
Announcements

FEDERAL OPEN MARKET COMMITTEE STATEMENT

The Federal Open Market Committee decided, on December 9, 2003, to keep its target for the federal funds rate at 1 percent.

The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period confirmed that output was expanding briskly, and the labor market appeared to be improving modestly. Increases in core consumer prices were muted and expected to remain low.

The Committee perceived that the upside and downside risks to the attainment of sustainable growth for the next few quarters would be roughly equal. The probability of an unwelcome fall in inflation had diminished in recent months and appeared almost equal to that of a rise in inflation. However, with inflation quite low and resource use slack, the Committee believed that policy accommodation could be maintained for a considerable period.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Ben S. Bernanke; Susan S. Bies; J. Alfred Broaddus, Jr.; Roger W. Ferguson, Jr.; Edward M. Gramlich; Jack Gwynn; Donald L. Kohn; Michael H. Moskow; Mark W. Olson; and Robert T. Parry.

PROPOSED RULES PUBLISHED FOR PROVIDING DISCLOSURES

The Federal Reserve Board, on November 26, 2003, published proposed rules to establish more uniform standards for providing disclosures under five consumer protection regulations: B (Equal Credit Opportunity); E (Electronic Fund Transfers); M (Consumer Leasing); Z (Truth in Lending); and DD (Truth in Savings).

Establishing a more uniform standard, and defining more specifically the standard for providing disclosures, is intended to help ensure that consumers

receive noticeable and understandable information that is required by law in connection with obtaining consumer financial products and services. In addition, consistency among the regulations should facilitate compliance by institutions. Under most of the consumer financial services and fair lending laws administered by the Board, consumers must be provided with disclosures that are “clear and conspicuous.” This standard is currently defined using similar but not identical language in the various regulations. The proposed rules provide a more specific definition for “clear and conspicuous” and include examples of how to meet the standard.

The Board is also proposing additional amendments to Regulation Z and the staff commentary that interprets and implements the regulation. An interpretive rule of construction would be added to clarify that the word “amount” represents a numerical amount throughout Regulation Z. Proposed updates to the staff commentary provide guidance on consumers’ exercise of rescission rights for certain home-secured loans. The proposal also includes several technical revisions to the staff commentary.

APPROVAL OF FINAL RULE TO REGULATION Y

The Federal Reserve Board, on December 4, 2003, announced its approval of a final rule to Regulation Y (Bank Holding Companies and Change in Bank Control) that expands the ability of all bank holding companies, including financial holding companies, to process, store, and transmit nonfinancial data in connection with their financial data processing, storage, and transmission activities.

The rule became effective on January 8, 2004.

PROPOSED RULE TO AMEND REGULATION CC

The Federal Reserve Board, on December 22, 2003, approved a proposed rule to amend Regulation CC (Availability of Funds and Collection of Checks) and its commentary to implement the Check Clearing for the 21st Century Act (Check 21 Act). The Check 21 Act was enacted on October 28, 2003, and becomes effective on October 28, 2004.

To facilitate check truncation and electronic check exchange, the Check 21 Act authorizes a new negotiable instrument called a “substitute check” and provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. A substitute check is a paper reproduction of the original check that can be processed just like the original check. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically.

The Board’s proposed amendments: (1) set forth the requirements of the Check 21 Act that apply to banks; (2) provide a model disclosure and model notices relating to substitute checks; and (3) set forth bank endorsement and identification requirements for substitute checks. The proposed amendments also clarify some existing provisions of the rule and commentary.

COMMENTS REQUESTED ON INTERIM FINAL RULES TO THE FAIR AND ACCURATE TRANSACTIONS ACT OF 2003

The Federal Reserve Board, on December 16, 2003, requested comment on interim final rules and proposed rules to establish effective dates for certain provisions of the Fair and Accurate Transactions Act of 2003 (FACT Act) including provisions that preempt state laws that regulate areas governed by the Fair Credit Reporting Act (FCRA). These regulations are being issued jointly with the Federal Trade Commission (FTC).

The recently enacted FACT Act amends the FCRA and requires the Board and the FTC, within sixty days of enactment, to adopt final rules establishing the effective dates for provisions of the FACT Act that do not have a statutorily prescribed effective date. The agencies jointly adopted interim final rules that established December 31, 2003, as the effective date for the preemption provisions of the FACT Act as well as provisions authorizing the agencies to adopt rules or take other actions to implement the FACT Act.

The current preemption provisions of the FCRA expired on January 1, 2004. Adopting these rules as interim final rules without advance public comment or delay was intended to avoid delays that could undermine the purpose of these provisions and cause confusion about the applicability of some state laws in areas that the Congress has determined should be governed by uniform national standards. Adopting these rules would also have the effect of preserv-

ing the current state of the law while comment was received.

The Board and the FTC also jointly proposed rules establishing a schedule of effective dates for other provisions of the FACT Act that do not contain effective dates. The joint proposed rules would establish March 31, 2004, as the effective date for provisions of the FACT Act that do not require significant changes to business procedures. With respect to other provisions that likely entail significant changes to business procedures, the joint proposed rules would make these provisions effective on December 1, 2004, to allow industry a reasonable time to establish systems to comply with the statute.

Comments on the joint interim final rules and proposed rules were due January 12, 2004.

ANNUAL NOTICE OF ASSET-SIZE EXEMPTION THRESHOLD

The Federal Reserve Board, on December 19, 2003, published its annual notice of the asset-size exemption threshold for depository institutions under Regulation C (Home Mortgage Disclosure).

