



**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**

WASHINGTON, D.C. 20551

DIVISION OF BANKING  
SUPERVISION AND REGULATION

**SR 13-18**

**October 29, 2013**

**TO THE OFFICER IN CHARGE OF SUPERVISION  
AT EACH FEDERAL RESERVE BANK AND TO FINANCIAL INSTITUTIONS  
SUPERVISED BY THE FEDERAL RESERVE**

**SUBJECT: Uniform Agreement on the Classification and Appraisal of Securities Held by  
Depository Institutions**

**Applicability to Community Banking Organizations:** This guidance applies to all institutions supervised by the Federal Reserve, including those with \$10 billion or less in consolidated asset.

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (OCC) have issued the attached *Uniform Agreement on the Classification and Appraisal of Securities Held by Depository Institutions* (2013 Securities Classification Guidance). This guidance outlines principles related to the proper classification of securities without relying on ratings issued by nationally recognized statistical rating organizations (external credit ratings) and applies to state member banks and in principle to all institutions supervised by the Federal Reserve.

The 2013 Securities Classification Guidance supersedes SR letter 04-9, "Revised Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts." Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires each federal agency to remove references to, and requirements of reliance on, external credit ratings in any regulation issued by the agency that requires the assessment of the creditworthiness of a security or money market instrument. Therefore, in 2012, the OCC revised its investment security regulations (12 CFR part 1) to remove reliance on external credit ratings.<sup>1</sup> Investment in securities and stock by state member banks are required under the Federal Reserve Act (12 USC 335) and Regulation H (12 CFR 208.21) to comply with the OCC investment security regulations.

The OCC investment security regulations require an institution to monitor investment credit quality through an analytical review of the obligor rather than solely through external

<sup>1</sup> See the OCC's final rules at 77 *Fed. Reg.* 35253 (June 13, 2012).

credit ratings. Credit quality monitoring provides an opportunity for 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 for securities held by an institution and provides examples that demonstrate when a security is investment grade and when it is not investment grade.

Reserve Banks are asked to distribute this letter and attachment to institutions supervised by the Federal Reserve in their Districts, as well as to appropriate supervisory and examination staff. Questions regarding the attached guidance should be addressed to David Emmel, Manager, Credit, Market and Liquidity Risk Policy, at (202) 912-4612. In addition, questions may be sent via the Board's public website.<sup>2</sup>

Michael S. Gibson  
Director

**Attachment:**

- *Uniform Agreement on the Classification and Appraisal of Securities Held by Depository Institutions*

**Supersedes:**

- SR letter 04-9, "Revised Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts"

**Cross References:**

- SR letter 12-15, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Organization Ratings."

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<sup>2</sup> See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.