Memo 1994-13 FASB 115 and Dividend Calculation

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From: William D. Grant Jr., General Counsel

ISSUE:

Must losses, identified by a bank's implementation of Financial Accounting Standard No. 115 (FAS 115),[1] be deducted from the amount in the bank's undivided profits (U.P.) when calculating the funds available for dividends pursuant to K.S.A. 9-910?

ANALYSIS:

Without special permission from the Kansas State Banking Board, any dividends must be paid out of an institution's U.P. K.S.A. 9-910 provides a formula for determining the amount of funds contained in the U.P. account which are available for disbursement as dividends.

According to K.S.A. 9-910, the institution must identify any unrealized losses by using generally accepted accounting principles". The amount of this calculated loss must then be deducted from the amount contained in the U.P. account to determine what portion of the U.P. is available for dividends.

The recent implementation of the "generally accepted accounting principle" known as FAS 115[2] (mark to market) mandates that certain securities be carried in special categories at market value on the institution's books. In other words, because of this accounting method, an institution must book unrealized gains and unrealized losses on those securities which are required to be periodically "marked to market". This periodic adjustment to the values of the securities will most likely result in either an aggregate net gain or aggregate net loss in relation to the value of the institution's entire securities portfolio.

To satisfy the provisions of K.S.A. 9-910, any aggregate net, unrealized loss within the overall portfolio, resulting from the most recent valuation, as required by FAS 115[3], should be included in the "losses" deducted from undivided profits when calculating funds available for dividend.

[1] Updated 2019. Reference is now Accounting Standards Codification §320.
[2] Same.
[3] Same.