The asset-size exemption for depository institutions was raised to \$33 million based on the annual percentage change in the consumer price index for urban wage earners and clerical workers for the twelve-month period ending in November 2003. As a result, depository institutions with assets of \$33 million or less as of December 31, 2003, are exempt from data collection in 2004. An institution’s exemption from collecting data in 2004 does not affect its responsibility to report the data it was required to collect in 2003.

The Board also is publishing technical amendments to Regulation C and the staff commentary to conform them to changes in the standards for defining metropolitan statistical area boundaries made by the U.S. Office of Management and Budget.

The adjustment and technical amendments became effective January 1, 2004.

The Home Mortgage Disclosure Act (HMDA) and the Board’s Regulation C require most depository institutions and certain for-profit, nondepository institutions to collect, report, and disclose data about applications for, and originations and purchases of home purchase loans, refinancings, and home improvement loans. Data reported include the type, purpose, and amount of the loan; the ethnicity, race, sex, and income of the loan applicant; and the location of the property. The purposes of HMDA include helping to determine whether financial institutions

are serving the housing needs of their communities and assisting in fair lending enforcement.

*REPORT OF THE WORKING GROUP ON
GOVERNMENT SECURITIES CLEARANCE AND
SETTLEMENT*

The Federal Reserve Board, on January 7, 2004, released the report of the private-sector Working Group on Government Securities Clearance and Settlement and endorsed its recommendations.

The Working Group, formed by the Board after the September 11, 2001, terrorist attacks in New York City, recommended nine steps to mitigate risks to the financial system from the interruption or termination of the services of a clearing bank as the result of either operational or non-operational problems.

All of the major participants in the U.S. government securities markets depend on one of two commercial banks to settle their trades and facilitate financing of their positions. The terrorist attacks demonstrated ways that operational disruptions to a clearing bank's services could disrupt the trading, clearance, and settlement of government securities. Those events also reinforced government officials' long-standing concerns about the potential consequences of voluntary or involuntary exit from the business by either of the two clearing banks.

The Working Group recommendations are the following:

- Regulators should monitor and test implementation of the clearing banks' plans to satisfy the regulators' sound practices and implementation timelines for core clearing and settlement organizations as described in the Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System, issued April 8, 2003, by the Board, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission (SEC).

- The private sector should develop a secure and resilient telecommunications infrastructure for clearance and settlement of U.S. government securities. The official sector should support this effort.

- Market participants, regulators, and others in the official sector should encourage further efforts to reduce the specific threats posed by cyber-terrorism.

- To minimize the adverse effect of any temporary reduction in clearing bank capacity, market participants should act now to: (1) review their existing documentation for U.S. government securities and repurchase transactions and seek to clarify their obligations to counterparties in the event of a

future temporary disruption at a clearing bank; and (2) ensure that the Fixed Income Clearing Corporation's existing netting and guaranteed settlement services are used as much as practical.

- With the same objective, regulators should review their authority to temporarily liberalize or suspend various regulations when such actions could contribute to the restoration of orderly markets or if compliance with such regulations may be unusually costly during a temporary disruption. As an element of their contingency planning, regulators should consider in advance the costs and benefits of liberalization or suspension of such regulations. Likewise, they should review their authority to suspend trading or settlement activity and consider in advance the costs and benefits of such measures.

- In the event of a temporary reduction in clearing bank processing capacity, the following should occur: (1) market participants should explore changes to the settlement cycle for U.S. government securities and limitations on collateral substitutions in repurchase transactions; (2) the Federal Reserve should consider altering the operating hours of the Fedwire system, liberalizing the terms of its government securities lending program, and, when necessary and appropriate, injecting additional liquidity into the marketplace; and (3) consistent with their contingency plans, regulators should consider liberalizing or suspending relevant regulations when appropriate to mitigate adverse effects on the trading and settlement of government securities.

- Market participants and regulators should support efforts, such as The Bond Market Association's effort to enhance the value of its Emergency Subcommittee, that would provide a source of real-time information on the functioning of the government securities clearance and settlement system and offer a potential sounding board for actions being contemplated by market participants, the Federal Reserve, the SEC, the U.S. Department of the Treasury, or other regulators.

- In the event of a permanent exit of a clearing bank, every effort should be made to sell the exiting bank's clearing business to another well-qualified bank.

- Additional work should be undertaken to further develop the concept of creating a new bank (NewBank), a dormant entity, ready for activation in the event that a clearing bank permanently exited and no well-qualified bank steps forward.

The Board supports these recommendations and plans to establish another private-sector working group to work on developing the NewBank concept.

The Working Group, established by the Board in November 2002, was chaired by Michael Urkowitz, Senior Adviser to Deloitte Consulting. Its members included senior representatives of the two clearing banks for government securities (J.P. Morgan Chase and the Bank of New York), the Fixed Income Clearing Corporation, securities dealers, an interdealer broker, a custodian bank, a money market fund, The Bond Market Association, and the Investment Company Institute. Staff of the Federal Reserve, the SEC, and the U.S. Treasury participated in the Working Group as observers and technical advisers.

The Working Group was formed because of public comment offered in response to the Interagency White Paper on Structural Change in the Settlement of Government Securities: Issues and Options, issued May 9, 2002, by the Board and the SEC. The White Paper explored the merits of possible approaches to structural change to existing clearing arrangements that would involve creation of some type of industry utility to assume the critical functions of the clearing banks. The public comments suggested that government policymakers should focus on mitigating risks within the existing structure of two clearing banks rather than on fostering development of a utility.

FIGURES ON INCOME OF THE FEDERAL RESERVE BANKS

The Federal Reserve Board, on January 8, 2004, released figures that indicate the Federal Reserve Banks distributed approximately \$21.997 billion of their \$23.792 billion total income to the U.S. Treasury during 2003.

