Memo 1995-6 FASB 115 Treatment of KBS Stock

To: All Examination Staff
Fr: Kevin Glendening
Dt: February 21, 1995

Re: **FASB 115 TREATMENT OF KANSAS BANKERS SURETY STOCK (EQUITY SECURITIES)**

How should KBS stock, or any other equity security, be carried and reported by the bank?

> Kansas Bankers Surety stock is considered an equity security with a readily determinable fair value. Under FASB 115, such equity securities should be carried as "available for sale" and reported at market value.

What are the advantages to the bank for "writing up" the value of the stock on their books?

> There is little real advantage to the bank since any increase that results from the write up to market value would be an unrealized gain and excluded from the computation of Tier 1 capital or lending limits.

What happens if a bank charged off the stock in the past and now wants to rebook it?

> The bank may rebook the stock only for the amount that was charged off (usually the purchase price), and that gain must be reported in the year the stock is rebooked. Once booked, subsequent quarterly adjustments to value would be reflected in the unrealized gains and losses component of reported capital in the same manner as other "available for sale" securities.

Is the cost or market value of the stock used to determine compliance with K.S.A. 9-1101(24)?

> K.S.A. 9-1101(24) limits a bank's investment in KBS stock to 2% of capital stock, surplus, and undivided profits. For the purposes of this statute, the bank's "investment" shall be established on the basis of the <u>cost</u> of the stock owned.

Are equity securities treated differently than debt securities under FASB 115?

> Yes, in two ways. First, all equity securities with a readily determinable fair value are reported as "available for sale". Debt securities, however, depending on the circumstances, may be reported as either "held to maturity" or "available for sale". Secondly, FASB 115 requires banks to report net unrealized gains and losses on <u>all</u> securities (both debt and equity) held as "available for sale" for Call report purposes. However, those net unrealized losses attributable to **equity** securities (i.e. stocks) are also deducted from capital when computing Tier 1 capital and lending limits.