THE NONQUALIFIED ADVISOR

An Independent Resource for Plan Sponsors and Participants of Nonqualified Plans

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Bank Regulators Provide Relief to Banks with FAS 87 Plans

On December 15, 2006, the FDIC, OCC, FRB and OTS issued a joint statement, FDIC PR-116-2006, allowing financial institutions to temporarily disregard the effects of FAS 158 on bank regulatory capital.

The joint press release is welcome relief to thousands of financial institutions who faced significant reductions in capital due to the release of a new accounting standard.

In September 2006, FASB issued FAS 158, *Accounting for Defined Benefit Pensions and Post-Retirement Plans.* The new statement amends the accounting for pensions plans under FAS 87, and the accounting for other post-retirement benefits under FAS 106.

Under the new accounting standard, employers will be required to recognize the fully funded status of their benefit plans on their balance sheet. Employers that have not recognized the fully funded status for their plans will need to "true-up" their liability balance with an adjustment to accumulated other comprehensive income (AOCI) by December 15, 2006 for publicly-traded companies or June 15, 2007 for all other entities.

In the case of nonqualified plans, which are unfunded, employers will need to recognize the benefit's projected benefit obligation (PBO) on the balance sheet, rather than the benefit accrual balance. The accrual balance is generally lower than the PBO; therefore, the adjustment to AOCI will have a negative effect on retained earnings and reduce the bank's regulatory capital.

For banks, regulatory capital is fundamental for measuring the financial strength of an institution. Bank regulators set forth minimum reserves and capital requirements. Any reduction in regulatory capital could "spike" key financial ratios beyond recognized "safe and sound" banking practices and subject the institution to uncomfortable scrutiny by regulators.

The regulating agencies plan to provide reporting instructions to address the interim effects of FAS 158; however, this guidance has not been released.