

Arizona State Banking Department



SUBSTANTIVE POLICY STATEMENT

Section: Banks

September 29, 1995

Subject: Financial Accounting Standard

Policy Statement # BA-8

115

The State Banking Department has determined that state-chartered banks will not be subject to Financial Accounting Standards 115 (FAS 115) in calculating their capital to determine the bank's legal lending limit. State-chartered banks must, however, continue to use FAS 115 for all other regulatory reporting purposes.

FAS 115 would have required that unrealized gains and losses on available-for-sale securities be included in the calculation of capital. The Department decided against adoption of FAS 115 for legal lending limits for several reasons:

1. It could subject the bank's lending limit to significant and unnecessary volatility.
2. The capital changes prompted by FAS 115 could cause an inappropriate constraint on lending with no real public benefit given that it would be prompted by unrealized losses.
3. A prudent bank loan/investment policy should be governed by long-term objectives, not short-term factors that could result from FAS 115.

Questions regarding this policy statement should be directed to our Financial Institutions Division at (602) 771-2800.