Recent Developments Affecting Depository Institutions

by Lynne Montgomery*

REGULATORY AGENCY ACTIONS

Interagency Actions

Consumer Privacy Rules

On May 10, 2000, the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) issued final regulations implementing the provisions of the Gramm-Leach-Bliley Act (GLBA) governing the privacy of consumer financial information. The regulations limit disclosure by financial institutions of "nonpublic personal information" about individuals who obtain financial products or services for personal purposes. The regulations impose three main requirements established by GLBA: (1) financial institutions must provide initial notices to customers about their privacy policies, describing the conditions under which the institutions may disclose nonpublic personal information to affiliates and nonaffiliated third parties; (2) financial institutions must provide annual notices of their privacy policies to their current customers; and (3) financial institutions must give consumers a reasonable opportunity to "opt out" of allowing the financial institutions to share information about them with nonaffiliated third parties. The privacy rules are effective as of November 13, 2000, but compliance is voluntary until July 1, 2001.

PR-32-2000, FDIC, 5/10/00.

Federal Deposit Insurance Corporation

Report on Underwriting Practices

The April 2000 issue of the *Report on Underwriting Practices* reported a slight decrease in the overall potential risk associated with current underwriting practices at FDIC-supervised banks during the six months ending March 31, 2000, compared to the previous six-month period ending September 30, 1999. However, examiners reported that risky underwriting practices for agricultural, construction and commercial real-estate lending remain causes for concern. Examiners also noted continued problems with the level of "carryover debt" at FDIC-supervised banks actively making agricultural loans. Carryover debt refers to loans that are not paid off at the end of the growing season and are subsequently carried over into the next growing season. The survey of loan underwriting practices is aimed at providing early warnings of potential problems in underwriting practices at FDIC-supervised, state-chartered nonmember banks. The focus of the survey is threefold: material changes in underwriting standards for new loans, degree of risk in current practices, and specific aspects of the underwriting standards for new loans.

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Reference sources: *American Banker* (AB) and *BNA's Banking Report* (BBR).

The April report includes surveys from 1,158 FDIC-supervised banks that were examined during the six months ending March 31, 2000. *Report on Underwriting Practices, FDIC, April 2000.*

Financial Results for Fourth-Quarter 1999

The FDIC reported that the Savings Association Insurance Fund (SAIF) earned income of approximately $441 million for the calendar year 1999; however, the Bank Insurance Fund (BIF) experienced a comprehensive loss (net loss plus unrealized loss on available-for-sale securities) of $198 million for the year. At December 31, 1999, the BIF balance was approximately $29.4 billion, down from $29.6 billion at year-end 1998. The decrease in the fund balance was primarily attributable to unanticipated and high-cost bank failures. Seven BIF-insured banks failed in 1999, with total assets at failure of $1.4 billion. BIF revenues totaled $1.8 billion in 1999, including $1.7 billion in interest on investments in U.S. Treasury obligations and $33 million in deposit insurance assessments. The SAIF closed the year with a fund balance of $10.3 billion, an increase from $9.8 billion at year-end 1998. The SAIF earned $601 million in revenue during 1999, consisting of $586 million in interest on investments in U.S. Treasury obligations and $15 million in deposit insurance assessments.

The FSLIC Resolution Fund (FRF) returned $4.2 billion in appropriated funds to the U.S. Treasury during 1999, pursuant to the RTC Completion Act. The Act required the FDIC to return any funds that were transferred to the Resolution Trust Corporation (RTC) but were not needed to satisfy obligations of the RTC. FRF assets in liquidation were reduced to $509 million on December 31, 1999. The FRF was established in 1989 to assume the remaining assets and obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC). On January 1, 1996, the former Resolution Trust Corporation's financial operations were merged into the FRF. *BBR, 5/15/00, p. 865.*

Assessment Rates Maintained

The FDIC Board of Directors voted on May 10, 2000, to maintain the existing insurance assessment rate schedules for both the BIF and the SAIF through December 2000. Since the FDIC applies a risk-based assessment system for insurance coverage, the healthiest institutions currently pay nothing for insurance and the weakest institutions pay up to 27 cents per $100 of insured deposits. Federal law requires the FDIC to maintain a minimum reserve ratio of 1.25 percent, or $1.25 for every $100 of insured deposits, in the BIF and the SAIF to cover the costs of bank and thrift failures. As of December 31, 1999, the BIF reserve ratio was 1.36 percent and the SAIF ratio was 1.45 percent. *BBR, 5/15/00, p. 865; AB, 5/11/00.*

