Department of the Treasury
Office of Thrift Supervision

Transmittal

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The Office of Thrift Supervision will leave unchanged the regulatory capital rules governing the valuation of debt and equities held by thrift institutions.

OTS had proposed a change to the rules on June 22, 1994, in order to conform OTS rules with Statement of Financial Accounting Standards (SFAS) No. 115.

The change would have required that unrealized gains or losses on certain debt and equity securities be included in regulatory capital, as they are for regulatory reporting purposes.

SFAS 115 and the rule OTS had proposed deal only with securities that are available for sale, not those intended to be held in portfolio. Available-for-sale securities, in general, are those debt and equity securities that an institution does not include in its trading account and that the institution does not have the intent and ability to hold to maturity.

In the attached final rule, OTS decided not to change its capital rule because such a change could have had an inappropriate impact on associations' regulatory capital and resulted in an inaccurate picture of their capital positions. Had the proposed rule been adopted, fluctuations in interest rates could have caused temporary changes in regulatory capital levels, which could have triggered more permanent regulatory intervention.

The only change being made by the attached rule is a modification of the definition of common stockholders' equity in the OTS capital rule to conform with the terminology in SFAS 115.

OTS' decision is consistent with the policies of the other Federal banking regulatory agencies and with OTS' November 28, 1994, interim policy statement, which provided that the SFAS No. 115 capital component could no longer be included in regulatory capital. That policy statement has been incorporated into the instructions for the Thrift Financial Report (TFR). The policy statement and related TFR instructions do require institutions to comply with SFAS 115 for regulatory reporting purposes.

Accordingly, thrifts must comply with SFAS 115 when they report data on Schedule SC (statement of condition) of the quarterly TFR. However, for available-for-sale debt securities, both gains and losses under SFAS 115 must be reversed when thrifts complete Schedule CCR of the TFR and compute their capital. That is because debt securities are valued at amortized cost. For available-for- sale equity securities, only gains need be reversed on Schedule CCR so that their value, for regulatory capital purposes, is the lower of amortized cost or fair value.

The final rule was published in the August 15, 1995, edition of the *Federal Register*, Vol. 60, No. 157, pp. 42025–42029, and is effective October 1, 1995.

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Attachment