



DIVISION OF FINANCE

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Debra Hardman
Acting Commissioner

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On January 1, 2015, revisions to capital regulations affecting U.S. depository institutions took effect.¹ The new Basel III rules have several provisions, many of which phase-in over time. A key provision of the new rules permits all non-advanced approach institutions² to make a one-time, irrevocable election to determine how most items reported in Accumulated Other Comprehensive Income (AOCI) will be handled for regulatory capital purposes. As a reminder, AOCI includes such items as unrealized gains and losses on certain securities. The following information is intended to underscore the importance of this irrevocable election and to encourage you and the board of directors to fully understand the implications of this decision prior to March 31, 2015.

With the filing of the March 31, 2015, Consolidated Reports of Condition and Income (Call Report), an institution that is not an advanced approach institution must choose to either opt out or not opt out of the requirement to include most components of AOCI in common equity tier 1 capital. This election is irrevocable.

- For institutions that opt out, most AOCI items **will not be** included in the calculation of common equity tier 1 capital. In other words, most AOCI items will be treated, for regulatory capital purposes, in the same manner in which they were prior to the effective date.
- For institutions that do not opt out, most AOCI items **will be** included in the calculation of common equity tier 1 capital.
- If a top-tier holding company makes the AOCI opt-out election, all consolidated bank subsidiaries under the holding company must make the same election.

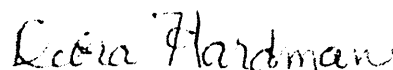
The March 31, 2015, Call Report forms and instructions for Schedule RC-R, Regulatory Capital³ illustrate how to make this election on the reporting forms.

I recommend your board of directors carefully consider all implications of this irrevocable election. Your decision and discussion thereof should be documented in your board minutes.

The Federal Financial Institutions Examination Council (FFIEC) is expected to conduct a banker teleconference or webcast on the revised Call Report regulatory capital reporting requirements during the first quarter of 2015. Further information about this training opportunity will be forthcoming from the FFIEC. I encourage appropriate staff from your institution to participate. Attached to this notice is a list of references, which may also help you and your staff more fully understand these changes.

You may contact our office at (573) 751-3242 if you or your staff have any questions regarding this important decision.

Very truly yours,



Debra Hardman
Acting Commissioner

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Enclosure

¹ Federal Register, Vol. 78, No. 198, October 11, 2013. <http://www.gpo.gov/fdsys/pkg/FR-2013-10-11/pdf/2013-21653.pdf>

² Generally, those institutions with less than \$250 billion in total assets. These institutions may also be referred to as those using the standardized approach for certain capital calculation purposes.

³ <https://www.fdic.gov/regulations/resources/call/index.html>

Revised Capital Rule References

The following online references may prove helpful in further understanding this election and other capital rule revisions.

- CSBS Revised Regulatory Capital Rules, Part 324 (Basel III) Examiner Job Aid
<http://www.csbs.org/regulatory/resources/Documents/Capital%20Basics%20Job%20Aid.pdf>
- Interagency Community Bank Guide to the New Capital Rule
http://www.fdic.gov/regulations/capital/Community_Bank_Guide.pdf
- Expanded Community Bank Guide to the New Capital Rule for FDIC-Supervised Banks
http://www.fdic.gov/regulations/capital/Community_Bank_Guide_Expanded.pdf
- Part 324: September 3, 2014 Final Rule: Regulatory Capital Rules: Regulatory Capital, Revisions to the Supplementary Leverage Ratio
https://www.fdic.gov/news/board/2014/2014-09-03_notice_dis_c_fr.pdf
- FDIC: Regulatory Capital page
<http://www.fdic.gov/regulations/capital/index.html>
- FDIC: Capital Estimation Tool
http://www.fdic.gov/regulations/capital/Bank_Estimation_Tool.xlsm