



NEWS RELEASE

FOR IMMEDIATE RELEASE

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FDIC PROPOSES CAPITAL RULE TO RECOGNIZE FASB 115 GAINS AND LOSSES ON SECURITIES

The Board of Directors of the Federal Deposit Insurance Corporation proposed today to amend its leverage and risk-based capital standards to conform with the recent Statement 115 of the Financial Accounting Standards Board (FASB), which requires banks to recognize holding gains and losses on securities that are considered "available for sale."

The Federal Financial Institutions Examination Council (FFIEC) has notified institutions that, consistent with Generally Accepted Accounting Principles (GAAP), they must adopt the FASB 115 accounting standard on their call reports beginning January 1, 1994, or the beginning of their first fiscal year thereafter, if later. This proposed capital rule would require institutions to use the same FASB 115 accounting adjustments when calculating Tier 1 capital for leverage and risk-based capital purposes.

The proposed rule is consistent with FASB 115, which changes the accounting categories of securities as follows:

- **Available for sale** -- includes securities which the institution does not have the positive intent and ability to hold until maturity but is not actively trading. These securities would now be reported at fair value and any net appreciation or depreciation in the securities' value will be reported directly as a separate part of stockholders' equity. Previously, securities held for sale were recorded at the lower of cost or fair value and changes in value were included in the institution's income.

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- **Held to maturity** -- replaces the "held for investment" category. FASB 115 permits an institution to include securities in this category only if it has the positive intent and ability to hold the securities to maturity.
- **Trading** -- remains unchanged. These securities continue to be reported at fair value, and changes in value are reported in the institution's income statement.

The FDIC invites comments on all aspects of this proposed rule. In addition to other comments that respondents may wish to provide, the FDIC is requesting specific comments on the following questions:

- Should FASB 115 capital adjustments used by institutions for GAAP and Call Report purposes also be used to determine an institution's Tier 1 capital under the FDIC's risk-based and leverage capital standards?
- Should the FASB 115 adjustments also be used for other regulations based on an institution's capital levels, such as prompt corrective action, risk-based premiums, brokered deposit restrictions and restrictions on activities and investments of insured state banks?
- Should regulatory capital rules regarding changes in fair value of securities held in the "available for sale" category differ depending on whether the securities' value shows net appreciation or net depreciation?

The proposed capital rule is similar to rules being developed by the Office of the Comptroller of the Currency, the Federal Reserve Board and the Office of Thrift Supervision. Written comments will be accepted for 30 days after the proposal is published in the Federal Register. Final rules are expected to be issued next year.