PRESS RELEASE
Federal Deposit Insurance Corporation

December 20, 1994

FDIC ADOPTS CAPITAL RULE FOR UNREALIZED GAINS AND LOSSES ON SECURITIES

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today approved a final rule that clarifies the regulatory capital treatment for unrealized gains and losses on securities that are "available-for-sale."

The rule is being issued in response to "FASB 115" -- Statement No. 115 of the Financial Accounting Standards Board -- which requires institutions to recognize as a separate component of stockholders' equity any holding gains and losses on securities that are deemed available-for-sale. In general, this refers to securities that a bank does not have the positive intent and ability to hold to maturity but also does not intend to actively trade.

Banks already are required by the banking regulators to follow FASB 115 for the quarterly Reports of Condition and Income (Call Report), under instructions issued in 1993 by the interagency Federal Financial Institutions Examination Council (FFIEC). At issue, however, has been the application of FASB 115 to regulatory capital standards.

The FDIC and the other banking regulators previously proposed to require that net unrealized gains or losses on all available-for-sale securities (debt as well as equity securities) be included in determining Tier 1 capital. Today, the FDIC Board joined with the Federal Reserve Board and the Office of the Comptroller of the Currency in rejecting that earlier proposal. Instead, the FDIC is adopting only technical changes to conform the wording in its leverage and risk-based capital rules with the terminology used in FASB 115. A similar rulemaking is expected to be issued soon by the Office of Thrift Supervision for the institutions it regulates.

FDIC

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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FDIC Chairman Ricki R. Tigert said today: "We believe bank regulatory capital levels would be unnecessarily volatile, without appreciable benefits to the safety and soundness of the banking system, if institutions were required to include all unrealized securities losses in their regulatory capital calculations."

The new FDIC rule also closely tracks interim guidance jointly issued by the three bank regulatory agencies in December of 1993 and the capital treatment recommended by an interagency task force of the FFIEC in November of 1994.

Under today's final rule, net unrealized holding losses on available-for-sale equity securities (but not debt securities) with readily determinable fair values will be deducted from the elements that determine Tier 1 capital. All other unrealized holding gains or losses on available-for-sale securities will be excluded from the definition of Tier 1 capital. However, the extent of any unrealized appreciation or depreciation on securities will continue to be a factor that FDIC examiners consider in their overall assessment of an institution's capital adequacy.

Consistent with existing guidance from the regulators, the amortized cost rather than the fair value of available-for-sale debt securities generally will continue to be used when calculating leverage and risk-based capital ratios. Banks also should continue to use the amortized cost of available-for-sale debt securities when reporting average total assets and risk-based capital data in the Call Report.

This final rule will become effective 30 days after it is published in the Federal Register.