



REGULATORY INTERPRETATION 2000-RI-08

Date: July 20, 2000

Subject: Accounting Issues: REFCorp Income Statement Presentation

Request Summary:

A Federal Home Loan Bank (Bank) is requesting a waiver of 12 CFR § 989.3 (*recodified as* § 989.4 effective July 1, 2000). The Bank asks permission to depart from the form and content of the Bank System's 2000 quarterly combined financial statements as approved by the Federal Housing Finance Board (Finance Board). Specifically, the Bank is requesting approval to show REFCorp Interest Paid as a separate line item before Net Income on its income statement. This would keep Affordable Housing Program (AHP) payments in the "Other expense" section. The Bank's income statement would show Income before REFCorp, REFCorp Interest Paid, and then Net Income. The Bank prefers the proposed format because it would provide information stockholders could more easily compare with prior periods.

Background:

Before the enactment of the Gramm-Leach-Bliley (GLB) Act¹, REFCorp interest payments were charged directly to retained earnings and were not reflected on the face of the income statement. Title VI of the GLB Act changed the REFCorp payment from a fixed \$300 million annual obligation to 20 percent of each Bank's net earnings after the AHP assessment. As a result of this, and other statutory changes, the REFCorp payment became similar to a tax. The Finance Board determined that the payment should be presented as an expense on the face of the Combined Statement of Income (*see* Regulatory Interpretation 2000-RI-3). AHP and REFCorp expenses are determined using simultaneous equations - - AHP expense is 4/49 of income before assessments and REFCorp is 9/49 of income before assessments.

Bank System accounting officers and Finance Board staff agreed that the System's first quarter 2000 combined income statement would reflect the GLB REFCorp changes by showing the captions "Income Before Assessments," "Affordable Housing Program" and "REFCorp" assessments, "Total Assessments," and then "Net Income." The Bank's proposed presentation would leave "REFCorp" expenses where it is and move "Affordable Housing Program" expenses to "Other expenses" where it resided in previous quarters.

12 CFR § 989.4 requires the Banks to conform (in both form and content) their individual financial statements to that of the combined Bank System financial statements. If a Bank wants to deviate from the form and content of the combined system financial statements, it must request a waiver to the requirement.

¹ Pub. L. No. 106-102 (1999).

Analysis or Discussion:

The Bank prefers to show the REFCorp payment separately and include AHP in other expenses as it was shown in previous years. The Bank states that by including REFCorp payments in the assessment section, the order of the information would be misleading to stockholders and other financial statement readers because it would materially differ from the order of the Bank's previous income statements.

The Bank references Securities and Exchange Commission (SEC) Regulation S-X, 17 CFR § 210.4-01(a), which states:

Financial statements should be filed in such form and order, and should use such generally accepted terminology, as will best indicate their significance and character in the light of the provisions applicable thereto. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.

The Bank believes that by including AHP and REFCorp payments in the newly created assessments section, the order of the information would not be comparable to previous presentations and therefore would be misleading and not in compliance with SEC Regulation S-X.

Finance Board staff approved the income statement presentation showing AHP and REFCorp payments in the assessments section for income statements beginning with the first quarter 2000. The two line items were grouped together in the "Assessments" section because they are both assessments levied against the Banks and they are interrelated because they are calculated simultaneously. The previous year's AHP line was moved from "Other Expense" to the "Assessments" section. The amount in the AHP line item was the same amount as previously reported but simply reclassified from other expense to the newly created assessments section.

Interpretation:

Finance Board staff believe that simply reclassifying the AHP line item from other expense to the assessments section is not a significant change in the order of presentation and neither violates SEC Regulation S-X nor makes the income statement misleading. Further, Finance Board staff has determined that the grouping of the two interrelated assessments – AHP and REFCorp – on the face of the income statement provides the reader of the financial statement with a clear presentation that reflects recent statutory changes. Accordingly, the Bank has not established a good cause for waiving 12 CFR § 989.4 and the Bank must reclassify the AHP expense line to the assessments section and conform to the format of the System's Combined Income Statement.

<p>A <u>Regulatory Interpretation</u> applies only to the particular transaction or activity proposed by the requestor, may be relied upon only by the requestor, and is subject to modification or rescission by action of the Board of Directors of the Finance Board. See 12 CFR part 907.</p>