Bank Failures

On March 10, 2000, the OTS closed Mutual Federal Savings Bank of Atlanta, Atlanta, Georgia, and named the FDIC as receiver. Mutual Federal had total assets of approximately $33.8 million as of November 30, 1999. Citizens Trust Bank, Atlanta, Georgia, assumed approximately $30 million of the failed institution's deposits in approximately 6,023 deposit accounts, while five additional accounts were pledged as capital. Citizens Trust paid a premium of $2.4 million for the right to assume the deposits and to purchase approximately $29.8 million of the assets. The FDIC will retain the remaining assets for later disposition. As part of the transaction, Citizens Trust will participate in a three-year loss-sharing arrangement on approximately $9.4 million of the assets that were purchased from the receivership. The FDIC estimates this transaction will cost the SAIF approximately $1.5 million. Mutual Federal was the first SAIF-insured institution failure in 2000. *PR-17-2000, FDIC, 3/10/00.*

Monument National Bank, Ridgecrest, California, was closed by the OCC on June 2, 2000, and the FDIC was named receiver. The OCC declared that the failed bank was critically undercapitalized—the bank's tangible equity capital was less than 2 percent of its total assets—which resulted from poor credit administration practices and a high volume of classified assets. The failed bank had total assets of approximately $10 million and total deposits of $9.8 million. Israel Discount Bank of New York assumed all of Monument National's deposits, and paid a premium of $400,000 to purchase $3.7 million of the assets. The FDIC will retain the remaining assets for later disposition. The FDIC estimates that this transaction will cost the BIF less than $100,000. This is the second failure of a BIF-insured bank in 2000. *PR-39-2000, FDIC, 6/2/00.*

On July 14, 2000, Minnesota's Commissioner of Commerce closed Town and Country Bank of Almelund, Almelund, Minnesota, and the FDIC was appointed receiver. The failed institution had total deposits of $27.7 million in approximately 4,900 ac-

counts and total assets of $30.1 million. S&C Bank, Minnesota, a newly chartered subsidiary of S&C Banco, Inc., New Richmond, Wisconsin, paid a premium of $2.9 million for the right to assume the failed institution's insured deposits and to purchase approximately $11.1 of the failed bank's assets. In a separate transaction, Queen City Federal Savings Bank, Virginia, Minnesota, paid a premium of $399,000 to the FDIC to purchase $9.0 million of Town and Country's assets. The FDIC will retain the remaining assets for later disposition. The FDIC estimates that this transaction will cost the BIF approximately $2.8 million. This is the third failure of a BIF-insured institution in 2000. *PR-49-2000, FDIC, 7/14/00.*

Federal Reserve Board

Interest Rates

On March 21, 2000, the Federal Open Market Committee (FOMC) voted to raise the targeted federal funds rate by 25 basis points, increasing the rate from 5.75 percent to 6.0 percent. In a related action, the Board of Governors approved a 25-basis-point increase in the discount rate, raising the rate from 5.25 percent to 5.50 percent. The FOMC raised the federal funds rate an additional 50 basis points on May 16, 2000, increasing the rate to 6.50 percent. The Board of Governors also approved a 50-basis-point increase in the discount rate, raising the discount rate to 6.0 percent. The federal funds rate is the fee that banks charge each other for overnight loans, and the discount rate is the fee charged to financial institutions for borrowing from their district Federal Reserve Banks. *PR-FRB, 3/21/00; PR-FRB, 5/16/00.*

Survey on Bank Lending Practices

In its May 2000 *Senior Loan Officer Opinion Survey on Bank Lending Practices*, the Federal Reserve Board reported that both domestic and foreign banks were tightening lending practices. The percentage of domestic banks becoming more cautious in their lending was the highest since the results of the November 1998 survey. Most banks reported an uncertain or less favorable economic outlook as the motivation for tightening their practices. The Federal Reserve reported that a significant number of banks raised their lending standards for commercial real-estate loans, and the lending standards for residential mortgages remained unchanged. The Federal Reserve also reported that the demand for bank loans slackened for both the residential and commercial real-estate markets. For the report, the Federal Reserve surveyed loan officers from 57 large domestic banks and 21 U.S. branches and agencies of foreign banks. The survey focused on changes during the preceding three months in the supply and demand for bank loans to households and businesses. *BBR, 5/29/00, p. 957.*

