



PRESS RELEASE

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"Stroke-of-the-Pen" Risks are a Potential Concern for Banks: FDIC Report Examines Implications of Policy Changes Outside of Bank Regulation

Policy changes that originate outside of bank regulation represent a special class of risks to depository institutions, according to the Fall 2005 edition of **FDIC Outlook**.

In a series of reports on what the agency is calling "stroke-of-the-pen" risks, FDIC analysts examined changes in monetary, tax, agricultural and other policies that have led to or may lead to significant and unintended negative consequences for banks. The latest **FDIC Outlook** features:

- A historical analysis of the impact on the banking industry of the revision in Federal Reserve monetary policy targets in 1979; more restrictive treatment of real estate investments under the Tax Reform Act of 1986; and changes in reporting for transfers of financial assets introduced in 1999 by the Financial Accounting Standards Board in Financial Accounting Statement 125.
- A discussion of the effects on corporations and financial institutions of the Sarbanes-Oxley Act of 2002, which responded to corporate scandals with stronger financial reporting requirements and other changes to ensure accountability; and
- A report on the potential risks faced by financial institutions associated with possible changes in U.S. farm subsidies that could result from the ongoing World Trade Organization negotiations and the U.S. budget process.

"Bank managers need to ensure that they watch for and respond to policy changes that arise from outside their industry," said FDIC Chief Economist Richard A. Brown. "Although the effects of such policy changes are often difficult to fully anticipate, they can lead to significant adverse consequences for financial institutions."



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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The articles in this edition of ***FDIC Outlook*** were completed before Hurricanes Katrina and Rita struck the Gulf Coast states. Future editions will include implications of the hurricanes for FDIC-insured institutions.

The Fall 2005 edition of ***FDIC Outlook*** is available on the Web at: www.fdic.gov/bank/analytical/regional/index.html.