



## Investment Activities

FIL-104-97  
October 6, 1997

TO: CHIEF EXECUTIVE OFFICER  
SUBJECT: *FFIEC Seeks Comment on Proposed Standards for Investment Securities and End-User Derivatives Activities*

The Federal Financial Institutions Examination Council (FFIEC) has proposed revisions to its supervisory guidelines for investment securities and end-user derivatives activities, and is seeking comment on its proposals. Comments are due to the FFIEC by November 17, 1997.

Specifically, the FFIEC has proposed rescinding its 1992 Supervisory Policy Statement on Securities Activities and enacting a new policy statement, *Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities*. The new policy statement contains a set of sound practices that focus on the risk management of investment activities, with a particular emphasis on market risk (primarily interest rate risk).

Rescinding the February 3, 1992, policy statement would eliminate the constraints on investing in mortgage derivative products (MDPs) that are deemed "high risk" under existing supervisory guidance. The decision to eliminate such constraints does not mean the regulatory agencies believe that MDPs currently identified as "high risk" are appropriate or inappropriate investments. Rather, the decision reflects the view that the appropriateness of any investment product must be evaluated using a variety of factors, especially management's ability to measure and manage the risks of investment activities.

The FFIEC's proposed new policy statement reflects the risk-based approach to supervision adopted by the financial institution supervisors. It also shows the FFIEC's intent to encourage financial institutions to evaluate and control the risks associated with investment activities more broadly, on an investment-portfolio or institution-wide basis.

As a matter of sound practice, financial institutions should understand the risks inherent in their securities activities, both prior to purchase and on an ongoing basis. The FFIEC agencies continue to believe that the stress testing of MDP investments, as well as other investments, has significant value for financial institution's management of risk.

The FFIEC encourages comments on the proposals, which are attached. The agencies proposing these changes, acting through the FFIEC, are the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the National Credit Union Administration.

For more information, please contact one of the following FDIC officials in the Division of Supervision: William A. Stark, Assistant Director (202-898-6972), Miguel D. Browne, Manager

(202-898-6789), or John J. Feid, Chief of Risk Management (202- 898-8649); or contact Michael B. Phillips, Counsel in the FDIC's Legal Division (202-898-3581).

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Director

Attachment: Federal Register, Vol. 62, No. 192, 3 Oct. 1997, pp. 51862-51867 -- available from FDIC's web site:

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