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February 24, 2016

The Honorable Thomas J. Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Janet L. Yellen
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Treatment of Equity Investment Securities in Community Bank Regulatory Capital

Dear Chair Yellen, Comptroller Curry, and Chairman Gruenberg:

The Independent Community Bankers of America (ICBA)¹ would like to express its concern about the impact on community banks and in particular, certain mutual institutions, of the recently finalized accounting standards update on the recognition and measurement of certain financial instruments. The Accounting Standards Update No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU) will require community banks to report investments in equity securities with readily determinable fair values at fair value with unrealized gains and losses in earnings. More importantly, community banks will be required to report these periodic unrealized gains and losses in common equity tier 1 capital, the most critical form of regulatory capital for community banks. Today the unrealized gains and losses on equity investment securities may flow through accumulated other comprehensive income (AOCI) in

¹ The Independent Community Bankers of America®, the nation's voice for more than 6,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With 52,000 locations nationwide, community banks employ 700,000 Americans, hold \$3.6 trillion in assets, \$2.9 trillion in deposits, and \$2.4 trillion in loans to consumers, small businesses, and the agricultural community. For more information, visit ICBA's website at www.icba.org.

The Nation's Voice for Community Banks.®

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shareholders' equity outside of bank earnings and are not included in common equity tier 1 capital when the community bank makes such an election.

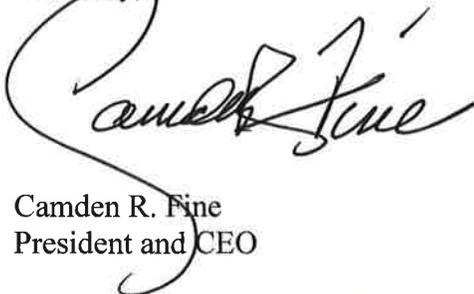
ICBA expects high quality equity investment securities to continue to provide stable earnings for the impacted institutions. However, with the inability to classify unrealized gains and losses on these instruments in AOCI, every equity investment market movement regardless of its correlation to the business underlying the investment will be captured in bank earnings as periodic fluctuations in fair value and will flow through earnings accordingly. Every quarter, a bank's reported earnings as defined under generally accepted accounting principles, as well as regulatory capital levels, could swing dramatically requiring the bank to constantly educate stakeholders on the value of these investments and their favorable impact on core investment yields. Simply put, the volatility reflected in these investments becomes a distraction from the core performance of these institutions.

Certain mutual institutions, along with other community banks, will be disproportionately impacted by the adoption of the ASU as they generally hold higher concentrations of readily marketable equity securities when compared to non-mutual institutions. This is particularly true of those institutions that were "grandfathered" under Section 24 of the Federal Deposit Insurance Act and are allowed to make limited investments in equity securities. As you are aware, mutual savings institutions have a storied history of owning equity investment securities in their investment portfolios for generations. These securities have provided a solid revenue stream for mutual institutions and have provided opportunities to build retained earnings on a consistent basis. This is an important component for these institutions since, unlike a non-mutual financial institution with access to multiple sources of regulatory capital, they cannot easily increase regulatory capital other than through retained earnings.

ICBA requests that your agencies amend current regulatory capital requirements to permit community banks that hold high quality equity investment securities to continue to allow the periodic unrealized gains and losses on those securities to be excluded from common equity tier 1 capital. ICBA believes that it is important for prudential bank regulators to make this regulatory capital adjustment as they continue to pay special attention to the importance of community banks to the local communities they serve across the United States as well as the regulatory burden that has put a strangle on these institutions' ability to thrive. Furthermore, prudential bank regulators should ensure that they do not lose sight of the unique legal structure, cooperative nature, and capital framework of the nation's mutual institutions.

ICBA appreciates your attention to the concerns of community banks and the regulatory challenges faced by mutual institutions and would like to assist the agencies in resolving these concerns wherever possible.

Sincerely,



Camden R. Fine
President and CEO

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