

DRAFT

**Suggested Transmittal Letter
To the Chief Executive Officers of Bank Holding Companies and State
Member Banks**

Dear _____:

On December 29, 1998, the Board of Governors of the Federal Reserve System and the other federal banking agencies ("Agencies") issued a joint release and interim regulatory reporting and capital guidance on the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133) for banks, bank holding companies, and thrift institutions that early adopt FAS 133. Banking organizations are not required to adopt FAS 133 until fiscal years beginning after June 15, 1999.

This new accounting standard requires that all derivatives be recorded on the balance sheet as assets or liabilities at fair value. It also significantly alters the accounting for derivatives used for hedging purposes and for financial instruments with specific types of embedded derivatives. The requirements set forth in FAS 133 may affect a banking organization's recorded amount of assets, liabilities, and equity capital.

The attached joint release and interim guidance explain how derivatives should be reported by early adopters of FAS 133 in the December 1998 Reports of Condition and Income (Call Report), Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), and Thrift Financial Report (TFR). The interim guidance also describes how derivatives should be treated under the agencies' existing capital standards by banking organizations that early adopt FAS 133 and how the implementation of this accounting standard may affect the risk-based and tier 1 leverage capital ratios.

A copy of the joint release and interim regulatory and capital guidance is attached.

Questions regarding the joint release and interim reporting and capital guidance can be directed to _____, at _____.