarified that the term "probable," as used in this context, is consistent with ASC 450-20, which defines probable as the "future event or events are likely to occur."

Thinking It Through

Many large banking institutions are significant investors in LIHTC investments as well as other tax credit investments (e.g., new market tax credits, historic tax credits, and renewable energy tax credits). Typically, banking institutions make these investments to comply with their Community Reinvestment Act requirements and lower their effective tax rate. Under existing GAAP, LIHTC investments that do not qualify for effective yield accounting are typically accounted for under the equity or cost method of accounting.

The application of the equity method results in the reporting of the LIHTC partnership's investment performance in pretax earnings, while the corresponding tax effects are presented in the income tax provision/benefit line. Most banking institutions believe that such a presentation does not reflect the investment objective of primarily benefiting from the tax benefits related to such investments. The proposal's net presentation in the income tax provision is expected to better reflect the economics and substance of these tax-benefit-driven transactions.

In addition, in comment letters on the proposal, several financial institutions recommended that the scope of the guidance be expanded beyond LIHTC investments to other similar tax credit investments. At its September meeting, the Task Force discussed whether the guidance would be expanded to other tax credit investments by analogy to the guidance in this Issue, provided that the investor does not have any other transactions with the limited liability entity (e.g., makes a loan in addition to its investment). Further, to be consistent with its decision that LIHTC investments are tax credit investments, the Task Force tentatively decided that the LIHTC investments should be classified as deferred tax assets.

The Task Force has requested that the FASB staff perform additional outreach to determine whether there are unforeseen consequences that may result from permitting entities to apply the guidance in this Issue to tax credit investments other than LIHTC investments and to consider whether the qualifying criteria should be further modified to address conditions that are unique to these other tax credit investments. In addition, further outreach will be performed on whether there are any unforeseen consequences of classifying the LIHTC investments as deferred tax assets. For example, such classification may prohibit a bank from including the investment with other assets that can be used to meet minimum regulatory capital requirements.

EITF Issue No. 13-E, "Reclassification of Collateralized Mortgage Loans Upon a Troubled Debt Restructuring"

Background and Key Provisions

In July 2013, the FASB issued a proposed ASU on troubled debt restructurings that is based on EITF Issue 13-E. The proposal would require an entity to reclassify loans (either consumer or commercial) backed by real estate property to other real estate owned (OREO) when either of the following conditions is met:

- The creditor obtains legal title to the real estate collateral.
- The borrower voluntarily conveys all interest in the real estate property to the entity to satisfy the loan.

The proposed ASU would also permit entities to early adopt the guidance once it is finalized. Entities would apply these amendments by reclassifying loans to OREO that meet the above criteria as of the beginning of the year of adoption or by reclassifying OREO to loans if the criteria are not met. An entity that must adjust its measurement of loans or OREO would record a cumulative-effect adjustment to its beginning balance of retained earnings in the year of adoption.

Next Steps

The EITF plans to discuss this Issue at its November 14, 2013, meeting, at which time it will decide (1) whether to finalize the consensus-for-exposure reflected in the proposed ASU and (2) what the effective date should be.

Thinking It Through

This Issue could affect banking institutions involved in residential mortgage lending. It would have little effect on regulated banks that may have already written down to collateral value the value of the loans that fall within the Issue's scope. However, the additional disclosure requirements under the proposed guidance should help improve consistency and comparability throughout the banking industry.

EITF Issue No. 13-G, "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity"

Background

In evaluating the nature of a host contract for a financial instrument with embedded features, entities have considered the SEC staff's guidance in ASC 815-10-S99-3.[15] This guidance has led to two acceptable methods (as long as the accounting policy is applied consistently) for determining the nature of a host contract: the whole-instrument[16] approach and the chameleon[17] approach. Whether an entity uses the chameleon or the whole-instrument approach may affect whether an embedded feature is considered clearly and closely related to the host contract. If it is determined that an embedded feature is not clearly and closely related to the host contract, the embedded feature may need to be bifurcated from the host contract, depending on whether certain other criteria are met and whether the embedded feature qualifies for any scope exceptions.

There is little to no diversity in the application of the chameleon approach. For example, if an entity was using the chameleon approach to evaluate a conversion option embedded in a convertible preferred share instrument with a fixed-price redemption feature for bifurcation, the entity would exclude the conversion feature and only consider the remaining features. If these remaining features are predominantly debt-like, the entity would conclude that the host contract is more akin to debt. As a result, the embedded conversion feature could be bifurcated under this approach (typically, a conversion option that is an equity-like feature is not considered clearly and closely related to a debt host).

However, in practice, there is diversity in the application of the whole-instrument approach to a convertible preferred share with noncontingent fixed-price redemption features. Entities place varying degrees of weight on the various embedded features. For example, some place significant weight on the fixed-price redemption feature and conclude that the host is debt-like. These entities believe that the downside protection provided by a noncontingent fixed-price redemption feature causes the nature of the host contract to be more akin to debt even when the hybrid instrument includes equity-like features such as dividend participation rights, voting rights, or a conversion option. They believe that the existence of a noncontingent fixed-price redemption feature is a presumptive factor in the conclusion that the host contract is debt-like because it does not expose the holder to any residual risk. As a result, the embedded conversion feature could be bifurcated under this approach.

