

FEDERAL RESERVE BANK OF SAN FRANCISCO

101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

March 10, 2004

BANKING SUPERVISION AND REGULATION: ACCOUNTING FOR LOAN AND LEASE LOSSES AND NEW INTERNAL APPEAL PROCESS

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 Update on Accounting for Loan and Lease Losses (SR 04-5)

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Office of Thrift Supervision, and National Credit Union Administration (the agencies) have issued the attached interagency Update on Accounting for Loan and Lease Losses. This statement describes recent developments in accounting for the allowance for loan and lease losses (ALLL). In addition, the statement identifies current sources of generally accepted accounting principles (GAAP) and supervisory guidance, which should be used by financial organizations in determining the ALLL and associated provisions for loan losses.¹

Last month, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) decided to limit the scope of its project to provide ALLL guidance. Going forward, the project will focus on improving ALLL disclosures. Consistent with these actions by AcSEC, banking organizations, as well as examiners and other supervisory staff, are reminded that financial institutions should continue to follow existing GAAP and supervisory guidance when determining the ALLL.

New Internal Appeal Process Contact

The Division of Banking Supervision and Regulation has an internal appeals process for institutions wishing to appeal an adverse material supervisory determination. To appeal a supervisory determination, please contact Peggy Speck, Principal and Corporate Secretary, at (415) 974-3415, or Peggy.Speck@sf.frb.org.

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 SR 04-5 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) 974-2936.

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Attachment

For additional guidance on the ALLL and the associated provisions, refer to SR letter 01-17 Final Interagency Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation, SR letter 99-22 Joint Interagency Letter on the Loan Loss Allowance, SR letter 99-13 Recent Developments Regarding Loan Loss Allowances, and SR letter 93-70 Interagency Policy Statement on the Allowance for Loan and Lease Losses.