Federal Reserve System income is derived primarily from interest earned on U.S. government securities that the Federal Reserve has acquired through open market operations. This income amounted to \$22.602 billion in 2003. Additionally, revenues from fees for the provision of priced services to depository institutions totaled \$887 million. The remaining income of \$303 million includes earnings on foreign currencies, earnings from loans, and other income.

The operating expenses of the twelve Reserve Banks totaled \$2.366 billion in 2003, including the System's net pension costs. In addition, the cost of earnings credits granted to depository institutions amounted to \$121 million. Assessments against Reserve Banks for Board expenditures totaled \$297 million and the cost of currency amounted to \$508 million.

Net additions to income amounted to \$2.481 billion, resulting primarily from unrealized gains on

assets denominated in foreign currencies revalued to reflect current market exchange rates.

Total net income for the Federal Reserve Banks in 2003 amounted to \$22.981 billion. Under the Board's policy, each Reserve Bank's net income after the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital is transferred to the U.S. Treasury. The statutory dividends to member banks in 2003 were \$518 million.

LAUNCH OF THE FISCAL IMPACT TOOL

The Federal Reserve Board, on January 12, 2004, announced the launch of a new informational resource designed to help community economic developers evaluate development proposals. The new resource tool complements two additional Board products that also seek to promote community development activities.

The Fiscal Impact Tool (FIT) is an automated system that analyzes the potential effect of economic development projects. The program, which is driven by Excel software, estimates the effects of proposed projects on local sales and property tax revenues and on costs to the local government.

FIT is intended for use by economic and community development professionals, primarily in small and midsize communities. Using estimates that are based on user-provided information about the project, FIT can identify the general costs and benefits of proposed projects. Alternatively, it can be used as an aid in decisionmaking by providing information on the extent of financial support that a community or region might want to provide when planning for various development options.

FIT is one of a series of new online resources for community developers. The Board's Community Affairs Office also created Lessons Learned: Community and Economic Development Case Studies—a database that profiles the practices and programs used in various communities to finance economic development. Each case study identifies a problem, the solution, the results, the lessons learned, and contact information for the project. In choosing the case studies to be highlighted in the database, consideration is given to the transferability of the program to other geographic areas and the potential for others to benefit from the lessons learned by the developers implementing the program or project.

Finally, the Community Development Investments web site is a source for information about Federal Reserve policies and guidelines that promote investment by bank holding companies and state member

banks in community development activities. The site features a regulatory overview, information on investment authority and procedures, and links to additional resources.

*THE OSFI AND FEDERAL RESERVE BOARD
ANNOUNCE AGREEMENT WITH THE CANADIAN
IMPERIAL BANK OF COMMERCE*

The Office of the Superintendent of Financial Institutions (OSFI) Canada and the Board of Governors of the Federal Reserve System in the United States announced, on December 22, 2003, that they have reached an agreement with the Canadian Imperial Bank of Commerce (CIBC). The agreement is part of coordinated actions between the OSFI and U.S. regulatory and enforcement authorities related to the CIBC's involvement in certain structured finance transactions with the Enron Corporation, Houston, Texas.

The agreement with the OSFI and the Board is specifically focused on the particular structured finance transactions entered into by the CIBC with Enron and requires the CIBC to adopt remedial policies and procedures, some of which are already in place. The agreement covers certain types of complex, structured, financial transactions, and year-end and quarter-end transactions, with U.S. corporations registered under the Securities and Exchange Commission Act of 1934 and any affiliates. The U.S. Securities and Exchange Commission and the U.S. Department of Justice also announced Enron-related actions against the CIBC.

As part of its supervisory action, the OSFI is separately requiring that the CIBC adopt similar enhanced reputational risk management policies in its worldwide operations.

Created in 1987 by an Act of Parliament, the OSFI has a mandate to protect the rights and interests of depositors, policyholders, and pension plan members; and to advance and administer a regulatory framework so as to contribute to public confidence in the Canadian financial system.

The Federal Reserve, the U.S. central bank, shares responsibility with other U.S. and state authorities in overseeing the operations of foreign banking organizations in the United States.

*PUBLIC MEETING HELD ON MERGER BETWEEN
BANK OF AMERICA AND FLEETBOSTON
FINANCIAL CORPORATION*

The Federal Reserve Board, on December 22, 2003, announced that public meetings would be held in

Boston, Massachusetts, and San Francisco, California, on the proposal by Bank of America Corporation, Charlotte, North Carolina, to merge with FleetBoston Financial Corporation, Boston, Massachusetts.

The purpose of these meetings was to collect information relating to factors the Board is required to consider under the Bank Holding Company Act. These factors are the effects of the proposal on the financial and managerial resources and future prospects of the companies and banks involved in the proposal, competition in the relevant markets, and the convenience and needs of the communities to be served. Convenience and needs considerations include consideration of the records of performance of Bank of America and FleetBoston under the Community Reinvestment Act.

The specific dates, times, and locations of the meetings were the following:

- Boston—Wednesday, January 14, 2004, at 9:00 a.m. EST, at the Federal Reserve Bank of Boston, 600 Atlantic Avenue, Boston, Massachusetts 02106.
- San Francisco—Friday, January 16, 2004, at 8:30 a.m. PST, at the Federal Reserve Bank of San Francisco, 101 Market Street, San Francisco, California 94105.

*PUBLIC COMMENT SOUGHT ON WAYS TO
IMPROVE PRIVACY NOTICES*

Eight federal regulators, on December 23, 2003, announced an advance notice of proposed rulemaking (ANPR) requesting public comment on ways to improve the privacy notices that financial institutions provide to consumers under the Gramm–Leach–Bliley Act (GLB Act).

