FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. **10617**
January 19, 1993]

TREATMENT OF DEFERRED TAX ASSETS

To All State Member Banks and Bank Holding Companies in the Second Federal Reserve District, and Others Concerned:

The Board of Governors of the Federal Reserve System has adopted a recommendation made by the Federal Financial Institutions Examination Council (FFIEC) that bank holding companies should report deferred tax assets in accordance with Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes" (FASB 109), beginning in 1993. In this regard, the Board of Governors issued the following statement:

> The Federal Reserve Board announced that, for regulatory purposes, bank holding companies should report deferred tax assets in accordance with Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes" (FASB 109) beginning in the first quarter of 1993.[1]
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> The Board also indicated that application of FASB 109 will be permitted in regulatory reports of bank holding companies for December 31, 1992, subject to the guidance specified below.
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> The Board intends to issue for public comment in the near future proposed amendments to its risk-based and leverage capital guidelines for state member banks and bank holding companies that pertain to the treatment of deferred tax assets in computing the capital positions of these institutions.
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> These actions are being taken by the Board to provide for the treatment of net deferred tax assets for bank holding companies consistent with provisions set forth by the Federal Financial Institutions Examination Council (Council) for federally-supervised banks and thrift institutions (insured depositories). On December 8, the Council decided that insured depositories should begin to follow FASB 109 in 1993. In addition, the Council stated that insured depositories could adopt the standard for their December 1992 regulatory reports, subject to the limitation that the amount reported not exceed the limit for net deferred tax assets that the Council is recommending to the Federal banking and thrift agencies to incorporate into their regulatory capital standards.
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> The recommendations offered by the Council to the agencies are the following: (a) net deferred tax assets that are dependent on an institution's future taxable income should be limited for regulatory capital purposes to the amount that can be realized within one year of a quarter-end report date or ten percent of Tier 1 capital, whichever is less; (b) no limit for regulatory capital purposes should be placed on deferred tax assets that can be realized from taxes paid in prior carry-back years.
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> The Board has under review a proposal of its staff to seek public comment on a limitation on deferred tax assets for capital purposes for state member banks and bank holding companies, as recommended by the Examination Council. In view of this and the Council's action, the Board strongly urges bank holding companies to place the same limitation on the amount of deferred tax assets recorded in their regulatory reports filed with the Federal Reserve for the December 31, 1992, reporting date, if they choose the option of adopting FASB 109 for that period.

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[1] Deferred tax assets generally arise from temporary differences, i.e., items that are reported differently for tax and financial statement purposes. A typical temporary difference arises from the treatment of loan losses.

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Federal Reserve Bank of St. Louis

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E. GERALD CORRIGAN,
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