Reporting Requirements under Bank Secrecy Act

Beginning July 1, 2000, financial institutions will be excused from reporting certain cash transactions involving more than $10,000. Under the Bank Secrecy Act, financial institutions generally are required to report currency transactions of over $10,000. However, in September 1997, the Treasury Department's Financial Crimes Enforcement Network (FinCEN) issued a final rule listing "Phase I" exemptions, which exempt banks from the $10,000 reporting requirement for transactions involving other banks operating in the United States, departments and agencies of the U.S. government, companies listed on certain national stock exchanges, and certain subsidiaries of those listed companies. In September 1998, FinCEN adopted "Phase II" exemptions which cover certain non-listed companies as well as payroll customers of a financial institution. The Phase I and Phase II final rules apply to currency transactions after July 1, 2000. *BBR, 7/17/00, p. 96.*

Office of the Comptroller of the Currency

New Rule on Financial Subsidiaries

The OCC's final rule implementing the financial subsidiary provisions of the Gramm-Leach-Bliley Act (GLBA) was published in the Federal Register on March 10, 2000. Under the GLBA, national banks are permitted to own a financial subsidiary that may engage in a variety of expanded financial activities that are not permissible for the parent bank. The final rule establishes an expedited filing process for national banks that seek to acquire or engage in expanded activities through a financial subsidiary. The rule would give the national banks two options. Under the first option, a national bank could certify in advance that both it and its depository institution affiliates are well-capitalized and well-managed. Thereafter, the bank would file a notice with the OCC when it acquires a financial subsidiary, or

begins a type of expanded financial activity permitted in a financial subsidiary. The second option would permit national banks to file a combined certification and notice for a financial subsidiary at least five days before acquiring a financial subsidiary or beginning expanded financial activities in a financial subsidiary. National banks continue to have the option of using operating subsidiaries to conduct bank-permissible activities. The new rule also streamlines processes for national banks to establish operating subsidiaries by significantly expanding the list of activities eligible to be conducted pursuant to a simple notice filing. This new streamlined process is available for well-capitalized, well-managed national banks. *NR 2000-16, OCC, 3/9/00.*

Training for Foreign Examiners

In response to requests from foreign bank supervisors for American-style exam training, the OCC is conducting a training course for foreign examiners. The first training class will be given in October 2000, and eventually the course will be offered several times a year. The course is an attempt to show foreign examiners how the OCC examines a bank and supervises using a risk-based approach. *AB, 4/27/00.*

Procedures for Stock Splits

On May 9, 2000, the OCC issued an advisory letter detailing its review procedures covering national banks' use of reverse stock splits. A reverse stock split is a method of reducing the number of outstanding shares or shareholders in a bank, and restructuring ownership interest. Under a reverse stock split, a bank exchanges one share of stock for several outstanding shares and pays cash to shareholders that would have held fractional shares after the exchange. When reviewing an application for a reverse stock split, the OCC will consider several details, including whether the bank: will perform each step of the reverse stock split process in compliance with legal requirements governing its capital structure; has adopted corporate governance provisions that authorize reverse stock splits; has a legitimate corporate purpose for undertaking the reverse stock split; and provides adequate dissenters' rights to its shareholders. The OCC will approve a reverse stock split application on an expedited basis if the bank includes certain certifications with its application. The bank must also demonstrate compliance with the minimum capital requirements for a national bank on the basis of the population of the bank's main office location. *BBR, 5/15/00, p. 872–873.*

Office of Thrift Supervision

Information-Sharing Agreements

On May 24, 2000, the OTS announced that an additional 13 states and the District of Columbia signed information-sharing agreements with the OTS, bringing the total number of states with agreements to 16. The agreements provide for sharing nonpublic information on the financial solvency of insurance companies and any depository institutions owned by the insurance companies that fall within the jurisdiction of the respective state insurance commissioner and the OTS. The agreements also cover insurance and thrift activities, as well as consumer complaints of these entities. In addition to the District of Columbia, the new states signing agreements are Arizona, Arkansas, Connecticut, Delaware, Indiana, Kansas, Louisiana, Michigan, Mississippi, Nebraska, North Dakota, Oklahoma, and Utah. Kentucky and Iowa signed agreements in the spring of 2000. *OTS 00-48, 5/24/00.*

Federal Housing Finance Board

Chairman Resigns

Bruce A. Morrison resigned from his position as chairman of the Federal Housing Finance Board on July 4, 2000. Mr. Morrison had served as chairman of the Federal Housing Finance Board since June 1, 1995. He plans to join GPC/O'Neill, which is the U.S. division of GPC International, a worldwide strategic government relations, public affairs, and communications consulting firm. *FHFB 00-18, 6/6/00.*

