UNIFORM AGREEMENT ON THE CLASSIFICATION AND APPRAISAL OF SECURITIES HELD BY DEPOSITORY INSTITUTIONS

Attention: Chief Executive Officer of the Institution Addressed

Subject: Revisions to Securities Classification Guidance to Remove References to Credit Ratings

Background: The Federal Reserve System has issued SR Letter 13-18 to highlight recent changes to the Interagency Uniform Agreement on the Classification and Appraisal of Securities (2013 Securities Classification Guidance.) The changes removed references to credit rating criteria previously included in the agreement as required by Section 939 of the Dodd-Frank Act.

These changes apply to all institutions supervised by the Federal Reserve including institutions with less than $10 billion in assets.

The 2013 Securities Classification Guidance outlines principles related to the proper classification of securities without relying on ratings issued by nationally recognized statistical rating organizations (external credit ratings). The guidance applies to state member banks and in principle to all institutions supervised by the Federal Reserve.

Current investment regulations require financial institutions to monitor investment credit quality through an analytical review of the obligor rather than solely through reference to external credit ratings. Credit quality monitoring permits management to determine whether a security continues to be investment grade or if it has deteriorated and thus requires classification. The 2013 Securities Classification Guidance clarifies the classification standards and provides examples that demonstrate when a security should be classified as investment grade or when it is not investment grade.

Contact: Please direct questions concerning the 2013 classification guidance to Joe Van Walleghem, Capital Markets Specialist, at (816) 881-2387.

Internet: A copy of SR13-18 and the 2013 Securities Classification Guidance is available on the Board’s web site at http://www.federalreserve.gov/bankinforeg/srletters/srletters.htm