Others believe that all relevant terms and features must be taken into account and that an entity should also consider equity-like features (including the conversion option) in evaluating whether the conversion option is clearly and closely related to the host contract under the whole-instrument approach. They believe that ignoring any equity-like features

[15] In ASC 815-10-S99-3, the SEC staff expressed its position that an entity must consider all "stated and implied substantive terms and features" of a hybrid instrument issued in the form of a share when determining the nature of the economic characteristics and risks of the host contract. In addition, the SEC staff acknowledged that some registrants have an accounting policy in which the terms and features pertaining to the individual embedded derivative being evaluated are excluded from the determination of the nature of the host contract for that embedded derivative.

[16] Under the whole-instrument approach, an entity determines the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid instrument, including the embedded feature being analyzed for bifurcation. When the whole-instrument approach is used to analyze a hybrid instrument with multiple embedded features, the nature of the host contract should not change as each embedded feature is analyzed separately.

[17] Under the chameleon approach, an entity determines the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid instrument, except for the particular embedded feature being analyzed for bifurcation. When the chameleon approach is used to analyze a hybrid instrument with multiple embedded features, the nature of the host contract may change as each embedded feature is analyzed separately.

(including the conversion option) and treating the presence of a fixed-price redemption feature as presumptive of a debt host would be contradictory to the SEC staff's guidance in ASC 815-10-S99-3. Under this approach, some might conclude that the conversion option is clearly and closely related to the host contract (by placing more emphasis on the equity-like features, including the conversion feature) and that the embedded conversion feature would therefore not be bifurcated.

Key Provisions

At its September 13, 2013, meeting, the EITF reached a consensus-for-exposure on Issue 13-G, which addresses the evaluation of the nature of a host contract in a hybrid financial instrument issued in the form of a share. (See Deloitte's September 2013 *EITF Snapshot* for more information.) The SEC observer at the EITF meeting indicated that the SEC staff will consider rescinding its Staff Announcement on this topic (codified in ASC 815-10-S99-3) if the Task Force reaches a consensus that this Issue should be finalized. Then, on October 23, 2013, the FASB released for public comment a proposed ASU based on this Issue. Comments on the proposed ASU are due by December 23, 2013.

Under the proposal, an entity would not be permitted to apply the chameleon approach to a hybrid financial instrument issued in the form of a share. Rather, an entity would be required to apply the whole-instrument approach when determining the nature of the host contract in a hybrid financial instrument issued in the form of a share by considering all stated and implied substantive terms and features of the hybrid financial instrument on the basis of the relevant facts and circumstances. The proposal clarifies that (1) entities would be required to consider the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for potential bifurcation, and (2) the existence or omission of any single term or feature is not necessarily determinative of the economic characteristics and risks of the host contract. The proposal further states the following:

> [A]lthough the consideration of an individual term or feature may be weighted more heavily in the evaluation on the basis of the facts and circumstances . . . an entity shall not presume that the presence of a fixed-price, noncontingent redemption option held by the investor in a convertible preferred stock contract, in and of itself, determines whether the nature of the host contract is more akin to a debt instrument or more akin to an equity instrument. Rather, the nature of the host contract depends on the economic characteristics and risks of the entire hybrid financial instrument.

Transition

Entities that had previously bifurcated embedded derivatives but that are no longer required to do so under the amendments would initially measure the recombined hybrid financial instrument by adding together, as of the adoption date, the carrying amount of the host contract and the fair value of the previously bifurcated embedded derivative. No cumulative-effect adjustment would be required.

Entities that had previously not bifurcated embedded derivatives but that are required to do so under the amendments would apply the revised guidance on a modified retrospective basis (via a cumulative-effect adjustment to retained earnings) as of the beginning of the annual reporting period for which the proposed amendments are effective.

An entity would be permitted to apply the amendments retrospectively to all relevant prior periods. Early adoption would also be permitted. The Task Force will decide on an effective date at a future meeting after considering feedback on the proposal.

Thinking It Through

This Issue is likely to have a more significant effect on high-growth industries, such as technology, given their frequent use of convertible instruments in anticipation of initial public offerings. However, banking entities should also follow these developments closely, especially banks that had previously applied the chameleon approach or that had bifurcated embedded derivatives from such instruments under the whole-instrument approach, since they may need to change previous accounting conclusions once the ASU is finalized. In addition, this topic may affect front-office desks at investment banks that structure financing transactions for clients.

Other Topics

COSO Framework

The 2013 Framework

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO)[1] released an updated version of its *Internal Control — Integrated Framework* (the "2013 Framework"). In addition, COSO released two illustrative documents, *Illustrative Tools for Assessing Effectiveness of a System of Internal Control* (the "Illustrative Tools") and *Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples* (the "ICEFR Compendium"), as well as an executive summary of the 2013 Framework.

COSO's primary objective in updating and enhancing the framework is to address the significant changes to business and operating environments that have taken place over the past 20 years. While the fundamental concepts in the 2013 Framework are similar to those in the original framework issued in 1992 (the "1992 Framework"), the 2013 Framework adds or expands discussions about each component and principle. For example, although the concept of identifying and responding to risks was present in the 1992 Framework, the 2013 Framework includes more detailed discussions about risk assessment concepts, including those related to inherent risk, risk tolerance, how risks may be managed, and linkage between risk assessment and control activities.

