Securities and Exchange Commission
Federal Deposit Insurance Corporation
Federal Reserve Board
Office of the Comptroller of the Currency
Office of Thrift Supervision

JOINT INTERAGENCY STATEMENT
November 24, 1998

The Securities and Exchange Commission, Federal Deposit Insurance Corporation, Federal Reserve Board, Office of the Comptroller of the Currency and Office of Thrift Supervision (the Agencies) recognize the importance of meaningful financial statements and disclosure for both the benefit of investors and a safe and sound financial system. The Agencies also recognize the importance of depository institutions having prudent, conservative, but not excessive loan loss allowances that fall within an acceptable range of estimated losses. Accordingly, the Agencies are issuing this Statement to better ensure the consistent application of loan loss accounting policy and to improve the transparency of financial statements.

In 1986, the Securities and Exchange Commission issued FRR 28 concerning Procedural Discipline in Determining the Allowance and Provision for Loan Losses to be Reported. In 1993, the four Federal banking agencies jointly issued the Interagency Policy Statement on the Allowance for Loan and Lease Losses (Interagency Statement). These documents provide guidance to depository institutions on the establishment and maintenance of an allowance consistent with generally accepted accounting principles (GAAP). As these materials make clear, the allowance for loan losses should reflect estimated credit losses for specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio at the balance sheet date. When determining the appropriate level for the allowance, management should always ensure that the overall allowance appropriately reflects a margin for the imprecision inherent in most estimates of expected credit losses. Management's judgment should be exercised in a disciplined manner that is based on and reflective of adequate detailed analyses of the loan portfolio.

Although management's process for determining allowance adequacy is judgmental and results in a range of estimated losses, it must not be used to manipulate earnings or mislead investors, funds providers, regulators or other affected parties. Management's process must be based on a comprehensive, adequately documented, and consistently applied analysis of the institution's loan portfolio. The depository institution must ensure that its allowance is supportable in light of the accompanying disclosures made to investors, including those made in management's discussion and analysis and financial footnotes, with respect to the underlying economics and trends in the portfolio and any other factors that significantly affect the collectibility of loans.

The Agencies have discussed their respective concerns about accounting for allowances for loan losses and agree that the approach to the allowance should be consistent with the guidance noted above. Accordingly, each of the Agencies will continue to fulfill its respective responsibilities for ensuring that the allowance for loan losses is appropriately determined and that earnings are not improperly managed, consistent with safety and soundness objectives and investor protection objectives. The banking agencies understand that the SEC's general concerns about earnings management issues extend to all SEC registrants, not merely banking organizations, and that questions have arisen with respect to loan loss allowances in this context only with regard to a small number of banking organizations.

The Agencies today have agreed to work together with the public accounting profession and banking industry in developing further guidance consistent with GAAP, the Interagency Statement and FRR 28. This additional guidance will help to ensure the transparency of the reported amounts, improve auditability, and serve as a benchmark for the exercise of prudent judgment. The Chief Accountants of each of the Agencies will meet quarterly to coordinate this and other projects of mutual interest.