



FEDERAL RESERVE BANK *of* KANSAS CITY

February 15, 2018

## **Supervision and Regulation (SR) Letter 18-2: Interagency Statement on Accounting and Reporting Implications of the New Tax Law**

**Attention:** Chief Executive Officer of Each Tenth District State Member Bank and Holding Company

**In Brief:** The Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the agencies) have issued an *Interagency Statement on Accounting and Reporting Implications of the New Tax Law* to provide supervised institutions with guidance on the accounting implications of the new tax law, which was enacted on December 22, 2017 (the Act), and certain related matters.

**Highlights:** This guidance summarizes the GAAP accounting requirements related to tax law changes, and further addresses the regulatory reporting and regulatory capital implications of the new tax law. Institutions are expected to use all available information to make a good faith effort to reasonably estimate the effects of the Act when preparing their December 31, 2017 regulatory reports.

GAAP requires the effect of changes in all tax laws and rates to be recognized in the period in which the legislation is enacted. As the new tax law was enacted prior to December 31, 2017, banks and holding companies will need to record the effects of this change in their December 31, 2017 financial statements and regulatory reports. As a result of changes in federal tax laws and rates, institutions will need to re-measure their deferred tax assets (DTAs) and deferred tax liabilities (DTLs). Changes in current DTAs and DTLs should be reflected in income tax expense, regardless of the category of income the underlying pretax income/expense or asset/liability was or will be reported.

If your institution expects the effects of the Tax Cuts and Jobs Act to adversely impact capitalization status or if you have additional questions about the impact to your institution, please contact your Reserve Bank Central Point of Contact at (800) 333-1010 or Accounting Specialist Paul Oseland at (800) 333-1010, extension 270-8632. The agencies understand the changes in federal tax laws and rates may result in a decrease in earnings and capital in the period ended December 31, 2017, and view the effect of re-measuring DTAs and DTLs due to the new tax law as a nonrecurring event that generally will not have a substantial adverse impact on most institutions' core earnings or capital over the long term.

**Contact:** Please direct any questions concerning the new guidance to Accounting Specialist Paul Oseland at (800) 333-1030, ext. 270-8632, or to your Federal Reserve Bank of Kansas City central point of contact at (800) 333-1010.

**Internet Link:** A copy of the Federal Reserve Supervision and Regulation Letter SR 18-2 is available on the Board's public web site at: <https://www.federalreserve.gov/supervisionreg/srletters/sr1802.htm>