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March 31 Call Report to be Used For Making AOCI Election

Financial institutions that are not subject to the Basel III advanced approaches risk-based capital rules are reminded that an election regarding Accumulated Other Comprehensive Income (AOCI) is to be made with the filing of the March 31, 2015 Consolidated Reports of Condition and Income (Call Report).

Recall that under the revised regulatory capital rules issued jointly by the banking agencies in October 2013, the agencies redefined tier 1 capital as two components: common equity tier 1 (CET1) capital and additional tier 1 capital. CET1 capital includes five elements, one of which is AOCI. AOCI includes such items as unrealized gains and losses on certain securities. As part of the revised regulatory capital rules, which went into effect as of January 1, 2015 for community banks, the agencies adopted a provision permitting non-advanced approaches institutions to make a one-time, permanent election to opt out of the requirement to include most components of AOCI in regulatory capital. Doing so will mean the institution does not have to recognize unrealized gains and losses on investments impacting tier 1 capital. In other words, if the an institution elects to opt out, most AOCI items will be treated for regulatory capital purposes in the same manner as they were prior to the January 1, 2015 effective date.

The AOCI one-time opt-out election must be made on Schedule RC-R of the institution's Call Report for the March 31, 2015 report date. For additional information, clients are encouraged to contact Mark E. Aldrich at MAldrich@ABLAWYERS.COM or 949-474-1944.

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