Leichter Appointed to Board

On August 4, 2000, President Clinton made a recess appointment of Franz S. Leichter to the Federal Housing Finance Board. Mr. Leichter's nomination had been pending since June 1999. Before this appointment, Mr. Leichter was a practicing attorney with the law firm of Walter, Conston, Alexander, and Green, P.C. He also served in the New York State Senate from 1975 to 1988. *FHFB 00-26, 8/4/00.*

Final Regulation on Membership and Advances Requirements

On June 23, 2000, the Federal Housing Finance Board approved a final regulation that eases requirements for Federal Home Loan Bank membership and removes restrictions on borrowing by banks. Under the new rule, community financial institutions

(CFIs) no longer need at least 10 percent of total assets in residential mortgages to join the FHLBank System. CFIs are FDIC-insured institutions with assets of less than $500 million. The final rule also allows non-qualified thrift lenders equal access to the FHLBank System advances. A qualified thrift lender is one that has at least 60 percent of its assets in residential mortgages. The final rule repeals the following former rules concerning non-qualified thrift lenders (non-QTL): non-QTL members were limited in how much they could borrow in advances; total advances outstanding to non-QTL members could not exceed 30 percent of the FHLBank System total; and non-QTL members had a higher advances-based stock purchase requirement. *BBR, 7/3/00, p. 25.*

Expanded Collateral for FHLBank Advances

The Federal Housing Finance Board approved a final rule on June 29, 2000, implementing provisions of the Gramm-Leach-Bliley Act (GBLA) that enable community financial institutions (CFIs) to pledge additional classes of collateral for Federal Home Loan Bank advances. The new types of collateral that can be pledged by CFIs include: small-business loans, agricultural loans, or securities representing a whole interest in such loans. However, before accepting the new collateral, a FHLBank must demonstrate that it has the proper procedures in place to value and discount the collateral and manage the risks associated with the collateral. The final rule also implements a provision in GLBA that removes the limit on the amount of other real-estate-related collateral that FHLBank System members can pledge for Federal Home Loan Bank advances. The amount had previously been capped at 30 percent of a member's capital. *FHFB 00-21, 6/29/00.*

Final Rule on Mission for FHLBanks

On June 29, 2000, the Federal Housing Finance Board approved a final rule that implements provisions of the Gramm-Leach-Bliley Act by setting guidelines for the core mission activities of the Federal Home Loan Banks. Under the final rule, core mission activities of the FHLBanks will include: making loans or advances to member financial institutions; issuing standby letters of credit; and making targeted investments that support affordable housing, economic development activities, and small-business investment corporations. A proposed rule was issued for comment on April 17, 2000. On the basis of the comments received, the final rule eliminates language in the proposed rule that would have grandfathered the FHLBanks' existing holdings of mortgage-backed securities (MBSs) until maturity. The final rule allows certain MBS investments if they benefit targeted households, offer liquidity for other loans not available in the primary market, or are not sold in the secondary market. Further, the final rule allows acquired member assets, such as Federal Housing Administration-insured loans, to count as core mission activities. *BBR, 7/10/00, p. 67–68.*

National Credit Union Administration

Consumer Privacy

The NCUA issued a final privacy rule applicable to all federally insured credit unions, as required by the Gramm-Leach-Bliley Act. The final rule requires credit unions to have a privacy policy and provide certain disclosures and notices to individuals about whom credit unions collect nonpublic personal information. The rule also restricts a credit union's ability to disclose nonpublic personal information, including giving individuals an opportunity to opt out of the disclosure. The NCUA's final rule takes into account the unique circumstances of federally insured credit unions and their members but is comparable and consistent with the privacy regulations issued by the federal banking agencies. The rule is effective November 13, 2000; however, compliance is not required until July 1, 2001. *12 CFR Part 716, NCUA, 5/8/00.*

Final Rule on Electronic Disclosure

The NCUA issued a final rule amending its regulations that implement the Truth in Savings Act to permit periodic disclosures required by NCUA's regulations to be delivered in electronic form, if a credit union member agrees. The rule gives credit unions flexibility in how they deliver the electronic disclosures. In addition, the rule gives credit unions the option of not using electronic delivery methods at all, but the NCUA expects that those credit unions that use electronic delivery will realize a reduction in their costs of delivery as a result. The final rule, which is effective beginning May 20, 2000, amends an interim rule that was approved on November 18, 1999. *BBR, 5/1/00, p. 795.*

