

Regulatory Reporting Treatment for California Registered Warrants

In a statement issued on July 9, 2009, the staff of the Securities and Exchange Commission (SEC) expressed its belief that the registered warrants that the State of California began issuing on July 2 for most general fund payments are “securities” for purposes of the federal securities laws (<http://www.sec.gov/news/press/2009/2009-154.htm>). As obligations of the State of California, the SEC staff also noted that the registered warrants are “municipal securities.”

Accordingly, the California registered warrants are presumed to meet the definition of a security in Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.¹ Therefore, financial institutions should treat any holdings of California registered warrants as securities for regulatory reporting purposes,² including when reporting interest income and, if applicable, quarterly averages. In addition, as with any other security, financial institutions should designate California registered warrants as held-to-maturity, available-for-sale, or trading securities at acquisition and reassess the appropriateness of the designation at any quarter-end report date as of which the warrants remain outstanding.³

¹ See the Glossary in the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification™.

² For banks, report as “Securities issued by states and political subdivisions in the U.S.” in the Consolidated Reports of Condition and Income (Call Report); for savings associations, report as “State and Municipal Obligations” in the Thrift Financial Report; for credit unions, report as “Trading Securities,” “Available-for-Sale Securities,” or Held-to-Maturity Securities, as appropriate, in the NCUA 5300 Call Report; and for bank holding companies, report as “Securities issued by states and political subdivisions in the U.S.” in the FR Y-9C Consolidated Financial Statements for Bank Holding Companies.

³ See Subtopic 320-10, Investments – Debt and Equity Securities – Overall in the FASB’s Accounting Standards Codification™.