

FEDERAL RESERVE BANK OF SAN FRANCISCO  
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105

December 11, 2002

**BANKING SUPERVISION AND REGULATION:  
CREDIT CARD SECURITIZATIONS**

To State Member Banks, Bank  
Holding Companies, U.S. Branches  
and Agencies of Foreign Banks,  
and Others Concerned,  
in the Twelfth Federal Reserve District

**Interagency Advisory on Accounting for Accrued Interest Receivable Related to Credit Card  
Securitizations (SR 02-22)**

The Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision today issued an “Interagency Advisory on the Accounting Treatment of Accrued Interest Receivable Related to Credit Card Securitizations.” The purpose of the guidance is to clarify the appropriate accounting treatment for financial institutions that securitize credit card receivables and record an asset commonly referred to as Accrued Interest Receivable (AIR). The agencies consulted with the staffs of the Securities and Exchange Commission and Financial Accounting Standards Board in developing this guidance. The guidance is posted on the Board's web site at <http://www.federalreserve.gov/boarddocs/SRLETTERS/2002/sr0222a1.pdf>.

The guidance clarifies that when the institution's (seller's) right to the AIR is subordinated as a result of a securitization, the seller generally should include the AIR as a subordinated retained interest in accounting for the sale of credit card receivables and in computing the gain or loss on sale. Consistent with generally accepted accounting principles (GAAP), this means that the value of the AIR, at the date of transfer, must be adjusted based on its relative fair (market) value. This adjustment will typically result in the carrying amount of the AIR being lower than its book (face) value prior to securitization. In addition, the AIR should be reported in “Other Assets” in regulatory reports and not as a loan receivable.<sup>1</sup> If an institution has not followed this accounting approach in the past, it should adopt it in the next regulatory report that it files (As of December 31, 2002) and in all subsequent periods.

While the interagency guidance applies to banks and savings associations, it should also be followed by bank holding companies that file GAAP-based regulatory reports. Accordingly, bank holding companies should look to this guidance for purposes of preparing FR Y-9C Reports.<sup>2</sup>

**E-Notification**

The Federal Reserve Bank of San Francisco will notify depository institutions by e-mail of new Banking Supervision and Regulation circular letters recently posted on the Twelfth District Federal Reserve Bank web site. We are discontinuing hardcopy mailings at the end of December 2002. We

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<sup>1</sup> For information and guidance on the regulatory capital treatment of Accrued Interest Receivable, see SR letter 02-12 “Regulatory Capital Treatment of Accrued Interest Receivables Related to Credit Card Securitizations,” dated May 17, 2002. Please see our circular letter dated May 30, 2002.

<sup>2</sup> On the FR Y-9C, the AIR should be reported in Schedule HC-F, item 5 and in Schedule HC-S, item 2.b, column C (if reported as a stand-alone asset) in December 31, 2002 reports.

will e-mail a summary of the letter as well as a link to the full text of the letter and its attachments to view and print. To subscribe to this free service, simply visit our web site at <http://www.frbsf.org/banking/> and click on the E-Notification logo.

#### **Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. Paper copies of the guidance **(SR 02 -22)** are available from our Corporate Services Department. To request copies to be sent by mail, please call (415) 974-2060.

For additional information about the guidance, please contact our Banking Supervision and Regulation Department at (415) 974-3177.

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