Prompt Corrective Action for Undercapitalized Credit Unions

In February 2000, the NCUA approved a final rule that implements a system of prompt corrective action (PCA) to restore the net worth of federally insured credit unions that are undercapitalized. The PCA rule permits the NCUA to take discretionary action against critically undercapitalized credit unions. An undercapitalized credit union is one with a net worth ratio of less than 2 percent that is not a new credit union. On April 20, 2000, the NCUA published a final rule on secondary capital accounts for low-income credit unions, which conforms to the PCA rule. The secondary capital rule clarifies that the NCUA has discretionary authority to prohibit a credit union from paying principal, dividends, or interest on the credit union's secondary capital accounts set up after August 7, 2000, which is the effective date of the PCA rule. *BBR, 5/1/00, p. 795.*

Final Rule on Share Insurance and Joint Accounts

On May 24, 2000, the NCUA approved a final rule that expands insurance coverage on some revocable trust accounts and clarifies the insurance coverage on joint accounts. Revocable trust accounts allow owners of those accounts to pass funds to one or more beneficiaries when the owner dies. The list of beneficiaries included a spouse, child, or grandchild; however, the new coverage rule adds parents and siblings to the list of eligible beneficiaries. The final rule also expands the maximum coverage on any joint account owned by more than one person from $100,000 for each joint account to $100,000 for each individual owner. The NCUA issued interim rules amending share insurance coverage in April 1999. The final rule adopted the interim rules without major changes. *BBR, 5/29/00, p. 976.*

Loan Rate Ceiling Maintained

The NCUA approved a final rule to maintain the current 18 percent interest-rate ceiling on loans by federal credit unions, instead of allowing the ceiling to revert to 15 percent. The rate ceiling was scheduled to revert to 15 percent on September 9, 2000; however, with the new ruling, the ceiling will remain at 18 percent for the period from September 9, 2000, through March 8, 2002. The NCUA reported that a 15 percent ceiling would restrict certain categories of credit and adversely affect the financial condition of a number of federal credit unions. At the same time, prevailing market rates and economic conditions do not justify a rate higher than the current 18 percent ceiling. The NCUA Board is prepared to reconsider the 18 percent ceiling at any time should changes in economic conditions warrant. *12 CFR Part 701, NCUA, 7/13/00.*

STATE LEGISLATION AND REGULATION

New York

On June 7, 2000, the New York State Senate confirmed Elizabeth McCaul as the superintendent of the state Banking Department. As superintendent, Ms. McCaul will also chair the state's Banking Board, which issues banking regulations. Ms. McCaul had been the acting superintendent since 1997. *BBR, 6/12/00, p. 1045.*

BANK AND THRIFT PERFORMANCE

Fourth-Quarter 1999 Results for Commercial Banks and Savings Institutions

FDIC-insured commercial banks earned $17.8 billion during the three months from October through December 1999, which represents a 20 percent improvement over the $14.8 billion earned in the fourth quarter of 1998. The improvement in earnings resulted from strong growth in noninterest income and lower noninterest expenses. Banks' annualized return on assets (ROA) was 1.27 percent in the fourth quarter, up from 1.10 percent one year earlier. The number of commercial banks on the FDIC's "Problem List" declined from 69 in the third quarter of 1999 to 66 in the fourth quarter; however, assets of problem commercial banks increased from $4.2 billion to $4.5 billion. There were seven bank failures in 1999, and two of those failures occurred during the fourth quarter.

FDIC BIF-insured mutual savings institutions reported earnings of $2.7 billion in the fourth quarter of 1999, which is down by $132 million from the third quarter but up by $678 million from one year earlier. The earnings decline was caused by higher interest costs and lower yields from sales of securities during the quarter. The industry's ROA for the fourth quarter was 0.96 percent, down from 1.00 percent in the third quarter but up from 0.76 percent in the fourth quarter of 1998. The number of problem thrifts increased to 13 thrifts with assets of $5.5 billion, up from 11 thrifts in the third quarter with assets of $3.9 billion. There were no thrift failures during the fourth quarter of 1999, although there was one failure earlier in the year. *FDIC Quarterly Banking Profile, Fourth Quarter 1999.*

First-Quarter 2000 Results for Commercial Banks and Savings Institutions

FDIC-insured commercial banks earned a record-setting $19.5 billion during the first quarter of 2000, which is $125 million greater than the previous record set in the third quarter of 1999 and $1.6 billion higher than earnings in the first quarter of 1999. The increased earnings resulted from gains on equity investments and from the current favorable economic conditions. Commercial banks' average ROA was 1.35 percent in the first quarter of 2000, up from 1.32 percent in the first quarter of 1999. The number of commercial banks on the FDIC's "Problem List" increased to 72, from 66 in the fourth quarter of 1999. There was one bank failure during the first quarter.

