

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

June 30, 2004

**BANKING SUPERVISION AND REGULATION:
THE UNIFORM AGREEMENT**

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

**Revised Uniform Agreement on the Classification of Assets and Appraisal of Securities Held
by Banks and Thrifts (SR 04-9)**

The staffs of the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (the Agencies) have revised the Agencies' Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts (the Uniform Agreement). The revised Uniform Agreement amends examination procedures established in 1938 and revised in 1949 and 1979.

The Uniform Agreement sets forth procedures for classifying bank assets as substandard, doubtful, or loss. The classification of loans in the Uniform Agreement is not changed by the revised Uniform Agreement. Efforts are under way to develop appropriate revisions to the loan classification scheme for banks adopting the advanced internal ratings-based approach under the proposed Basel II capital framework. Corresponding changes will be made to the Uniform Agreement as and when appropriate.

The revised Uniform Agreement changes the classification standards applied to banks' holdings of debt securities by:

- Eliminating the automatic classification of sub-investment grade debt securities when a banking organization has developed an accurate, robust, and documented credit risk management framework to analyze its securities holdings.
- Conforming the Uniform Agreement to current generally accepted accounting principles by basing the recognition of depreciation on all available-for-sale securities on the bank's determination as to whether the impairment of the underlying securities is "temporary" or "other than temporary."
- Eliminating the preferential treatment given to defaulted municipal securities.
- Clarifying how examiners should address securities with two or more different ratings, split or partially rated securities, and non-rated debt securities.
- Identifying when examiners may diverge from conforming their ratings to those of the rating agencies.
- Addressing the treatment of Interagency Country Exposure Review Committee ratings.

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>.

For additional information about the revised Uniform Agreement, please contact our Banking Supervision and Regulation Department at (415) 974-2225.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Attachment:

Uniform Agreement of Classification of Assets and Appraisals Held By Securities of Banks and Thrifts (<http://www.federalreserve.gov/boarddocs/SRLETTERS/2004/SR0409a1.pdf>)