The ANPR describes various approaches that the agencies could pursue to allow or require financial institutions to provide alternative types of privacy notices that would be more readable and useful to consumers. It also seeks comment on whether differences between federal and state laws pose any special issues for developing a short privacy notice.

Section 503 of the GLB Act requires financial institutions to provide a notice to each customer that describes the institution's policies and practices regarding the disclosure to third parties of nonpublic personal information. In 2000, the agencies published consistent final regulations that implement these provisions, including sample clauses that institutions may use in privacy notices. However, the regulations

do not prescribe any specific format or standardized wording for privacy notices.

The agencies do not propose the adoption of any specific action at this time to improve privacy notices. Instead, the agencies request input on what approaches would be most useful to consumers while taking into consideration the burden on financial institutions.

The ANPR was developed jointly by the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Securities and Exchange Commission.

The agencies will evaluate the public comments on the ANPR with a view toward developing proposals for appropriate interpretations or amendments to their respective regulations. In the event that the agencies decide to proceed, the agencies expect to do so through proposed rulemaking. The agencies also expect that consumer testing will be a key component in the development of any specific proposal.

AGENCIES ISSUE POLICY STATEMENT ON FINANCIAL SUPPORT TO ADVISED INVESTMENT FUNDS

The federal banking and thrift supervisory agencies issued a policy statement on January 5, 2004, alerting financial institutions to the safety and soundness and legal issues involved in providing financial support to investment funds advised by the institution or its subsidiaries or affiliates.

The statement is prompted by recent market developments, including market volatility, the continued low-interest rate environment, and operational and corporate governance weaknesses. It warns that investment advisory services can pose material risks to a financial institution's liquidity, earnings, capital, and reputation and can harm investors, if the associated risks are not effectively controlled.

To ensure safe and sound banking practices, the policy statement makes clear that a financial institution should not inappropriately place its resources and reputation at risk for the benefit of the fund's investors and creditors. In addition, financial institutions should not violate the limits and requirements contained in applicable legal requirements or in any supervisory conditions imposed by the agencies, and should not create an expectation that they will prop up an advised fund.

The statement sets forth the agencies' expectations regarding the nature of controls that financial institutions should have in place over investment advisory activities and further provides that financial institutions should notify and consult with their primary federal regulator before, or in the event of an emergency, immediately after, providing financial support to an advised fund.

APPOINTMENTS OF NEW MEMBERS AND DESIGNATION OF THE CHAIR AND VICE CHAIR OF THE THRIFT INSTITUTIONS ADVISORY COUNCIL

The Federal Reserve Board, on December 1, 2003, announced the names of four new members of its Thrift Institutions Advisory Council (TIAC) and designated a new president and vice president of the council for 2004.

The council is an advisory group made up of twelve representatives from thrift institutions. The panel was established by the Board in 1980 and includes savings and loan, savings bank, and credit union representatives. The council meets three times each year with the Board of Governors to discuss developments relating to thrift institutions, the housing industry, mortgage finance, and certain regulatory issues.

The new council president for 2004 is William J. Small, chairman and CEO, First Federal Bank, Defiance, Ohio. The new vice president is D. Tad Lowrey, chairman, president, and CEO, Jackson Federal Bank, Brea, California.

The four new members, named for two-year terms that began January 1, 2004, are the following:

H. Brent Beesley, chairman and CEO, Heritage Bank, St. George, Utah

Douglas K. Freeman, chairman and CEO, NetBank, Alpharetta, Georgia

David H. Hancock, CEO, North American Savings Bank, Grandview, Missouri

Roy M. Whitehead, president and CEO, Washington Federal Savings, Seattle, Washington

Other TIAC members whose terms continue through 2004 are the following:

Michael J. Brown, Sr., president and CEO, Harbor Federal Savings Bank, Fort Pierce, Florida

Richard J. Driscoll, president, First Savings Bank, FSB,
Arlington, Texas

Curtis L. Hage, chairman and CEO, Home Federal Bank,
Sioux Falls, South Dakota

Olan O. Jones, Jr., president and CEO, Eastman Credit
Union, Kingsport, Tennessee

Kirk Kordeleski, president and CEO, Bethpage Federal
Credit Union, Bethpage, New York

George W. Nise, president and CEO, Beneficial Savings
Bank, Philadelphia, Pennsylvania

*APPOINTMENTS OF NEW MEMBERS AND
DESIGNATION OF THE CHAIR AND VICE CHAIR
OF THE CONSUMER ADVISORY COUNCIL*

The Federal Reserve Board, on January 9, 2004, named nine new members to its Consumer Advisory Council for three-year terms and designated a new chair and vice chair of the council for 2004.

The council advises the Board on the exercise of its responsibilities under the Consumer Credit Protection Act and on other matters in the area of consumer financial services. The council meets three times a year in Washington, District of Columbia.

Agnes Bundy Scanlan was designated chair; her term runs through December 2004. Ms. Scanlan is managing director and chief compliance officer for FleetBoston Financial.

Mark Pinsky was designated vice chair; his term on the council ends in December 2005. Mr. Pinsky is president and chief executive officer for the National Community Capital Association.

The nine new members are the following:

Dennis L. Algieri
Westerly, Rhode Island

Mr. Algieri is senior vice president of Compliance and Community Affairs and the community reinvestment officer for The Washington Trust Company. He is responsible for the bank's compliance, community affairs, community reinvestment, and Bank Secrecy Act programs.

Sheila Canavan
Berkeley, California

Ms. Canavan is an attorney with a law practice that focuses on consumer litigation. Her litigation experience has involved state and federal consumer regulation, elder abuse, fraud, and unfair and unlawful business practices; and she has special expertise in matters relating to subprime lending and securitization of home mortgage products. Ms. Canavan represents consumers, often low-income consumers, on credit transaction issues.

