

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

AT 10651A
August 25, 1993

**Interagency Statement on the
Regulatory Treatment of Securities Portfolios
under FASB Statement No. 115**

*To the Chief Executive Officers of All State Member Banks and
Bank Holding Companies in the Second Federal Reserve District:*

Following is the text of a statement issued by the Federal Financial Institutions Examination Council (FFIEC):

The FFIEC has announced that it will be adopting the recently issued Financial Accounting Standards Board Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FASB 115), for regulatory reporting purposes and will be making conforming changes to the Reports of Condition and Income (Call Report). The Office of Thrift Supervision has already made appropriate changes to the Thrift Financial Report. The Federal Reserve Board also will be adopting FASB 115 for regulatory reports filed by bank holding companies.

The Federal Deposit Insurance Corporation, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision will be requesting comment on whether unrealized gains and losses on securities designated as available for sale under the new accounting standard should be included in Tier 1 capital for risk-based and leverage capital purposes.

Printed on the following pages is the text of the Interagency Statement. Questions regarding these matters may be directed to Kenneth P. Lamar, Manager, Domestic and Regulatory Reports Department (212) 720-8590.

WILLIAM J. McDONOUGH,
President.

**Interagency Statement on the
Regulatory Treatment of Securities Portfolios
under FASB Statement No. 115**

The FFIEC is announcing that all federally supervised banks and savings associations should adopt the recently issued Financial Accounting Standards Board Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FASB 115), for regulatory reporting purposes as of January 1, 1994, or the beginning of their first fiscal year thereafter, if later. However, early adoption is permitted to the extent allowable under FASB 115. The FFIEC will be making conforming changes to the Reports of Condition and Income (Call Report). The Office of Thrift Supervision has already made appropriate changes to the Thrift Financial Report. The Federal Reserve Board also will be adopting FASB 115 for regulatory reports filed by bank holding companies.

This new accounting standard provides that for financial reporting purposes, depository institutions should divide their securities holdings among three categories: held-to-maturity, available-for-sale, and trading securities. The accounting standard provides a different accounting treatment for each category. The held-to-maturity category supplants the current held for investment category, but the accounting basis remains the same. Only those debt securities for which an institution has the positive intent and ability to hold to maturity may be included in the held-to-maturity account, and the institution would continue to account for these debt securities at amortized cost.

The accounting treatment for trading securities has not changed. Trading securities are those debt and equity securities that an institution buys and holds principally for the purpose of selling in the near term. Trading securities will continue to be reported at fair value (i.e., generally, market value), with unrealized changes in value (appreciation and depreciation) reported directly in the income statement as a part of the institution's earnings.

For many institutions, the available-for-sale category will include a larger amount of securities than the current held-for-sale category it replaces. Securities in the available-for-sale category are defined as those securities for which the institution does not have the positive intent and ability to hold to maturity, yet does not intend to trade actively as part of its trading account. While held-for-sale securities have been carried at the lower of cost or fair value, with the offsetting entry reported directly in the income statement, available-for-sale securities must be reported at fair value. Any unrealized appreciation or depreciation in the value of debt and equity securities available for sale are to be reported directly as a separate component of equity capital. Thus, unrealized changes in these securities' value will have no effect on the reported earnings of the institution.

The Federal Deposit Insurance Corporation, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision will be requesting comment on whether unrealized gains and losses on available-for-sale securities should be included in Tier 1 capital for risk-based and leverage capital purposes.

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