GBQ

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CREDIT UNION UPDATE

Revenue Recognition from Contracts with Customers

Consideration of New Rules on Financial Institutions

Overview

Beginning in 2018, new rules go into effect for "Revenue recognition from contracts with customers". The purpose of this article is to explore the impact of this new requirement (Accounting Standards Update 2014-09, Revenue from Contracts with Customers) on the contractual arrangements between financial institutions (FIs) and their customers and how and if FIs may have to change their accounting in key areas. Although there is a general presumption among FIs that the new recognition rules will be a non-event for them, we suggest each institution take a look at the areas that the new rules apply to, and make sure they are appropriately following the recognition requirements.

Areas of income not affected by the new rules:

- Interest Income
- Credit card fees
- Loan servicing and subservicing
- Financial guarantees

Area of income within the scope of the new rules:

- Fees charged on deposit related accounts and other transaction services

It is my opinion that, in most circumstances, the recognition of the fee revenue is already being recognized in accordance with the new guidance, which requires its recognition during the period in which the performance obligation is satisfied. Examples of these fees are listed below:

- Wire Transfer fees
- ATM fees
- NSF fees
- Courtesy Pay fees
- Paper statement fees
- Inactive account fees
- Account Maintenance fees

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Revenue Recognition from Contracts with Customers (cont.)

In the event the FI has contracts in place where-in deposit account fees will be waived if certain criteria are met, the new recognition rules would require that no fees be recognized in the applicable month where the criteria is met. (This is generally what is done in practice, but in the event fees are recognized in one month and then refunded in the next, the practice should be changed so that no fee is recognized.)

In addition, if the FI has a history of refunding fees at the request of the member, the amount of fees recognized in the month should be for the expected net fees to be realized. Again, in most cases where this is done, the refund hits the same month as the fee; however, if the amount of refund is posted in a succeeding month is significant, it should be reflected in the month of the original fee as a reduction of fee income.

If the FI has significant revenue generated from other sources it should go through the steps below to ensure it is properly accounting for the income:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to each performance obligation under the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

Conclusion

As items associated with financial instruments are scoped out of the new revenue recognition rules, it is generally not expected to have a significant impact on the FI industry. However, it is important to note the provisions of the new requirements do impact a significant amount of fee income, so it is essential for each FI to review its current recognition practices to ensure it is in compliance with the new guidance.

To discuss the impact of the new guidance on your institution don't hesitate to contact one of your GBQ professionals.

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