Anne Diedrick
New York, New York

Ms. Diedrick is a senior vice president for JP Morgan Chase. She is an executive team member of the JPMorgan Chase Community Development Group; the senior officer in charge of Community Reinvestment Act compliance at JPMorgan Chase Bank, Chase Manhattan Bank, USA, N.A., and J.P. Morgan Trust Company, N.A.; and the senior manager in charge of the JPMorgan Chase Corporate Fair Lending Unit. She is also responsible for the Office of Strategic Alliances, which works with not-for-profit community development organizations.

Hattie B. Dorsey
Atlanta, Georgia

Ms. Dorsey is the president and chief executive officer of the Atlanta Neighborhood Development Partnership, Inc., a not-for-profit corporation that promotes community revitalization in Atlanta's neighborhoods. Her experience is in single-family and multifamily housing, community and economic development, regional equity, and public policy.

Bruce B. Morgan
Roeland Park, Kansas

Mr. Morgan is chairman, president, chief executive officer, and director of Valley State Bank. He is actively involved in bank regulation, payments systems, and developing technologies that affect bank delivery of products and services. Mr. Morgan serves on the Customer Advisory Committee of the Federal Reserve Bank of Kansas City and on the Payment and Technology Committee of the Independent Community Bankers of America. He is a former member and past chairman of the Kansas State Banking Board.

Mary Jane Seebach
Newbury Park, California

Ms. Seebach is executive vice president and chief compliance officer for Countrywide Financial Corporation. She oversees legal and regulatory compliance programs throughout the enterprise. Previously, Ms. Seebach worked as regulatory counsel advising on state and federal consumer credit laws for Countrywide Home Loans, The Money Store, and North American Mortgage Company, and as a senior attorney for the Federal Reserve Board.

Paul J. Springman
Atlanta, Georgia

Mr. Springman is group executive, Predictive Sciences, for Equifax. He has responsibility for providing modeling, analytical services, decisioning systems, and applications processing for clients. He has been involved in launching a new business line, "Consumer Direct," to provide credit information, account monitoring alerts, and scoring analysis services to consumers.

Forrest F. Stanley
Cleveland, Ohio

Mr. Stanley is senior vice president and associate general counsel for KeyBank. He has responsibility for all legal matters affecting retail banking including mortgage, home equity, credit and debit cards, privacy, the Community Reinvestment Act, e-commerce, and the USA Patriot Act. Mr. Stanley has also been director of two KeyBank subsidiaries, Champion Mortgage Company and Key Bank, USA.

He currently serves as chairman of the bank's Fair Lending Executive Committee.

Lori R. Swanson
St. Paul, Minnesota

Ms. Swanson is solicitor general for the Office of the Minnesota Attorney General. She is responsible for civil litigation and oversees several divisions including Consumer Enforcement, Commerce, and Consumer Services. She negotiated a first-of-its-kind settlement with a national bank in a lawsuit alleging violations of state consumer protection laws and the Fair Credit Reporting Act based on disclosure of personal financial information.

Council members whose terms continue through 2004 are the following:

Janie Barrera, president and chief executive officer, ACCION Texas, San Antonio, Texas

Kenneth P. Bordelon, chief executive officer, E Federal Credit Union, Baton Rouge, Louisiana

Robin Coffey, vice president, Harris Trust and Savings Bank, Chicago, Illinois

Thomas FitzGibbon, senior vice president, MB Financial Bank, N.A., Chicago, Illinois

Larry Hawkins, president and chief executive officer, Unity National Bank, Houston, Texas

Ruhi Maker, senior attorney, Public Interest Law Office of Rochester, Rochester, New York

Patricia McCoy, professor of law, University of Connecticut School of Law, Hartford, Connecticut

Elsie Meeks, executive director, First Nations Oweesta Corporation, Kyle, South Dakota

Debra S. Reyes, president, Neighborhood Lending Partners, Inc., Tampa, Florida

Benson Roberts, vice president for policy, Local Initiatives Support Corporation, Washington, District of Columbia

Hubert Van Tol, co-director, Fairness in Rural Lending, Sparta, Wisconsin

Council members whose terms continue through 2005 are the following:

Susan Bredehoft, senior vice president, compliance risk management, Commerce Bank, N.A., Cherry Hill, New Jersey

Dan Dixon, group senior vice president, World Savings Bank, FSB, Washington, District of Columbia

James Garner, senior vice president and general counsel, North American Consumer Finance, Citigroup, Baltimore, Maryland

R. Charles Gatson, vice president, Midtown Community Development Corporation, Kansas City, Missouri

W. James King, president and chief executive officer, Community Redevelopment Group, Cincinnati, Ohio

Benjamin Robinson III, senior vice president and strategy management executive, Bank of America, Charlotte, North Carolina

Diane Thompson, supervising attorney, Land of Lincoln Legal Assistance Foundation, Inc., East St. Louis, Illinois

Clint Walker, general counsel and chief administrative officer, Juniper Bank, Wilmington, Delaware

RELEASE OF THE BEIGE BOOK

The Federal Reserve Board announced on November 21, 2003, that it would release the November Beige Book on Wednesday, November 26, 2003, at noon EST because of the early closure of some financial markets. The November Beige Book was previously scheduled for release on November 26, 2003, at 2:00 p.m. EST.

RELEASE OF MINUTES OF DISCOUNT RATE MEETINGS

The Federal Reserve Board, on December 18, 2003, released the minutes of its discount rate meetings from September 29, 2003, through October 27, 2003.