The 2013 Framework also creates a more formal structure for designing and evaluating the effectiveness of an entity's ICFR by (1) using 17 principles to explain the concepts underlying the five components[2] of ICFR and (2) creating a more formal way of designing and evaluating ICFR in accordance with the principles. Unlike the 1992 Framework, the 2013 Framework explicitly includes the concept of considering the potential for fraud risk in the assessment of risks to the achievement of an organization's objectives. The 2013 Framework also specifies that in an effective system of internal control, each of the five components and relevant principles are required to be present and functioning and that the five components are required to operate together in an integrated manner.

COSO provides a transition period — from May 14, 2013, to December 15, 2014 — for entities to move to the 2013 Framework. The 1992 Framework will continue to be available during the transition period. However, it will be superseded after December 15, 2014. Entities are encouraged to "transition their applications and related documentation to the updated Framework as soon as is feasible under their particular circumstances."

The impact of the 2013 Framework on management's assessment of the effectiveness of ICEFR will depend on how a company applied and interpreted the concepts in the 1992 Framework. The existing system of internal control may or may not clearly demonstrate that all the relevant principles are present and functioning. The ICEFR Compendium and the Illustrative Tools may help companies apply the 2013 Framework.

For a more detailed discussion on the 2013 Framework, see Deloitte's June 10, 2013, *Heads Up*.

The FASB's Disclosure Framework

Background

In July 2012, the FASB issued a DP as part of its project to develop a framework to make financial statement disclosures "more effective, coordinated, and less redundant." The DP identifies aspects of the notes to the financial statements that need improvement and explores possible ways to improve them. If implemented, some of the ideas in the DP could significantly change the Board's process for creating disclosure requirements in future standards and could alter those in existing standards. See Deloitte's July 17, 2012, *Heads Up* for additional information.

[1] COSO is a joint initiative of five private-sector organizations and is dedicated to providing thought leadership by developing frameworks and guidance on enterprise risk management, internal control, and fraud deterrence. The five private-sector organizations are the American Accounting Association, the American Institute of Certified Public Accountants, Financial Executives International, the Institute of Management Accountants, and the Institute of Internal Auditors.

[2] Control environment, risk assessment, control activities, information and communication, and monitoring activities.

Summary of Comment Letter Feedback

Comments on the FASB's DP were due by November 30, 2012. The FASB received over 80 comment letters from various respondents, including preparers, professional and trade organizations, and accounting firms. Respondents generally supported the project, including the concept of making disclosure requirements more flexible. In addition, many respondents believed that excessive disclosures reduce transparency and effectiveness. However, many were also concerned that reducing the volume of disclosures was not one of the project's stated objectives and that the DP's proposed decision process may actually lead to an increase in disclosures.

Respondents also requested clarification on certain aspects of the DP, including (1) defining the "boundary" or purpose of the notes to the financial statements, (2) applying relevance and materiality concepts to disclosures, and (3) differentiating between the Board's process for setting disclosure requirements and the entity's process for determining the appropriate disclosures to provide in its financial statements.

Further, many respondents encouraged the Board to work with regulatory bodies, such as the SEC, to ensure more effective and less redundant disclosures.

Redeliberations

In response to the feedback received, the Board is currently redeliberating certain aspects of the DP and has tentatively agreed to make separate decisions about (1) the process for creating disclosure requirements and (2) an entity's decision process for determining what to disclose.

Specifically, the Board has tentatively decided to:

- Clarify what information should be included in or excluded from the notes to the financial statements.
- Not require entities to include forward-looking disclosures, unless such disclosures provide information about existing circumstances that have implications for the future. Such information may include expectations and assumptions that are used to explain inputs to items presented or disclosed in the financial statements (e.g., forward-looking impairment assumptions that were used to calculate a recognized asset impairment).
- Take into account the needs of donors (for not-for-profit entities).
- Add or revise certain questions in the DP to reflect various conclusions reached during redeliberations.

Next Steps

After completing its redeliberations and additional outreach, the Board plans to issue separate EDs on (1) the Board's decision process for creating disclosure requirements and (2) the entity's decision process for determining what to disclose.

Dodd-Frank Act Updates

Background of the Dodd-Frank Act

The passage of the Dodd-Frank Act in July 2010 brought a number of key reforms to the U.S. financial system. Over the past three years, the SEC has acted on a number of provisions in the Dodd-Frank Act by (1) proposing and approving various rules, (2) completing certain mandated studies, (3) submitting certain required reports, and (4) creating various offices and committees. This section summarizes Dodd-Frank Act activity that has occurred since the last edition of this publication.

Final Rule on Broker-Dealer Audit and Reporting Considerations

On July 30, 2013, the SEC issued a final rule amending certain annual reporting, audit, and notification requirements for broker-dealers under Rule 17a-5 and Rule 17a-11 of the Exchange Act. The final rule was issued in response to the Dodd-Frank Act's mandate to improve oversight of broker-dealers.

