

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL CREDIT UNION SHARE INSURANCE FUND

LETTER NO. 182

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This letter applies to all federally-insured credit unions which classify investments under Statement of Financial Accounting Standard (FAS) No. 115. You should be aware that the Financial Accounting Standards Board (FASB) has issued additional guidance on the implementation of FAS 115. FAS 115 deals with "Accounting for Certain Investments in Debt and Equity Securities." The purpose of this letter is to alert you to the additional FASB guidance; to direct your attention to an opportunity to reclassify securities; and to urge you to obtain the FASB document for further direction, if needed, in implementing FAS 115.

Ordering Guidance.

The guidance is in a question and answer (Q&A) format and is titled, "FASB Special Report, A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." Copies can be obtained for \$11 (or \$8.80 for members of either the Accounting Research Association or the Financial Accounting Foundation) from the FASB at the following address: Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116, telephone (203) 847-0700, extension 555.

Opportunity to Reclassify Securities.

With adoption of the implementation guidance, a credit union will have until December 31, 1995, to reassess the appropriateness of its classifications of securities and account for any reclassifications in accordance with FAS 115. This one time reclassification will be permitted without normal penalty, e.g., one or a group of hold-to-maturity securities could be reclassified to either available-for-sale or trading classifications without calling into question its intent to hold other debt securities to maturity in the future. This one-time reassessment does not remove any existing limitation on a credit union's use of hold-to-maturity. The credit union may not accomplish the reclassifications intermittently; FASB expects all reclassifications to be accomplished as of the same date within the window of opportunity.

Credit Union-Specific Implementation Examples.

Example 1 - A credit union sold some hold-to-maturity securities and transferred several other hold-to-maturity securities to available-for-sale. This sale and transfer called into question the credit union's ability to hold its other debt securities to maturity in the future.

With the implementation of FASB's Q&A, the credit union has an opportunity to re-establish some securities in a hold-to-maturity category, if it can demonstrate that "circumstances have changed" so that it can assert "with a greater degree of credibility" that it now has the intent and ability to hold the reclassified securities to maturity.

Example 2 - A credit union reviews its asset liability management model and determines that it will need additional liquidity over the next 6 to 12 months. With the implementation of FASB's Q&A, the credit union has the opportunity to reclassify some of its hold-to-maturity portfolio to its available-for-sale portfolio

without calling into question its intent to hold other debt securities to maturity in the future.

Rethink Long-Term Impact.

NCUA urges credit unions to take advantage of this rare opportunity. Credit unions should rethink their security classifications in terms of the long-term impact. Reclassifications should be considered if consistent with the institution's asset-liability management strategy, expected liquidity needs, and, of course, "ability and intent" with regard to a particular security. "Ability and intent" can be impacted by market risk, business risk, credit risk, and collateral risk.

Many of FASB's questions and answers will be of continuing interest to many credit unions that maintain investments in FAS 115 securities. We have not summarized or condensed all the items of special credit union interest in this Letter; instead, we urge you to obtain a copy of the latest guidance from FASB. An independent accountant will be able to aid you in implementation, should you need further assistance.

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