PUBLICATION OF THE NOVEMBER 2003 UPDATE TO THE COMMERCIAL BANK EXAMINATION MANUAL

The November 2003 update to the *Commercial Bank Examination Manual* (Supplement Nos. 19 and 20), has been published and is now available. The new update includes supervisory and examination guidance on the following subjects:

1. *The Applicability of Corporate Governance Initiatives to Nonpublic Banking Organizations.* The section on the internal control and audit function, oversight, and outsourcing has been revised to incorporate the May 5, 2003, Statement on Application of Recent Corporate Governance Initiatives to Nonpublic Banking Organizations. The statement (issued by the Federal Reserve, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) responds to questions received regarding the way that small, nonpublic banking organizations are to comply with the corporate governance, auditing, and other requirements of the Sarbanes-Oxley Act. Although the act

does not require small, nonpublic banking organizations to strictly adhere to its provisions, the agencies expect these banking organizations to ensure that their policies and procedures are consistent with applicable laws, regulations, and supervisory guidance and that they remain appropriate for the organization's size, operations, and resources. See SR letter 03-8.

2. *The Appropriate Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management.* The sections on asset and liability management have been revised to incorporate the July 25, 2003, Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management. The advisory presents information on the new Federal Reserve primary and secondary discount window programs. The advisory provides guidance on the appropriate use of primary credit in effective liquidity management. The board of directors and senior management of a depository institution are advised to consider the Federal Reserve's primary credit program as part of their contingency funding plans and to provide for adequate diversified potential sources of funds to satisfy liquidity needs, which includes planning for certain significant liquidity events. The examination procedures and internal control questionnaire were also revised. See SR letter 03-15.

3. *Insurance Sales Activities and Consumer Protection in Sales of Insurance.* New sections provide examiners' guidance for (1) conducting risk assessments of state member bank insurance and annuity sales activities in accordance with the Federal Reserve's risk-focused supervisory approach and (2) examining a state member bank's compliance with the Consumer Protection in Sales of Insurance (CPSI) regulation, Subpart H of the Board's Regulation H (12 CFR 208.81–86). Also discussed are a joint interpretation and joint statement regarding the CPSI regulation. The CPSI regulation (effective October 1, 2001) implements section 305 of the Gramm–Leach–Bliley Act (12 USC 1831x; the GLB Act). The regulation requires certain disclosures in connection with the retail sale or solicitation of insurance products and annuities by a bank, by any other person at bank offices where retail deposits are accepted from the public, or by any person "acting on behalf of the bank." The examination guidance provides a comprehensive review of insurance and annuity sales activities as they pertain to state member banks. Consistent with the GLB Act, the guidance incorporates applicable restrictions on examining a functionally regulated insurance subsidiary of a state member bank. A glossary of terms associated with insurance and annuity sales activities is provided. Examination objectives, examination procedures, and an internal control questionnaire are also provided.

4. *Restrictions on Institutions in Troubled Condition.* The section on formal and informal corrective actions has been revised to discuss the existing restrictions on, and requirements for, severance payments made to institution-affiliated-parties (so called "golden parachute payments"). The restrictions originated from the Crime Control Act of 1990, which added section 18(k) to the Federal Deposit Insurance Act (12 USC 1828(k); the FDI Act). The FDIC's regulations on golden parachute agreements are found in

12 CFR 359 and are discussed in this manual section. The thirty-day prior-notice requirement for appointing any new directors or senior executive officers of state member banks and bank holding companies is also discussed. (See section 32 of the FDI Act (12 USC 1831i) and Subpart H of Regulation Y (12 CFR 225.71). This notice requirement also applies to any change in the responsibilities of any current senior executive officer who proposes to assume a different position. See SR letter 03-6.

5. *Transactions between Member Banks and Their Affiliates.* The section on bank-related organizations is revised to incorporate the examples found in Regulation W, "Transactions between Member Banks and Their Affiliates," for the rule's quantitative limits, collateral requirements, valuations, exemptions, and timing of covered transactions. Additional interim examination procedures are also included.

6. *Fiduciary Activities.* The introduction of the section on fiduciary activities has been revised to provide more examination guidance on the industry standards and examiner responsibilities. For a state member bank's subsidiary that is engaged in fiduciary activities, the examiner should rely on the findings of the appropriate functional regulator that has the primary supervisory responsibility for evaluating risks, hedging, and risk management. See SR letter 00-13. A discussion is provided on the available reported supervisory information and analytical support tools that the examiner can use to evaluate a bank's fiduciary activities.

The public may obtain the *Manual* and the updates (including pricing information) from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551 (or charge by facsimile at 202-728-5886). The *Manual* is also available on the Board's public web site at www.federalreserve.gov/boarddocs/supmanual/.

PUBLICATION OF THE DECEMBER 2003 UPDATE TO THE *BANK HOLDING COMPANY SUPERVISION MANUAL*

The December 2003 update to the *Bank Holding Company Supervision Manual*, Supplement No. 25, has been published and is now available. The *Manual* comprises the Federal Reserve System's regulatory, supervisory, and inspection guidance for bank holding companies. The new supplement includes the following subjects:

1. *The Applicability of Corporate Governance Initiatives to Nonpublic Banking Organizations.* The *Manual's* section on the 2003 "Interagency Policy Statement on the Internal Audit Function and its Outsourcing" has been revised to incorporate the May 5, 2003, Statement on Application of Recent Corporate Governance Initiatives to Nonpublic Banking Organizations. The statement (issued

by the Federal Reserve, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) responds to questions received regarding the way that small, nonpublic banking organizations are to comply with the corporate governance, auditing, and other requirements of the Sarbanes–Oxley Act. Although the act does not require small, nonpublic banking organizations to strictly adhere to its provisions, the agencies expect these banking organizations to ensure that their policies and procedures are consistent with applicable laws, regulations, and supervisory guidance and that they remain appropriate for the organization’s size, operations, and resources. See SR letter 03-8.

