FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Division of Supervision

Investment Securities

FIL-78-95
November 17, 1995

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Implementation Guidance on Accounting for Investment Securities*

The Financial Accounting Standards Board (FASB) has recently issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." The Special Report addresses approximately 60 of the most commonly asked questions about Statement 115, many of them emphasizing the restrictive nature of the held-to-maturity securities category.

In addition, effective November 15, 1995, the FASB is permitting a one-time opportunity for institutions to reassess the appropriateness of the designations of all securities held upon the initial application of the Special Report. Any resulting redesignations should be made in conjunction with the implementation of the FASB's supplemental guidance and *must occur no later than December 31, 1995*. Furthermore, redesignations must be accounted for at fair value in accordance with paragraph 15 of Statement 115. This transition guidance means that institutions may transfer debt securities from the held-to-maturity portfolio before calendar year-end 1995, without calling into question their intent to hold other debt securities to maturity.

The Examination Council and the federal bank and thrift agencies encourage institutions, in consultation with their outside accountants, to make a timely reassessment of the current designations of their securities portfolio, and to redesignate securities if appropriate. However, according to the FASB, this one-time redesignation opportunity does not remove any "taint" or limitation on an institution's use of the held-to-maturity category that arose before the implementation guidance was issued. Therefore, if an institution is precluded from using the held-to-maturity category because of prior transfers or sales of such securities, it will not be allowed to redesignate any securities as held-to-maturity under the provisions of the Special Report.

When reassessing the appropriateness of their current designations of securities under the Special Report's transition guidance, institutions should consider how they use securities to meet their liquidity needs and manage their interest rate risk. For example, having a large portion of the securities portfolio in the held-to-maturity category may affect an institution's ability to respond, through the portfolio, to changes in market interest rates or to increases in loan demand or deposit withdrawals. Institutions that would be subject to the proposed Savings Association Insurance Fund (SAIF) special assessment should include this factor in their evaluation of liquidity needs. This reassessment and any resulting redesignations must be completed and documented by December 31, 1995.

The federal bank and thrift agencies will continue to require institutions to follow Statement 115 and related authoritative pronouncements for regulatory reporting purposes. The agencies also will continue to exclude net unrealized holding gains and losses on available-for-sale debt securities from the calculation of regulatory capital. However, examiners will continue to consider unrealized gains and losses in the entire investment portfolio (as well as on other assets and liabilities) when evaluating capital adequacy.

Institutions can obtain copies of the Special Report from the FASB Order Department at (203) 847-0700, extension 555, for $11 (or $8.80 for members of either the Accounting Research Association or the Financial Accounting Foundation).

Joe M. Cleaver
Executive Secretary

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