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

January 2007 | Federal Reserve Bank of Kansas City

Manufacturing survey released

The **monthly manufacturing survey** for the Tenth Federal Reserve District was released Dec. 28. 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 growth continued to edge down in December, while expectations for future factory activity rebounded strongly from the previous month. Most price indexes in the survey declined, with many indexes recording their lowest levels in more than a year.

TEN Winter 2007 issue released

The **new issue of *TEN***, the quarterly magazine of the Federal Reserve Bank of Kansas City, has been released. This issue looks at the way Americans save. While rates are low, they might not be as dire as predicted. Other feature articles include: online versus on-site banking and how customers make their choices; ways consumers can combat identity theft via their payment methods; the changing nature of the banking industry and the roles of technological innovation as well as other factors; and how product orders and inventories around the Tenth Federal Reserve District are measured.

For a free subscription to the publication, register on the ***TEN* page** of our Web site or call 816-881-2683.

Holiday reminder

The Federal Reserve will be closed **Monday, Jan. 15, 2007**, for Martin Luther King, Jr., Day. The FRB Services Web site features a **full listing** of all holidays observed by the Federal Reserve.

Welcome, new member banks

The Kansas City Fed is pleased to welcome the following state member banks to the Federal Reserve System in the Tenth District:

Community Bank of Pleasant Hill	Pleasant Hill, Mo.	Dec. 4
Nebraska Bankers' Bank	Lincoln, Neb.	Dec. 15
First Bank and Trust Company	Minden, Neb.	Jan. 2

Regulatory Developments

Interagency notice on proposed revisions to the risk-based capital framework

On Dec. 26, the federal banking agencies released an **interagency notice of proposed rulemaking** that would revise the existing risk-based capital framework. The revision would give the vast majority of banks, bank holding companies, and savings associations the option of either continuing to use the existing Basel I-based capital rule or adopting a more risk-sensitive rule, known as Basel IA. The proposed Basel IA modifications represent the latest of more than 20 modifications to the original U.S. risk-based capital standards adopted under the Basel I Accord of 1988. In addition, the comment period on the Advanced Capital Adequacy Framework (Basel II) has been synchronized with the comment period on the Basel IA proposed rule to allow banking organizations the ability to comprehensively assess all proposed revisions to existing capital rules. Comments on both rules are due by **March 26, 2007**.

Final guidance on concentrations in commercial real estate lending

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Company on Dec. 6 issued **final guidance** on sound risk management practices for concentrations in commercial real estate (CRE) lending. The guidance is intended to help ensure that institutions pursuing a significant commercial real estate lending strategy remain healthy and profitable while continuing to serve the credit needs of their communities.

The final Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices reminds institutions that strong risk management practices and appropriate levels of capital are important elements of a sound lending program, particularly when an institution has a concentration in commercial real estate loans. The final guidance reinforces and enhances existing regulations and guidelines for safe and sound real estate lending.

The guidance provides supervisory criteria including numerical indicators to assist in identifying institutions with potentially significant CRE loan concentrations that may warrant greater supervisory scrutiny. These criteria do not constitute limits on CRE lending nor provide a "safe harbor" for concentrations below the benchmarks.

The agencies are committed to ensuring consistent application of this guidance and are developing training programs for their supervisory staff. These training materials will emphasize that the numerical screening criteria are not to be viewed as limits on an institution's commercial real estate lending activity.

Interagency Policy Statement on the Allowance for Loan and Lease Losses

On Dec. 13, the Board of Governors joined the other bank regulatory agencies and the National Credit Union Administration in issuing the ***Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL)***. This guidance updates and replaces the 1993 policy statement to ensure consistency with generally accepted accounting principles. The Federal Reserve has issued the updated policy statement under Supervision and Regulation Letter (SR) 06-17.

The policy statement emphasizes that an allowance is an institution-specific estimate that should not be calculated based on "standard" percentages of loans or solely on peer group or other benchmark averages. The policy statement further emphasizes that each institution is responsible for developing, documenting and maintaining a comprehensive, systematic and consistently applied process for determining the amounts of the ALLL and the provision for loan and lease losses. While institutions may not have had sufficient time to bring ALLL processes and documentation into full compliance with the ALLL policy statement by year-end 2006, the agencies believe that these enhancements should be completed in the near term.

Pension fund accounting and regulatory capital

On Dec. 14, the federal bank and thrift regulatory agencies announced an **interim decision** that the Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), will not affect banking organizations' regulatory capital. Until the agencies determine otherwise through a rulemaking, banks, bank holding companies and savings associations should exclude from regulatory capital any amounts recorded in accumulated other comprehensive income (AOCI) resulting from adoption and application of FAS 158. The agencies plan to provide regulatory reporting instructions to banking organizations to assist them in implementing the interim exclusion of the effect of FAS 158 on AOCI from the measurement of regulatory capital.

Proposed rules to implement bank "broker" provisions

The Securities and Exchange Commission (SEC) and Board of Governors on Dec. 18 announced the release of **joint proposed rules** to implement the "broker" exceptions for banks under Section 3(a)(4) of the Securities Exchange Act of 1934. These exceptions were adopted as part of the Gramm-Leach-Bliley Act of 1999 (GLB Act). The proposed rules would help define the scope of securities activities that banks may conduct without registering with the SEC as a securities broker and would implement the most important "broker" exceptions for banks adopted by the GLB Act. In developing these proposed joint rules, the agencies consulted extensively with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. Comments on the proposed rules are requested by **March 26, 2007**.

Revised Suspicious Activity Report

On Dec. 21, the Financial Crimes Enforcement Network (FinCEN) and the federal banking agencies announced that the format for the Suspicious Activity Report by Depository Institutions (SAR-DI) has been revised to support a new joint filing initiative. This revision will reduce the number of duplicate SARs filed for a single suspicious transaction. The revised form is being released to allow depository institutions subject to SAR filing requirements to begin initial planning for the effective implementation date of **June 30, 2007**. On this date, depository institutions will have the option of using either the existing or the revised SAR-DI formats. Use of the revised format for filing will become mandatory Dec. 31, 2007. This is an approved final form, but the form should not be filed until the actual effective implementation date of June 30, 2007. Financial institutions can review and download the PC fill-in version from the **FinCEN Web site** under "What's New."

More regulatory developments

To see more regulatory developments, go to the **Banking Information page** on our Web site and click "Regulations/Guidance" in the left column.

Fed Letter • January 2007

Fed Letter is published by the Federal Reserve Bank of Kansas City,
925 Grand Boulevard, Kansas City, Missouri, 64198-0001, (800) 333-1010.

Editor: Sara Brunsvold
Graphic Designer: Beth Norman