2. *Insurance Sales Activities and Consumer Protection in Sales of Insurance.* New sections provide examiners with guidance on insurance sales activities and consumer protection in sales of insurance as the guidance pertains to financial holding companies (FHCs), bank holding companies (BHCs), or state member banks. Examiner guidance is provided on (1) conducting risk assessments of BHCs or state member bank insurance and annuity sales activities in accordance with the Federal Reserve’s risk-focused supervisory approach and (2) examining a state member bank’s compliance with the new Consumer Protection in Sales of Insurance (CPSI) regulation contained in Subpart H of the Board’s Regulation H (12 CFR 208.81–86). The CPSI regulation (effective October 1, 2001) applies only to federally insured depository institutions. It implements section 305 of the Gramm–Leach–Bliley Act (the GLB Act; 12 USC 1831x). The guidance provides a comprehensive review of insurance and annuity sales activities as they pertain to a BHC or bank and discusses the Federal Reserve’s responsibility for enforcing a depository institution’s compliance with the CPSI regulation. Consistent with the GLB Act, the guidance incorporates applicable restrictions on examining a functionally regulated subsidiary of a BHC or bank. A glossary of terms associated with insurance and annuity sales activities is provided. Inspection objectives, inspection procedures, and an internal control questionnaire are also provided.

3. *The Appropriate Use of the Federal Reserve’s Primary Credit Program in Effective Liquidity Management.* The section on bank liquidity has been revised to incorporate the July 25, 2003, Interagency Advisory on the Use of the Federal Reserve’s Primary Credit Program in Effective Liquidity Management. The advisory presents information on the new Federal Reserve primary and secondary discount window programs. The board of directors and senior management of BHCs and state member banks are advised to consider the Federal Reserve’s primary credit program as part of their contingency funding plans and to provide for adequate diversified potential funding sources to satisfy liquidity needs, which includes planning for certain significant liquidity events. See SR letter 03-15.

4. *Restrictions on Institutions in Troubled Condition.* The section on formal corrective actions has been revised to discuss the existing restrictions on, and requirements for, severance payments made to institution-affiliated parties (so called “golden parachute payments”). The restrictions originated from the Crime Control Act of 1990, which added section 18(k) to the Federal Deposit Insurance Act (12 USC 1828(k); the FDI Act). The FDIC’s regulations on

golden parachute payments (or any agreement to make any payment), found in 12 CFR 359, are discussed. The thirty-day prior-notice requirement for appointing any new directors or senior executive officers of state member banks and bank holding companies is also discussed. See section 32 of the FDI Act (12 USC 1831i) and Subpart H of Regulation Y (12 CFR 225.71). This notice requirement also applies to any change in the responsibilities of any current senior executive officer who proposes to assume a different position. See SR letter 03-6.

5. *Nonbanking Activities.* Certain new or revised sections of the Nonbanking Activities chapter provide supervisory and inspection guidance or they discuss the Board’s authorizations or staff interpretations:

a. *Trust (Fiduciary) Activities.* The trust services section is revised to discuss the oversight responsibilities of the board of directors and senior management for operating the fiduciary activities of their financial holding company (FHC) or bank holding company (BHC) in a safe and sound manner. This oversight at the consolidated level is important because the risks associated with financial activities as well as fiduciary activities can cross legal entities and business lines. Relying on the examination findings of the appropriate trust activities regulator, the examiner is to review and assess the internal policies, reports, and procedures and the effectiveness of the consolidated risk-management process for trust activities. The revision includes a discussion of the available reported supervisory information and analytical support tools that an examiner can use to evaluate the trust services of the holding company and its subsidiaries. See SR letter 00-13.

b. *Derivative Transactions as Principal.* The section on investment transactions as principal is revised to include the Board’s June 27, 2003, approval of a Regulation Y amendment (effective August 4, 2003) to permit BHCs to (1) take and make delivery of title to commodities underlying commodity derivative contracts on an instantaneous, pass-through basis and (2) enter into certain commodity derivative contracts that do not require cash settlement or that specifically provide for assignment, termination, or offset before delivery.

c. *Title Abstracting Activities for U.S.-Registered Aircraft.* The real estate title abstracting section (a nonbanking activity previously approved by Board order, which is based on section 4(c)(8) of the BHC Act—see *Federal Reserve Bulletin*, vol. 81 (August 1995), pp. 805–07) is revised to include an October 7, 2002, staff opinion on BHC-conducted title abstracting activities for U.S.-registered aircraft. The title abstracting services are limited to (1) performing a title search of aircraft records and (2) reporting factual information on the ownership history of the relevant aircraft and the existence of liens and encumbrances affecting title to the aircraft.

d. *Limited Physical Commodity Trading Activities for FHCs.* A new section is provided that is based on section 4(k) of the BHC Act, which discusses the Board’s October 2, 2003, approval of an FHC’s notice under section 4 of the BHC Act to engage in physical commodity trading activities on a limited basis as an activity that is complementary to the financial activity of engaging regularly as principal in commodity derivative activities. (The effective date of the Board’s order was also October 2, 2003.)

A more detailed summary of changes is included with the update package. The *Manual* and updates, including pricing information, are available from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551 (or charge by facsimile: 202-728-5886). The *Manual* is also available on the Board's public web site at www.federalreserve.gov/boarddocs/supmanual/.

ENFORCEMENT ACTIONS

The Federal Reserve Board, on November 21, 2003, announced the issuance of a final decision and order of prohibition against Garfield C. Brown, Jr., a former employee of Mellon Bank, N.A., Pittsburgh, Pennsylvania. The order, the result of an action brought by the Office of the Comptroller of the Currency, prohibits Mr. Brown from participating in the conduct of the affairs of any financial institution or holding company.

