

**FEDERAL RESERVE BANK
OF NEW YORK**

February 11, 1993

IDU BONDS OF BRAZIL

*To The Chief Executive Officer of All State Member Banks,
Edge Corporations, and Branches and Agencies of Foreign Banks
in the Second Federal Reserve District, and Others Concerned:*

Printed on the following pages is the text of a statement issued jointly by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation to clarify their policy concerning the treatment of interest income derived from certain recently-issued IDU Bonds of Brazil. The statement is directed to the chief executive officers of banking institutions with credit exposure to Brazil. Also, included in this package, for reference purposes, is an interagency letter, dated April 3, 1991, directed to the Securities and Exchange Commission, that discusses one of the two conditions that must be met in order for the agencies to recognize as interest income amounts derived from that source in an institution's Call Report.

Questions regarding this matter should be directed to Thomas P. McQueeney, Assistant Vice President (Tel. No. 212-720-7934).

CHESTER B. FELDBERG,
Executive Vice President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
FEDERAL DEPOSIT INSURANCE CORPORATION
OFFICE OF THE COMPTROLLER OF THE CURRENCY

January 14, 1993

TO THE CHIEF EXECUTIVE OFFICERS OF BANKS WITH
CREDIT EXPOSURE TO BRAZIL

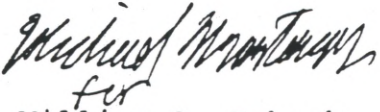
To assure uniformity, the bank regulatory agencies are providing the following guidance as to the appropriate Call Report treatment for recognizing income derived from Brazil's recently-issued IDU Bonds. In 1991, Brazil paid in cash approximately 25% of the interest arrears that accumulated during 1989 and 1990 on defaulted medium- and long-term debt and, in 1992, issued the IDU Bonds to settle the balance that was due. This letter is directed only at the IDU Bonds and it does not address interest owed since 1991 nor the outstanding principal on medium- and long-term debt.

At issue is the amount of interest income that can be recognized. To recognize interest income related to the IDU Bonds, two conditions must be met: first, the recorded principal balance of Brazilian debt must be considered fully collectible and, second, only cash proceeds may be recognized as interest income (i.e., from the sale of the IDU Bonds to third parties or cash collections on the bonds).

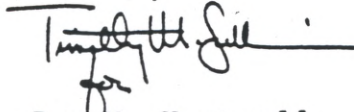
The former condition was discussed in an April 3, 1991, interagency letter to the Securities and Exchange Commission, which has been included for your reference. In that letter, the staffs of the bank regulatory agencies state that a creditor bank's "recognition of interest payments as interest income on a cash basis is permitted for nonaccrual assets only when the remaining recorded principal balance is deemed to be fully collectible."

Therefore, a creditor bank must already have taken sufficient charge-offs or other adjustments that reduce the principal balance of Brazilian debt to an amount that removes doubt as to its collectibility. For purposes of this determination, the principal balance should be considered net of the Allocated Transfer Risk Reserve (ATRR). Otherwise, a creditor bank would be expected to apply any cash payments first toward a reduction of the recorded principal balance.

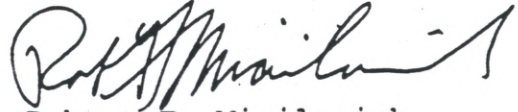
If the IDU Bonds are retained for the bank's own trading, held-for-sale, or investment accounts, no carrying value should be assigned. This considers that Brazil's issuance of the bonds is only the substitution of one credit obligation for another. Since the initial obligation did not have a carrying value, its replacement would not either.



for
William A. Ryback
Associate Director,
Division of Banking
Supervision and
Regulation,
Federal Reserve
System



Jon K. Hartzell
Deputy Comptroller
International
Banking and Finance
Office of the
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Robert F. Mialovich
Associate Director
Division of
Supervision
Federal Deposit
Insurance
Corporation

Comptroller of the Currency
Federal Reserve Board
Federal Deposit Insurance Corporation

Washington, D.C.

April 3, 1991

Mr. George Diacont
Acting Chief Accountant
Securities and Exchange Commission
Washington, D.C. 20549

Dear Mr. Diacont:

You have asked for our views regarding the proper accounting treatment for the recent partial payments made by Brazil from currently available funds to its foreign bank creditors. These payments represent partial repayment of past due interest on credits that are in nonaccrual status. There is currently no agreement that would eliminate arrearages and restore normal debt servicing on these credits. Consistent with generally accepted accounting principles, the proper accounting treatment for these recent payments depends primarily on the collectibility of the remaining recorded principal balance of each bank's exposure to Brazil. This determination should be made on a bank by bank basis.

The AICPA's Industry Audit Guide, "Audits of Banks," states:

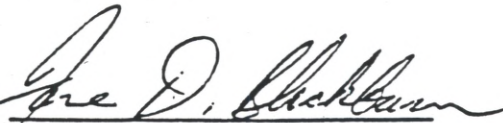
If the ultimate collectibility of principal, wholly or partially, is in doubt, any payment received on a loan on which the accrual of interest has been suspended should be applied to reduce principal to the extent necessary to eliminate such doubt.

This principle was the basis for the statement in the recent joint agency supervisory policies release dated March 1, 1991, that recognition of interest payments as interest income on a cash basis is permitted for nonaccrual assets only when the remaining recorded principal balance is deemed to be fully collectible.

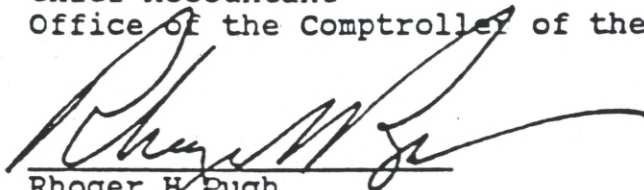
In light of the above guidance, a bank would be expected to apply these payments as a reduction of recorded principal unless appropriate charge-offs have been taken, in combination with Allocated Transfer Risk Reserves (ATRR), so as to

remove doubt as to the collectibility of the remaining recorded principal balance. Since the allowance for loan and lease losses is a general allowance available for all credit losses in the loan and lease portfolio, the allowance may not be used as a substitute for a charge-off or the ATRR in assessing collectibility.

Sincerely,



Zane D. Blackburn
Chief Accountant
Office of the Comptroller of the Currency



Roger H. Pugh
Manager, Policy Development
Division of Banking Supervision and Regulation
Board of Governors of the Federal Reserve System



Robert F. Storch
Chief, Accounting Section
Division of Supervision
Federal Deposit Insurance Corporation