Under the final rule, a broker-dealer that has custody of customer assets (i.e., a "carrying broker-dealer") must file a compliance report with the SEC verifying that it (1) is in compliance with broker-dealer capital requirements, (2) protects the assets it maintains for customers, and (3) sends periodic account statements to customers. In contrast, a broker-dealer that does not have custody of customer assets (i.e., a "noncarrying broker-dealer") must file an exemption report indicating its exemption from the requirements in SEC Rule 15c3-3. Regardless of whether the broker-dealer submits a compliance report or an exemption report, it must engage a PCAOB-registered independent public accountant to examine or review certain statements included in the broker-dealer report. The examination or review of the broker-dealer compliance and exemption forms is subject to PCAOB standards.

In addition, the final rule expands the broker-dealer Exchange Act examination regulations by requiring a broker-dealer to (1) submit a newly created quarterly report (i.e., the "Form Custody" report) containing information on whether and, if so, how "it maintains custody of its customers' securities and cash" and (2) allow the SEC and SRO staff to, upon request in writing, review and discuss the examination workpapers with the independent public accountant.

Most of the final rule's amendments will become effective on June 1, 2014. However, the amendments to Section 17a-5(e)(5) became effective on October 21, 2013, and the amendments to Section 17a-5(a) and (d)(6) and the requirement to file the Form Custody report will become effective on December 31, 2013.

Rescission of Supervised Investment Bank Holding Company Rules

On July 12, 2013, the SEC issued a final rule implementing Section 617 of the Dodd-Frank Act, which requires the elimination of rules (under Section17(i) of the Exchange Act) establishing the SEC's program for overseeing supervised investment bank holding companies (SIBHCs). The final rule also rescinds certain SIBHC-related exemptive provisions in the SEC's rules for (1) broker-dealer risk assessment and (2) delegation of authority.

This final rule became effective on July 18, 2013.

Final Rule to Disqualify Felons and Other "Bad Actors" From Offering or Selling Securities in Certain Exempt Offerings

On July 10, 2013, the SEC issued a final rule implementing Section 926 of the Dodd-Frank Act. Under the final rule, covered persons, including the issuer, its predecessors and affiliated issuers, and other persons,[3] are precluded from using the Regulation D, Rule 506, exemption[4] to offer securities if they are party to certain disqualifying events, including:

- Felony or misdemeanor criminal convictions, court injunctions, or restraining orders in connection with the (1) sale or purchase of a security or (2) submission of a false filing to the SEC.
- Final orders from federal and state banking, credit union, savings association, insurance, or other regulatory agencies that prohibit the issuer from associating with one of their regulated entities or from otherwise engaging in activities that they regulate.
- Certain SEC disciplinary orders related to brokers, dealers, municipal securities dealers, investment companies, and investment advisers and their associated persons.
- SEC cease-and-desist orders related to violations of certain antifraud provisions and registration requirements of the federal securities laws.

[3] In addition to the issuer (and the issuer's predecessors and affiliated issuers), the final rule's definition of covered persons includes the following: (1) "any director, officer, [footnote omitted] general partner or managing member of the issuer"; (2) "any beneficial owner of 10% or more of any class of the issuer's equity securities"; (3) "any promoter connected with the issuer in any capacity at the time of the sale"; (4) "any person that has been or will be [compensated — directly or indirectly] for solicitation of purchasers in connection with sales of securities in the offering"; and (5) "any director, officer, general partner, or managing member of any such compensated solicitor."

[4] When securities are offered to the general public, issuers are generally required to register the securities with the SEC. When certain conditions are met, however, an issuer may be exempt from registering its securities. Issuers that issue exempt securities typically rely on the exemption in Regulation D, Rule 506.

The final rule clarifies that although it applies to disqualifying events that occur after its effective date, issuers must disclose events that occurred before the effective date in securities offerings filings.[5] However, the final rule contains a "reasonable care" exception that would allow an issuer to use the Rule 506 exemption when it can show that it did not know and could not have known that a covered person participating in the offering was party to a disqualifying event.

This final rule became effective on September 23, 2013.

Final Rule to Help Prevent Identity Theft

The Dodd-Frank Act shifted responsibility for issuing rules to detect, prevent, and mitigate identity theft under the Fair Credit Reporting Act from the FTC to the SEC and CFTC. Consequently, on April 10, 2013, the SEC and CFTC jointly issued a final rule requiring SEC-regulated entities that meet the definition of a "financial institution" or "creditor" (e.g., broker-dealers, mutual funds, and investment advisers) to implement a program to identify and mitigate identity theft.

While the requirements in the final rule are "largely identical" to those previously mandated under the FTC and other agencies, the final rule notes that an entity's identity theft program should be designed to (1) identify relevant types and occurrences of identity theft red flags and (2) appropriately respond to such red flags. Entities should also periodically evaluate and update their identity theft programs. Initiatives such as staff training programs and service provider oversight should also be implemented. Further, entities that issue debit or credit cards will be required to take certain measures when they receive requests for new cards shortly after they receive a "change of address" notification related to a consumer's account.

This final rule became effective on May 20, 2013, and must be complied with by November 20, 2013.

