

Appendix B: Revisions to FFIEC 002 Instructions to align with final FASB standard

Schedule RAL, Item M3.b

Amortized cost of available-for-sale securities. Report the amortized cost of available-for-sale debt (AFS) securities.

Institutions should include in the amortized cost of AFS debt securities reported in this item the total amount for portfolio last-of-layer fair value hedge basis adjustments (FVHBA) on AFS debt securities. As defined in ASU No. ~~2017-12~~2022-01, Derivatives and Hedging (Topic 815), “Targeted Improvements to Accounting for Fair Value Hedging Activities Portfolio Layer Method” (ASU 2022-01), the last-of-portfolio layer method was added to allow entities to apply hedge accounting to a single closed portfolio of ~~prepayable fixed-rate~~ financial assets or one or more beneficial interests secured by a portfolio of ~~prepayable~~ financial instruments that is not expected to be affected by prepayments, defaults, or other factors affecting the timing and amount of cash flows for the designated hedge period. Under ASU ~~2017-12~~2022-01, different types of qualifying assets can be grouped together in a last-of-portfolio layer hedge.

~~Due to the aggregation of assets in a last-of layer closed portfolio, institutions may find it challenging to allocate the last-of layer FVHBAs to~~ Per the standard, an institution should not adjust the recorded investment or the discount rate of the individual AFS debt security level assets or individual beneficial interest included in the single, closed portfolio for a basis adjustment that is maintained on a closed portfolio basis. As such, an institution that applies the last-of-portfolio layer method to a closed portfolio of AFS debt securities ~~is~~should not ~~required to~~ allocate the portfolio ~~level, last-of~~-layer FVHBAs to a more granular level ~~and~~. Institutions should report these unallocated amounts in this item.

Appendix B (Continued)

Schedule C, Item 10

Less: Any unearned income on loans reflected in items 1-8 above. To the extent possible, report the specific loan categories net of unearned income. A reporting institution (including its IBF) should enter here unearned income only to the extent that it is included in (i.e., *not* deducted from) the various loan items (items 1 through 8) of this schedule. (Unearned income includes income received but not yet earned, such as prepaid interest and the unamortized portion of loan origination fees.)

An institution should also include last-of-portfolio layer fair value hedge basis adjustments (FVHBAs) not allocated to individual loans reported in items 1 through 8 of this schedule. As defined in Accounting Standards Update No. ~~2017-12~~2022-01, Derivatives and Hedging (Topic 815), "Targeted Improvements to Accounting for Hedging Activities Fair Value Hedging - Portfolio Layer Method" (ASU-~~2017-12~~2022-01), the last-of-portfolio layer method was added to allow entities to apply hedge accounting to a single closed portfolio of ~~prepayable fixed-rate~~ financial assets or one or more beneficial interests secured by a portfolio of ~~prepayable~~ financial instruments that is not expected to be affected by prepayments, defaults, or other factors affecting the timing and amount of cash flows for the designated hedge period. Under ASU-~~2017-12~~2022-01, different types of qualifying assets can be grouped together in a last-of-portfolio layer hedge.

~~Due to the aggregation of assets in a last-of-layer closed portfolio, institutions may find it challenging to allocate the last-of-layer FVHBAs to~~ Per the standard, an institution should not adjust the recorded investment or the discount rate of the individual loan-level assets or individual beneficial interest included in the closed portfolio for a basis adjustment that is maintained on a closed portfolio basis. As such, an institution that applies the last-of-portfolio layer method to a closed portfolio of loans is~~should~~ not ~~required to~~ allocate the portfolio-level, ~~last-of-~~layer FVHBAs to a more granular level and should include these unallocated amounts in this item 10.

If an institution reports each loan item in this schedule net of both unearned income and net unamortized loan fees and has no unallocated last-of-portfolio layer FVHBAs applicable to loans, enter a zero in this item. If the amount to be reported in this item represents an addition to the amounts reported in Schedule C, Part I, items 1 through 8, because of unallocated last-of-portfolio layer FVHBAs, report the amount with a minus (-) sign.

Do *not* include unearned income on lease financing receivables in this item (deduct from Schedule C, part I, item 9).