TO: CHIEF EXECUTIVE OFFICER

SUBJECT: Final Rule Revising the Regulatory Capital Treatment of Unrealized Gains on Available-for-Sale Equity Securities

The FDIC Board of Directors has approved the attached final rule revising the treatment of unrealized gains on equity securities under the FDIC's risk-based capital standards. The rule is being issued jointly with the rules of the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

The revised rule will take effect on October 1, 1998. However, institutions may choose to apply the rule beginning September 1, 1998, the date of the final rule's publication in the Federal Register.

Specifically, the final rule permits institutions to include up to 45 percent of net unrealized pre-tax holding gains on available-for-sale equity securities as a component of Tier 2 capital. For the gains to be eligible for inclusion in Tier 2 capital, the final rule requires the equity securities to have readily determinable fair values and to be valued in accordance with generally accepted accounting principles.

The rule does not change the regulatory capital treatment of unrealized gains (losses) on available-for-sale debt securities. In addition, net unrealized losses on available-for-sale equity securities will continue to be deducted from Tier 1 capital.

The final rule is consistent with the proposal that the four federal banking agencies issued for comment in October 1997. It is also consistent with the Basle Accord, which serves as the international regulatory capital framework on which the agencies' risk-based capital standards are based.

For more information, please contact Examination Specialists Stephen G. Pfeifer (202-898-8904) or Carol L. Liquori (202-898-7289) in the FDIC's Division of Supervision.

Nicholas J. Ketcha Jr.
Director

Attachment:

Federal Register September 1, 1998, pages 46518 – 46524

Distribution: FDIC-Supervised Banks (Commercial and Savings)

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