Final Rule on Lost Securityholders and Unresponsive Payees

On January 16, 2013, the SEC issued a final rule that amends Rule 17Ad-17 of the Exchange Act in response to Section 929W of the Dodd-Frank Act. Previously, Rule 17Ad-17's requirement to search for lost securityholders applied only to recordkeeping transfer agents; under the final rule, it applies to broker-dealers and other security market participants as well. For a "not yet negotiated" check (i.e., not cashed) of $25 or more, payment agents[6] will be required to notify a "missing securityholder"[7] — within seven months of a check's issuance — that the check was issued but not cashed. The final rule also clarifies that its added notification requirements "shall have no effect on state escheatment laws."

This final rule became effective on March 23, 2013, and must be complied with by January 23, 2014.

Extension of Exemptions for Security-Based Swaps

On January 29, 2013, the SEC amended the expiration date of its interim final rule containing certain exemptions for security-based swap arrangements. The interim final rule that initially went into effect on July 11, 2011, expired on February 11, 2013. The amendment extends the expiration date to February 11, 2014.

Under Title VII of the Dodd-Frank Act, the Securities Act and Exchange Act were amended to incorporate the term "security-based swap" into the definition of "security." The SEC adopted this interim final rule to exempt offers and sales of "security-based swaps" from the provisions of the Securities Act (other than the antifraud provisions of Section 17(a)), the registration requirements of the Exchange Act, and the provisions of the Trust Indenture Act of 1939 until the SEC releases final rules on the definition of "security-based swap" and "eligible contract participant."

[5] As noted in footnote 232 of the final rule, timing of a disqualifying event for transition is determined on the basis of a triggering event — for example, the timing of a conviction as opposed to the timing of the underlying conduct. Thus, if a triggering event (e.g., a conviction or court order) occurs after the effective date of the final rule, it will be a disqualifying event that would preclude the issuer from relying on the Regulation D, Rule 506, exemption.

[6] The final rule defines a payment agent as "any issuer, transfer agent, broker, dealer, investment adviser, indenture trustee, custodian, or any other person that accepts payments from the issuer of a security and distributes the payments to the holders of the security."

[7] As defined in the final rule.

Proposed Rule on "Pay Ratio" Disclosure

On September 18, 2013, the SEC issued a proposed rule to implement Section 953(b) of the Dodd-Frank Act. Under the proposal, a registrant subject to the filing requirements of Regulation S-K, Item 402, would need to disclose (1) the median of the annual total compensation of its employees and (2) the ratio of this median to its CEO's annual pay. Emerging growth companies,[8] smaller reporting companies,[9] and foreign private issuers[10] would be exempt from this requirement.

According to the proposed rule, the SEC received nearly 23,000 comment letters on Section 953(b). In addition to expressing varying degrees of support for the disclosures, commenters had concerns about their complexity and the costs of implementing them. The proposal indicates that to mitigate such concerns, registrants would be permitted flexibility in:

- Identifying the population of employees for whom to calculate the median employee income. The population must include full-time, part-time, seasonal, domestic, and foreign employees "employed as of the last day of the registrant's last completed fiscal year" but may also (1) include all employees or (2) be on the basis of a statistical sample.
- The methods they use to identify the median annual total compensation of their employees.
- Use of reasonable estimates to calculate annual total compensation, any element of total compensation, and the annual total compensation of the median employee.

In addition, a registrant could annualize the income of full-time employees who have not worked the entire year (i.e., newly hired employees) but would not be permitted to annualize part-time or seasonal employees' compensation. In addition, registrants would not be permitted to adjust a non-U.S. employee's income for cost-of-living differences.

Comments on the proposed rule are due by December 2, 2013. See Deloitte's October 2013 *Corporate Governance Monthly* Hot Topics article for more information.

SEC and Other Federal Agencies Issue Proposed Rule on Credit Risk Retention

On August 28, 2013, the SEC and five other federal agencies[11] jointly issued a proposed rule to implement the credit risk retention requirements established by Section 15G of the Exchange Act in accordance with Section 951 of the Dodd-Frank Act. Under the proposed rule, a securitizer of asset-backed securities would be required to "retain not less than 5 percent of the credit risk of the assets collateralizing the asset-backed securities." However, there would be a number of exceptions to this requirement, "including an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as 'qualified residential mortgages,' as such term is defined by the agencies by rule."

Comments on the proposed rule were due by October 30, 2013.

Proposed Rules and Interpretive Guidance on Cross-Border Security-Based Swap Activities

On May 1, 2013, the SEC issued a proposed rule to implement certain provisions of Title VII of the Dodd-Frank Act related to parties that engage in cross-border security-based swap activities. The intent of the proposed rule is to further improve regulatory oversight over derivatives and provide interpretive guidance to help registrants apply the rule's requirements to derivatives with elements that are partially transacted within and outside of the United States.

[8] As defined in Section 3(a) of the Exchange Act.

[9] As defined in Regulation S-K, Item 10(f)(1).

[10] Foreign private issuers include those that file annual reports and registration statements on Forms 20-F and 40-F.

[11] The Office of the Comptroller of the Currency; the Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation; the Federal Housing Finance Agency; and the Department of Housing and Urban Development.

