

BUREAU OF BANKING

Department of Professional and Financial Regulation

State of Maine

June 15, 1995

BULLETIN # 63 NET UNREALIZED GAINS/LOSSES ON AVAILABLE-FOR-SALE SECURITIES

To the Chief Executive Officer Addressed:

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," (FAS 115) which established net unrealized holding gains and losses on available-for-sale securities as a separate component of common stockholders' equity. The federal banking agencies required financial institutions to adopt FAS 115 for regulatory reporting purposes effective January 1, 1994. However, for regulatory capital purposes, the federal banking agencies exclude net unrealized holding gains and losses on available-for-sale debt securities in determining the amount of Tier 1 capital; net unrealized holding losses on available-for-sale equity securities with readily determinable fair values, however, are deducted in determining the amount of Tier 1 capital.

Bureau of Banking Regulation #27, Minimum Capital Standards, deducts net unrealized losses on marketable equity securities from common stockholders' equity and, therefore, from Tier 1 capital. However, Regulation #27 does not address net unrealized holding gains and losses on securities. Similarly, Regulation 28, Loans to One Borrower Limitations, does not address net unrealized holding gains and losses on securities.

One of the goals of Regulation #27 was to maintain consistency with federal regulations pertaining to capital standards and treatment. Accordingly, the Bureau, in determining Tier 1 capital for compliance with Regulation 27, will:

- Continue to deduct net unrealized losses on marketable equity securities; and
- Not include net unrealized holding gains and losses on available-for-sale debt securities.

The Bureau will, however, consider the extent of any unrealized appreciation or depreciation on securities in its evaluation of the adequacy of a financial institution's regulatory capital.

Further, the Bureau will follow the same approach in calculating a financial institution's legal lending limit pursuant to Regulation #28, i.e., the lending limit

shall include net unrealized losses on available-for-sale debt securities but shall not include unrealized holding gains and losses on marketable equity securities. Should you have any questions regarding this Bulletin, please contact Donald Groves.

/s/H. Donald DeMatteis
Superintendent