



# fed LETTER

Colorado ★ Kansas ★ Missouri ★ Nebraska ★ New Mexico ★ Oklahoma ★ Wyoming

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FEDERAL RESERVE BANK of KANSAS CITY

## MANUFACTURING SURVEY AVAILABLE

The **monthly manufacturing survey** for the Tenth Federal Reserve District was released July 26. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing in the District.

Manufacturing activity rebounded slightly in July after June's sharp slowdown, and contacts continued to remain largely optimistic about the months ahead. Price indexes in the survey were mixed, with a slight acceleration in raw materials prices but smaller increases in finished goods prices.

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## BEIGE BOOK RELEASED

The **latest edition** of the Beige Book was released July 25. The Beige Book is a summary of current economic conditions in each Federal Reserve District.

Reports from the 12 Federal Reserve Banks indicated that economic activity continued to expand in June and early July. The Tenth District economy continued to grow at a moderating pace. Consumer spending was mixed, manufacturing activity slowed and residential real estate activity remained weak, but these trends were partially offset by strong commercial construction activity. Energy activity continued to rise while price pressures generally eased modestly despite high agricultural and energy prices.

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## HOLIDAY REMINDER

The Federal Reserve will be closed **Monday, Sept. 3, 2007**, for Labor Day. The FRB Services Web site features a **full listing** of all holidays observed by the Federal Reserve.

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REGULATORY  
DEVELOPMENTS

*The Fair Value Option and the  
applicability of the Market Risk  
Capital Rule*

The Federal Reserve Board issued **Supervision and Regulation (SR) Letter 07-11** on July 24, reminding banking organizations that they may be subject to the market risk capital rule if they report an amount of gross trading assets and liabilities that equals 10 percent or more of total assets, or \$1 billion or more.

The market risk capital rule requires banks and bank holding companies subject to the rule to have in place adequate risk management processes and capital sufficient to support the market risk of their covered positions. A banking organization that has adopted Financial Accounting Standards Board Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), and has applied this option to securities should also determine whether their institution is subject to the market risk capital rule based on any resulting designation of securities as trading.

Banking organizations that have exceeded or expect to exceed the minimum thresholds for the market risk capital rule and need to discuss their plans to address the rule's requirements should contact Joe Van Wallegem at 1-800-333-1010 extension 2387 or [joe.vanwallegem@kc.frb.org](mailto:joe.vanwallegem@kc.frb.org).

*Banking agencies reach agreement  
on Basel II implementation*

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The Federal Reserve Board on July 20 announced that the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation reached an **agreement on Basel II implementation**.

The agreement retains the prior proposed rulemaking's transitional floor periods, outlines plans for ongoing evaluation of the new framework and will lead to the expedited finalization of a rule implementing advanced approaches for computing large banks' risk capital requirements that are technically consistent with international approaches.

The agreement will also lead to the prompt issuance of a proposed rule that would provide all non-core banks with the option to adopt a standardized approach under the Basel II Accord that would replace the earlier proposed adoption of "Basel IA."

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*Interagency BSA/AML enforcement  
policy statement*

On July 20, the Federal Reserve Board issued **Supervision and Regulation (SR) Letter 07-10** announcing the federal financial agencies' *Interagency Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements* (BSA/AML).

The purpose of this policy statement is to deliver a consistent and more transparent approach to the industry for agency enforcement of BSA/AML requirements.

The policy statement makes clear that, in addition to describing the circumstances when the agencies will issue a cease and desist order, other actions may be taken by the agencies as appropriate for other types of BSA/AML program concerns or for violations of other BSA requirements.

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*Interagency questions and  
answers regarding Community  
Reinvestment Act*

Public comments for new and revised **interagency questions and answers for the Community Reinvestment Act (CRA)** as proposed by the federal bank and other regulatory agencies are due on or by **Sept. 10, 2007**.

The intent of the proposed changes include encouraging institutions to emphasize the availability of CRA considerations for foreclosure prevention programs to homeowners who are unable to make mortgage payments, clarifying that institutions should receive favorable consideration of providing credit in a responsive manner to their community needs, and improving accessibility to the interagency questions and answers through such improvements as increased readability and clarification.

The agencies invite comment on the proposed changes, as well as comments on other issues raised by the CRA.

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