Under the proposed rule, a security-based swap transaction would be subject to Title VII requirements if the transaction is entered into by a U.S. person[12] or otherwise executed in the United States. Acknowledging that foreign jurisdictions are also working to implement regulatory schemes related to derivatives trading and that regulatory overlap may result, the proposed rule would allow a foreign market participant involved in a security-based swap transaction to rely on the requirements of its home jurisdiction (the proposed rule calls this approach "substituted compliance"). Whether a foreign market participant could rely on a foreign regulatory scheme (rather than under Title VII, as required by the proposed rule) would depend on whether the use of such a scheme would result in an outcome consistent with that expected under the proposed rule. The proposed rule also notes that an "all-or-nothing" approach is not required. That is, if the parties to the transaction decide to apply the substituted compliance approach, they have flexibility to adopt some of the foreign regulatory scheme's requirements and may defer to the proposed rule's requirements for elements for which consistent outcomes are not expected to be achieved.

In addition, the proposed rule (1) provides guidelines on when a non-U.S. person is required to register with the SEC as a security-based swap dealer or major security-based swap participant and (2) details other regulatory requirements applicable to a security-based swap dealer and a major security-based swap participant.

The proposed rule also includes other guidance related to security-based transactions, clarifying when these transactions would (1) need to be reported to a data repository or (2) be subject to the public disseminating, clearing, and trade execution requirements. Moreover, the proposed rule provides guidelines on when security-based swap infrastructures (e.g., clearing agencies, execution facilities, and data repositories) would need to register with the SEC. Finally, the proposed rule clarifies when a security-based swap data repository would be allowed to remit data to a requesting regulator without the required indemnification agreement (i.e., when the indemnification agreement requirement would be waived).

Comments on the proposed rule were due by July 22, 2013. The SEC has not indicated when a final rule will be adopted.

Other Dodd-Frank Activities

In addition to the proposed and final rulemaking activity mandated by the Dodd-Frank Act, the SEC completed the following studies and reports for Congress since the previous version of this publication:

- An annual report on use of data collected from advisers to hedge funds and other private funds to aid in monitoring system financial risk (July 25, 2013).
- A report on the activities of the *Office of Minority and Women Inclusion* (April 24, 2013).
- A study on the rating process for structured finance products and the feasibility of an assignment system (December 18, 2012).

Other Dodd-Frank Rulemaking Yet to Come

While a number of the Dodd-Frank Act's objectives have been accomplished, the SEC still needs to address certain significant areas, some of which are not specifically related to financial reporting (i.e., more corporate governance). For example, the Dodd-Frank Act directs the SEC to establish rules on executive compensation, including:

- Rules to implement the Dodd-Frank Act's "clawback" provisions (i.e., recovery of executive compensation after the registrant's financial statements are restated).
- Rules requiring proxy disclosure about whether employees and directors are allowed to hedge the value of any securities granted to or otherwise owned by them.

In addition, the SEC plans to propose rules to define "other significant matters" related to broker voting on uninstructed shares.

[12] A U.S. person, as defined by the proposed rule, would be any (1) "natural person resident in the United States"; (2) a "partnership, corporation, trust, or other legal person organized or incorporated [in] the United States or having its principal place of business in the United States"; or (3) an "account of . . . a U.S. person."

Appendixes

Appendix A — Key Aspects of the FASB's and IASB's Impairment Proposals

The following table highlights some of the key aspects of the FASB's and IASB's proposals related to impairment:

Topic	FASB's Proposed Model	IASB's Proposed Model
Scope	• Financial assets (including trade receivables) measured at amortized cost or at FV-OCI. • Lease receivables. • Loan commitments not measured at fair value through profit or loss (FVTPL). • Reinsurance receivables.	• Financial assets (including trade receivables) measured at amortized cost or at FV-OCI.[1] • Lease receivables. • Loan commitments not measured at FVTPL. • Financial guarantee contracts within the scope of IFRS 9 that are not measured at FVTPL.
Timing and amount of loss recognition	Single-measurement approach. The impairment allowance reflects the estimate of current expected credit losses (i.e., all contractual cash flows that entities do not expect to collect over the expected term of the asset). All expected credit losses are recognized at initial recognition except for PCI assets (see Measurement of expected credit losses below).	Dual-measurement approach. Generally,[2] the impairment allowance is measured at an amount equal to either of the following: • 12-month expected credit losses. • Lifetime expected credit losses if, as of the reporting date, the credit risk has increased significantly since initial recognition.[3] For instruments with low credit risk, an allowance equal to 12 months of expected credit losses would be measured regardless of whether there has been a significant increase in credit risk.[4]
Measurement of expected credit losses	Estimate of expected credit losses must: • Be based on relevant information that is available without undue cost or effort, including information about past events, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial instrument's future cash flows.[5] • Include the probability that (1) a credit loss results and (2) no credit loss results.[6] • Not be estimated solely on the basis of the most likely outcome. • Reflect the time value of money.	Estimate of expected credit losses must: • Be based on relevant information that is available without undue cost or effort, including information about past events, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial instrument's future cash flows. • Be based on a probability-weighted assessment of expected contractual cash flows not expected to be recovered. • Include the probability that (1) a credit loss results and (2) no credit loss results.[7] • Not be estimated solely on the basis of the most likely outcome. • Reflect the time value.

