



STATE OF INDIANA

DEPARTMENT OF FINANCIAL INSTITUTIONS

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DEPOSITORY DIVISION ADVISORY LETTER 2019-01 JANUARY 29, 2019

TO: Indiana State-Chartered Financial Institutions

FROM: Thomas C. Fite, Director
Christopher C. Dietz, Deputy Director, Depository Institutions

RE: Lease Accounting Changes and the Impact on Indiana State Statutes

What about lease accounting has changed?

The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) on February 25, 2016 intended to improve financial reporting of leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on the leases classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet.

For institutions that are public business entities, as defined under GAAP, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For institutions that are not public business entities, the new standard is effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early application of the new standard is permitted for all institutions.

Impact on Indiana State-Chartered Financial Institutions

The Indiana Department of Financial Institutions under Indiana Code section 28-1-11-5 (banks) and 28-7-1-9(a)(11) (credit unions) has statutory limitations on the total permissible investment in real estate and premises. Before the issuance of this ASU, financial institution's operating leases were not on-balance sheet and therefore were excluded from the compliance calculation with the above mentioned statutes. While the ASU now requires operating leases to be on-

balance sheet, the DFI does not believe the risk of loss exposure to the capital position has been materially increased by the accounting standard change due to the recognition of an asset but also an offsetting liability. However, it should be noted that capital metrics will be impacted by the increase in on-balance sheet assets for those institutions that have entered into operating leases. Given the lack of additional capital loss exposure created by this accounting change, examiners will only include the premises and real estate owned by the institution in their IC 28-1-11-5 and IC 28-7-1-9(a)(11) compliance calculations and not include the operating lease assets that are required to be recognized on-balance sheet by the ASU.

*Member Banks should note that The Federal Reserve also has a limitation on premises and real estate that is outlined in Federal Reserve Regulation H. The Federal Reserve is planning an issuance on this topic and it is possible that the position of the Indiana DFI related to compliance with 28-1-11-5 will be contrary to the Federal Reserve's stance on the inclusion of the operating leases in their Regulation H compliance calculation. Thus, institutions should be aware of the potential discrepancy and monitor their compliance with Regulation H accordingly.

Sources of More Information

FASB news release

https://www.fasb.org/jsp/FASB/FASBContent_C/NewsPage&cid=1176167901466

Update 2016-02—Leases (Topic 842)

[Section A](#) — Leases: Amendments to the FASB Accounting Standards Codification

[Section B](#) — Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification

[Section C](#) — Background Information and Basis for Conclusions

FFIEC Supplemental Instructions September 30, 2018

https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_FFIEC051_suppinst_201809.pdf