Office of Thrift Supervision
Department of the Treasury

1700 G Street, N.W., Washington, D.C. 20552 • (202) 906-6000

November 28, 1994

TO THE CHIEF EXECUTIVE OFFICERS OF SAVINGS ASSOCIATIONS:

Effective immediately, the Office of Thrift Supervision (OTS) will no longer require savings associations to include unrealized gains and losses on available-for-sale (AFS) debt securities in regulatory capital. This revised policy is consistent with the recommendation announced on November 10, 1994, by the Task Force on Supervision of the Federal Financial Institutions Examination Council (FFIEC)[1], and with the capital policies of the other federal banking agencies. Adoption of this uniform interagency policy is responsive to the general goal of regulatory uniformity set forth in Section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994.

This decision reverses the interim OTS policy issued in August 1993, under which associations computed their regulatory capital in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). SFAS No. 115 amended generally accepted accounting principles (GAAP) by requiring that unrealized gains and losses on AFS debt and equity securities, net of income taxes, be reported as a separate component of GAAP capital. Because the revised OTS policy applies only to regulatory capital, associations must continue to follow SFAS No. 115 for regulatory reporting purposes.

Under the revised OTS policy, associations must value AFS debt securities at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, associations should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on AFS debt securities reported as a separate component of GAAP capital. Equity securities with readily determinable fair values should continue to be valued at the lower of cost or fair value.

Associations may elect to begin following the revised policy in completing either their December 1994 or March 1995 Thrift Financial Reports. Associations must comply with the revised

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1. The OTS and each of the other federal banking agencies is represented on the FFIEC and on its Task Force on Supervision.

policy, however, for the June 1995 Thrift Financial Reports. OTS is providing this optional transition period to allow associations sufficient time to plan for the effects of this revised policy on their regulatory capital and to take any appropriate business actions to accommodate implementation of this policy.

OTS and the other banking agencies intend to issue final rules soon formally adopting the revised policy. For further information, please contact the Thrift Supervision Policy Division at (202) 906-5745.

Sincerely,

Jonathan L. Fiechter

Jonathan L. Fiechter
Acting Director