1 The model does not apply to equity instruments that an entity irrevocably elected to measure at FV-OCI at initial recognition.

2 Exceptions are made for (1) trade receivables without a significant financing component, (2) trade receivables with a significant financing component and lease receivables for which an entity elected the simplified approach, and (3) purchased and originated credit-impaired assets. See Simplified approach and PCI financial assets below.

3 If there is objective evidence of an asset's impairment, the asset would be included in this category.

4 At September 2013, joint meeting, the IASB tentatively decided to clarify in the final standard that the objective of the impairment model is to recognize lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk, whether on an individual or a portfolio basis. In assessing the change in the credit risk for those instruments, entities would not rely solely on delinquency information and should consider all reasonable and supportable information, including forward-looking information.

5 At its September 2013 joint meeting with the IASB, the FASB tentatively decided to clarify in the final standard that in the estimation of expected credit losses:

- An entity should use historical average loss experience for future periods that are beyond periods for which the entity is able to make reasonable and supportable forecasts.
- All contractual cash flows over the life of the asset should be considered, including reasonably expected prepayments; renewals, extensions, and modifications should not be considered, unless the entity reasonably expects to execute a troubled debt restructuring with a borrower.

6 At its September 2013 joint meeting with the IASB, the FASB tentatively decided that the risk of loss, even if remote, should always be reflected; credit loss would not be recognized when the amount of loss would be zero for an asset for which risk of nonpayment would be higher than zero (e.g., for assets that are collateralized).

7 At its September 2013 joint meeting with the FASB, the IASB tentatively decided to require entities to apply a definition of "default" in accordance with the entity's credit risk management practices and to consider qualitative factors as part of such application. In addition, the Board would include in the standard a rebuttable presumption that assets are considered to have defaulted when they are 90 days past due, unless an entity's reasonable and supportable information indicates that a different quantitative default criterion would be more appropriate.

Topic	FASB's Proposed Model	IASB's Proposed Model
PCI financial assets[8]	• An allowance is recognized for contractual cash flows not expected to be collected at initial recognition on the balance sheet (i.e., the initial allowance is relative to the contractual cash flows, not the expected cash flows reflected in the price paid at acquisition). • Subsequent changes in current expected credit losses (including contractual amounts not originally reflected in the purchase price) are recognized in earnings, and the allowance is updated.	• No allowance is recognized for contractual cash flows not expected to be collected at initial recognition on the balance sheet (see FASB column). • The cumulative change in lifetime expected credit losses since initial recognition is recognized as a loss allowance. • 12-month expected credit losses are never used to measure the impairment of such financial assets. • Favorable changes in lifetime expected credit losses are reflected as an impairment gain even if the cumulative changes in lifetime expected credit losses are positive and exceed the amount of expected credit losses that were included in the estimated cash flows at initial recognition.
Interest recognition	Entities calculate interest on a gross cost basis (i.e., not reduced for the allowance for expected credit losses); however, nonaccrual of interest may apply (see Nonaccrual of interest below).	Entities calculate interest revenue by applying the EIR[9] to the gross carrying amount except in the following cases: • For purchased or originated credit-impaired assets, they calculate interest by applying the credit-adjusted EIR[10] to the amortized cost (gross carrying amount less impairment allowance). • When there is objective evidence of impairment, they calculate interest by applying the original EIR to the amortized cost of the financial asset in the subsequent reporting period.
Nonaccrual of interest	Financial assets are placed on nonaccrual status "when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest."	Not applicable. Interest is recognized in the statement of profit or loss and OCI regardless of the extent of credit losses. See Interest recognition above for exceptions to using the gross carrying amount for interest recognition purposes.
Practical expedient	Entities are not required to record an impairment allowance for an FV-OCI financial asset if both of the following apply: • The asset's fair value exceeds its carrying amount. • The expected credit losses are deemed insignificant.	No practical expedient. However, for instruments with credit risk that has significantly increased but still remains low, the allowance would be equal to 12 months of expected credit losses (e.g., "investment grade" financial assets).
Simplified approach	None. The current expected credit loss model is applied in all cases except those in which the practical expedient applies.	A simplified approach would be used for trade and lease receivables as follows: • For trade receivables with no significant financing, entities would always recognize lifetime expected credit losses (i.e., would not use a dual-measurement approach). • For trade receivables with a significant financing component and for lease receivables, entities could choose a policy of only applying the lifetime expected credit losses instead of applying the dual-measurement approach.

8 The IASB's approach for PCI assets also applies to originated credit-impaired assets.

9 The EIR is the rate used to exactly discount estimated future cash flows. It does not take into account the expected credit losses through the remaining life of the financial asset to the asset's gross carrying amount or amortized cost (for objectively impaired financial assets that are not PCI financial assets or originated credit-impaired financial assets).

10 The credit-adjusted EIR is used to exactly discount the estimated future cash flows through the remaining life of the PCI financial asset or originated credit-impaired financial asset to its amortized cost. This rate differs from the EIR because it takes into account the expected credit losses in the estimate of future cash flows.