FDIC BIF-insured mutual savings institutions reported earnings of $2.9 billion in the three months from January through March 2000, which is $259 million higher than one year earlier. Higher noninterest income and lower income tax expenses accounted for the earnings increase. The industry's ROA for the first quarter was 1.03 percent, up from 0.98 percent in the first quarter of 1999. The number of problem thrifts increased to 15, from 13 in the fourth quarter 1999; however, problem assets decreased from $5.5 billion to $5.3 billion. There was one thrift failure during the first quarter of 2000. *FDIC Quarterly Banking Profile, First Quarter 2000.*

RECENT ARTICLES AND STUDIES

A study released by the Treasury Department on April 19, 2000, reports that mortgage lending to low- and moderate-income borrowers in communities covered by the Community Reinvestment Act (CRA) increased at over twice the rate of loan growth to other borrowers between 1993 and 1998. The CRA is a 1977 law that requires financial institutions to make financial services available to all segments of the communities where they do business. The study, entitled *The Community Reinvestment Act After Financial Modernization: A Baseline Report*, reviewed lending trends in 304 cities across the nation between 1993 and 1998, and found that mortgage loans made during that period by CRA-covered institutions and their affiliates to low- and moderate-income borrowers increased by 39 percent. The Gramm-Leach-Bliley Act mandated that the Treasury Department conduct the study to determine the extent to which sufficient services are being provided under CRA. *BBR, 4/24/00, p. 729.*

According to a report released on May 16, 2000, by the FDIC's Division of Insurance, community banks and thrifts could be more susceptible to rising interest rates than in recent years. The structure of commercial financial institutions' balance sheets has begun to reflect increased interest-rate risk exposure, which primarily results from mismatches in the term structure of the balance sheet. The report says that more institutions' balance sheets are showing increased long-term mortgage holdings and longer asset maturities, and the industry is relying more on potentially volatile funding sources. Additionally, the report notes that the percentage of institutions downgraded by examiners from the "satisfactory" rating for interest-rate risk in the second and third quarters of 1999 exceeded the percentage of institutions that were upgraded. Overall, however, roughly 94 percent of financial institutions examined in 1999 received a "satisfactory" rating. The report is entitled *Increasing Interest Rate Risk at Community Banks and Thrifts*. *BBR, 5/22/00, p. 918–919.*

INTERNATIONAL DEVELOPMENTS

Basel Committee

The Basel Committee on Bank Supervision issued a revised series of voluntary guidelines on February 29, 2000, concerning the effective management of liquidity by banking organizations. The guidelines update earlier recommendations on liquidity management issued by the committee in 1992. The committee's recommendations include 14 core principles covering sound practices for ongoing liquidity management, foreign-currency liquidity management, internal risk controls, public disclosure, and banking supervision. The committee's revised recommendations emphasize the need for contingency planning in order to account for the increasing sophistication of today's global financial markets. The committee also urges banking supervisors to take an active role by carrying out independent reviews of bank liquidity management practices. The Basel Committee is made up of senior central bank and banking supervisory officials from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. *BBR, 3/6/00, p. 455–456.*

France

The United Kingdom-based Hong Kong and Shanghai Banking Corporation announced on April 1, 2000, plans to carry out a friendly takeover of Credit Commercial de France. The merger, which was approved by France's finance minister on April 4, 2000, represents the first time that a French bank has been sold to foreign investors. *BBR, 4/10/00, p. 674.*

Japan

On July 1, 2000, the Japanese government established a new regulatory body, the Financial Services Agency (FSA), which is responsible for supervising securities, banking, insurance, and other financial activities. The FSA is also responsible for drafting policies and plans related to these sectors. The new agency was formed by merging the Financial Supervisory Agency and the Ministry of Finance's Financial Planning Bureau. The Financial Supervisory Agency was created two years ago to take over the Ministry of Finance's financial supervisory and inspection functions. In January 2001, the Financial Revitalization Agency—which is responsible for the reconstruction of the Japanese financial industry through the mobilization of taxpayer money, mergers, and other means—will also be merged into the new agency. Masaharu Hino, who served as director-general of the Financial Supervisory Agency, was appointed commissioner of the new agency. *BBR, 7/17/00, p. 120–121.*