

Trading and Capital-Markets Activities Manual

Supplement 5—April 2001

Nature of Changes

Trading Activities

Section 2120.1, "Accounting," has been revised to incorporate the following recent guidance from the Financial Accounting Standards Board: Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." (SFAS 140 supersedes SFAS 125, which had the same title). The accounting treatment for securitizations, repurchase agreements, derivative instruments, and foreign-currency instruments has been updated. The discussion on accounting for derivatives includes information on fair-value, cash-flow, and foreign-currency hedges. The examination objectives, examination procedures, internal control questionnaire, and appendix on financial statement disclosures, sections 2120.2, 2120.3, 2120.4, and 2120.5, respectively, have also been updated.

In section 2130.1, "Regulatory Reporting," references to the obsolete Monthly Consolidated Foreign Currency Report (FFIEC form 035) have been removed, and the guidance on institutions that are required to file the FR Y-20 report has been revised. The examination objectives, examination procedures, internal control questionnaire, and appendix on reports for trading instruments, sections 2130.2, 2130.3, 2130.4, and 2130.5, respectively, have also been updated.

The Gramm-Leach-Bliley Act (GLB Act), enacted in 1999, removed some restrictions that were formerly applicable to section 20 subsidiaries engaged in underwriting, dealing, and other related activities. Under the GLB Act, banking regulators are also required to rely to the greatest extent possible on the functional

regulator of securities firms. Section 2140.1, "Regulatory Compliance," has been revised to incorporate these provisions of the GLB Act.

Capital-Markets Activities

New information on the valuation of retained interests, including SR-99-37 and its related interagency guidance, has been added to section 3020.1, "Securitization and Secondary-Market Credit Activities." The subsection on internal controls has also been expanded to include the minimum requirements for management information systems reports on securitization activities.

A new section 3040.1, "Equity Investment and Merchant Banking Activities," has been added. The new section incorporates the supervisory letter on these activities (SR-00-9) that was formerly in section 4360.1. The section also provides new guidance on merchant banking activities of financial holding companies, including investment limitations, cross-marketing limitations, and special rules for private equity funds.

Instrument Profiles

The "Accounting Treatment" subsections in the instrument profiles have been revised to delete references to obsolete accounting standards and add references to SFAS 133 and SFAS 140. Section 4350.1, "Credit Derivatives," was further revised to expand the risk-based capital weighting guidance. In section 4353.1, "Collateralized Loan Obligations," more detailed information was provided on the risk-based capital weighting of three types of transactions for synthetic collateralized loan obligations.

Filing Instructions

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