



OCC 2013-28

**Subject: Classification of Securities**  
**Date: October 29, 2013**

**To: Chief Executive Officers of All National Banks and Federal Savings Associations, Department and Division Heads, All Examining Personnel, and Other Interested Parties**

### Description: Interagency Guidance

#### Summary

The Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation (collectively, the agencies) have jointly issued the attached "Uniform Agreement on the Classification and Appraisal of Securities Held by Depository Institutions" (Agreement). This guidance replaces the previously issued OCC Bulletin 2004-25, "Uniform Agreement on the Classification of Securities" (2004 Agreement) by applying the agencies' revised investment grade standards of creditworthiness, in place of credit ratings, as the basis for classifying investment securities.

#### Highlights

- Removes reference to, or requirement of reliance on, credit ratings as the basis for the classification of securities, consistent with sections 939 and 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and applies the standards of creditworthiness defined in OCC Bulletin 2012-18, "Alternatives to the Use of External Credit Ratings in the Regulations of the OCC," as the new basis for the classification of securities.
- Provides specific examples to demonstrate the appropriate application of the new standards of creditworthiness consistent with the agencies' longstanding asset classification definitions. Each example describes specific credit risk characteristics and provides classification and upgrade guidance for securities already owned, as well as guidance on what is eligible for potential purchase.
- Removes credit ratings-based guidance for the treatment and classification of declines in the fair value of investment securities.

#### Note for Community Banks

This guidance applies to all national banks and federal savings associations.

#### Background

Sections 939 and 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act direct the agencies to remove any reference to, or requirement of reliance on, credit ratings in the agencies' regulations, and to replace credit ratings with appropriate standards of creditworthiness. This Agreement removes the 2004 Agreement's reliance on credit ratings as a determinant of classification and applies in its place the creditworthiness standards adopted in OCC Bulletin 2012-18, "Alternatives to the Use of External Credit Ratings in the Regulations of the OCC."

The agencies' longstanding asset classification definitions are not changed by this Agreement. As with the previous version, examiners may use discretion to assess the credit risk of, and to classify, a security when justified by available credit risk information, independent of any credit rating assigned by the institution or external credit rating entity.

Investment grade securities are no longer defined as one of the four highest credit ratings, but instead are those deemed by the purchasing institution's credit analyses as having an adequate capacity to repay the obligation. An issuer has adequate capacity to meet its financial commitments if the risk of default is low and the full and timely repayment of principal and interest is expected. Explanatory language in the Agreement offers additional clarifications to the investment grade standards conveyed in OCC Bulletin 2012-18. Specifically, the Agreement states that classification should be based on the instrument's worth as an earning asset assuming it is held to maturity. Therefore, the phrase "liquidation of the debt" in the classification definition is synonymous with the "payment of the obligation in full" wording in the investment grade definition. Accordingly, if the institution's analyses do not support the full payment of all future contractual amounts, that security is not investment grade. Similarly, securities with realized credit losses do not conform to the investment grade standard.

As this Agreement focuses on applying investment grade standards for classification, it removes the 2004 Agreement's credit ratings-based guidance for the treatment and classification of declines in the fair value of investment securities. The determination of the appropriate accounting, e.g., classification, measurement, and other-than-temporary impairment, for investment securities is not addressed in the Agreement. The accounting for investment securities is addressed under U.S. generally accepted accounting principles in ASC 320, "Investments – Debt and Equity Securities," ASC 325, "Investments – Other," and under regulatory reporting requirements in the call report instructions and glossary. For questions concerning accounting for investment securities, please contact the OCC's Office of the Chief Accountant at (202) 649-6280.

With the issuance of this bulletin on the classification of securities, OCC Bulletin 2004-25, "Uniform Agreement on the Classification of Securities," is rescinded.

**Further Information**

Any questions regarding this securities classification agreement should be directed to Charles Williams, Risk Specialist, Balance Sheet Management Group, at (202) 649-6294, or [williamscc@occ.treas.gov](mailto:williamscc@occ.treas.gov); or Kerri Com, Director, Market Risk Division, at (202) 649-6398, or [kerri.com@occ.treas.gov](mailto:kerri.com@occ.treas.gov).

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**Related Link**

- ["Uniform Agreement on the Classification and Appraisal of Securities Held by Depository Institutions" \(PDF\)](#)