Topic	FASB's Proposed Model	IASB's Proposed Model
Modifications of debt instruments	For a TDR, entities would consider the new series of contractual cash flows and adjust the cost basis of the asset so that the EIR (post-TDR) is the same as the original EIR. The basis adjustment would be calculated as the amortized cost basis before modificaton less the present value of the modified contractual cash flows (discounted by the original EIR). For non-TDR modifications that do not result in derecognition, the EIR would be adjusted prospectively.	For debt restructurings that do not result in derecognition, entities would adjust the gross carrying amount of the asset to reflect the revised contractual cash flows and would recognize a modification gain or loss. Entities would discount the gross carrying amount (by the asset's original EIR) in calculating the present value of the asset's estimated future contractual cash flows.
Effective date and transition	The effective date for the final guidance has not been proposed. Entities would be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective.	An effective date for the final guidance has not been proposed. Transition requirements would be applied retrospectively (i.e., to all of an entity's currently outstanding instruments) except when it is not possible to determine, without undue cost or effort, the relative deterioration of the asset since initial recognition, in which case the entity would evaluate the absolute credit quality as of the date of transition. Comparative information would not be required unless the entity can provide it without the use of hindsight.

Appendix B — Glossary of Standards and Other Literature

The standards and literature below were cited or linked to in this publication.

FASB ASC References

For titles of *FASB Accounting Standards Codification* references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

FASB Accounting Standards Updates and Other FASB Literature

See the FASB's Web site for the titles of:

- Accounting Standards Updates.
- Proposed Accounting Standards Updates.
- Pre-Codification literature (Statements, Staff Positions, EITF Issues, and Topics).
- Concepts Statements.

SEC Final Rules

33-9383, *Extension of Exemptions for Security-Based Swaps*

33-9414, *Disqualification of Felons and Other "Bad Actors" From Rule 506 Offerings*

34-68668, *Lost Securityholders and Unresponsive Payees*

34-69359, *Identity Theft Red Flags Rules*

34-69979, *Rescission of Supervised Investment Bank Holding Company Rules*

34-70073, *Broker-Dealer Reports*

34-70468, *Extension of Temporary Registration of Municipal Advisors* (extension)

SEC Proposed Rules

33-9452, *Pay Ratio Disclosure*

34-69490, *Cross-Border Security-Based Swap Activities; Re-Proposal of Regulation SBSR and Certain Rules and Forms Relating to the Registration of Security-Based Swap Dealers and Major Security-Based Swap Participants*

34-69491, *Reopening of Comment Periods for Certain Rulemaking Releases and Policy Statement Applicable to Security-Based Swaps Proposed Pursuant to the Securities Exchange Act of 1934 and the Dodd-Frank Wall Street Reform and Consumer Protection Act*

34-70277, *Credit Risk Retention*

SEC Regulation D

Rule 506, "Exemption for Limited Offers and Sales Without Regard to Dollar Amount of Offering"

SEC Regulation S-K

Item 10, "Application of Regulation S-K"

Item 402, "Executive Compensation"

International Standards

See Deloitte's IAS Plus Web site for the titles of:

- International Financial Reporting Standards.
- International Accounting Standards.
- EDs.

Appendix C — Abbreviations

Abbreviation	Description
AICPA	American Institute of Certified Public Accountants
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
BBA	building block approach
CEO	chief executive officer
CFE	collateralized financing entity
CFTC	U.S. Commodity Futures Trading Commission
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
DP	discussion paper
ED	exposure draft
EIR	expected interest rate
EITF	Emerging Issues Task Force
EU	European Union
FASB	Financial Accounting Standards Board
FBO	foreign banking organization
FTC	Federal Trade Commission
FV	fair value
FV-NI	fair value through net income
FV-OCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
GAAP	generally accepted accounting principles
IAS	International Accounting Standard
IASB	International Accounting Standards Board

Abbreviation	Description
ICEFR	internal control over external financial reporting
ICFR	internal control over financial reporting
IFRS	International Financial Reporting Standard
LIBOR	London Interbank Offered Rate
LIHTC	low income housing tax credit
MNA	master netting arrangement
OCI	other comprehensive income
OIS	overnight indoor swap
OREO	other real estate owned
PAA	premium allocation approach
PCAOB	Public Company Accounting Oversight Board
PCI	purchased credit-impaired
repo	repurchase agreement
ROU	right of use
SEC	Securities and Exchange Commission
SIBHC	supervised investment bank holding company
SIFMA	Securities Industry and Financial Markets Association
SPPI	solely payments of principal and interest
SRO	self-regulatory organization
TBA	to be announced
TDR	troubled debt restructuring
UST	U.S. Department of the Treasury
VIE	variable interest entity

The following is a list of short references for the Acts mentioned in this publication:

Abbreviation	Act
Community Reinvestment Act	Community Reinvestment Act of 1977
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
Exchange Act	Securities Exchange Act of 1934
Securities Act	Securities Act of 1933

Appendix D — Other Resources

Deloitte Publications

Register to receive other Deloitte industry-related publications by going to www.deloitte.com/us/subscriptions, choosing the Industry Interests category, and checking the boxes next to your particular interests. Publications pertaining to your selected industry (or industries), along with any other Deloitte publications or webcast invitations you choose, will be sent to you by e-mail.

Dbriefs

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Technical Library and US GAAP Plus

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