The Federal Reserve Board, on November 26, 2003, announced the issuance of a consent order of assessment of a civil money penalty against The Bank of Currituck, Moyock, North Carolina, a state member bank. The Bank of Currituck, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's Regulations implementing the National Flood Insurance Act.

The order requires The Bank of Currituck to pay a civil money penalty of \$16,000, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board, on November 26, 2003, announced the issuance of a consent order of assessment of a civil money penalty against the Provident Bank, Cincinnati, Ohio, a state member bank. Provident Bank, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's Regulations implementing the National Flood Insurance Act.

The order requires Provident Bank to pay a civil money penalty of \$34,100, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board, on December 1, 2003, announced the execution of a written agreement by and among the Putnam County Bank, Hurricane, West Virginia; the West Virginia Division of Bank-

ing, Charlestown, West Virginia; and the Federal Reserve Bank of Richmond.

The Federal Reserve Board, on December 18, 2003, announced the issuance of several enforcement actions involving Credit Lyonnais, S.A., a large French bank with several U.S. offices. The actions relate primarily to Credit Lyonnais's participation in the rehabilitation of the Executive Life Insurance Company of California, which was declared insolvent in 1991. The Federal Reserve's actions included the following:

- A civil money penalty of \$100 million against Credit Lyonnais issued by consent.
- A consent cease and desist order against Credit Lyonnais designed to prevent future violations of the Bank Holding Company Act.
- Initiation of a formal enforcement action against Jean Peyrelevade, the former chairman and chief executive officer of Credit Lyonnais, seeking to prohibit him from the U.S. banking industry, and assessing a \$500,000 civil money penalty against him. Peyrelevade will have an opportunity to answer the charges and request a hearing before an administrative law judge.
- A written agreement between Credit Agricole, the parent of Credit Lyonnais, and the Federal Reserve Bank of New York in which Credit Agricole agrees to comply with the restrictions in the Credit Lyonnais cease and desist order. Credit Agricole, which acquired Credit Lyonnais in June 2003, had no part in the conduct that led to these enforcement actions.

In addition to the Federal Reserve's actions, the U.S. attorney in Los Angeles is announcing that Credit Lyonnais and several other entities and individuals have agreed to plead guilty to specific crimes related to their roles in the Executive Life matter, as well as announcing an indictment against several other individuals involved in the matter, including Peyrelevade. The Federal Reserve Board and the Federal Reserve Bank of New York investigated the matter jointly with the U.S. Attorney's Office. The consent enforcement actions being announced by the Federal Reserve are part of a global accord designed to address both the regulatory and criminal aspects of the Executive Life matter.

The Federal Reserve is also working with the French banking supervisor to take joint action to require Credit Lyonnais and its parent to enhance their overall compliance programs. Completion of the documentation for this action is expected shortly.

The Federal Reserve's consent action against Credit Lyonnais resolves allegations that, beginning in the early 1990s, Credit Lyonnais violated the Bank Holding Company Act by acquiring the company that assumed Executive Life's insurance underwriting business through secret agreements that were concealed from the Federal Reserve. The action also resolves allegations that Credit Lyonnais intentionally misrepresented to the Federal Reserve the extent of its ownership interests in a portfolio of junk bonds that had been acquired from Executive Life, as well as its substantial equity investment and other relationships with Artemis, S.A., a French company that subsequently acquired the successor insurance company and junk bond portfolio. In the Board's order, Credit Lyonnais neither admits nor denies these allegations.

The notice of charges issued against Peyrelevade, who became the chief executive officer of Credit Lyonnais after the acquisition of the insurance business, alleges that he took steps to further the alleged violations, engaged in unsafe and unsound practices in not reporting the violations when he learned about them, and made false statements to Federal Reserve investigators about the scope of his knowledge of the secret acquisition.

The Federal Reserve Board, on December 24, 2003, announced the execution of a written agreement by and among Combanc, Delphos, Ohio; The Commercial Bank, Delphos, Ohio; the Ohio Division of Financial Institutions, Columbus, Ohio; and the Federal Reserve Bank of Cleveland.

The Federal Reserve Board, on January 8, 2004, announced the issuance, together with the Commission Bancaire, the regulator of French banks, of a consent enforcement action against Credit Lyonnais, S.A., a large French bank, and Credit Agricole, S.A., its parent company.

This action is the third one agreed to by Credit Lyonnais and its parent with respect to Credit Lyonnais's participation in the rehabilitation of the Executive Life Insurance Company of California. The Federal Reserve was working with the French banking regulator on this joint action when the other enforcement actions were announced on December 18, 2003. The other actions, among other things, require specific remedial actions to address concerns arising out of the Executive Life matter.

The January 8 action by the Federal Reserve and the Commission Bancaire requires that Credit Lyonnais and Credit Agricole, as Credit Lyonnais's parent, establish programs designed to ensure their

overall compliance with applicable U.S. banking and financial laws, rules, and regulations. Credit Lyonnais and Credit Agricole are also required to enhance their general organizational infrastructure, as well as policies and procedures, with respect to compliance with U.S. laws and regulations, subject to the oversight of the Commission Bancaire and the Federal Reserve Board.

Credit Agricole, which acquired Credit Lyonnais in June 2003, had no part in the conduct that led to this enforcement action.

The Federal Reserve Board, on January 9, 2004, announced the issuance of an order of prohibition and an order to cease and desist against Scott Smolinski, a former vice president of the James Monroe Bank, Arlington, Virginia.

Mr. Smolinski, without admitting to any allegations, consented to the issuance of the order based on his alleged participation in violations of law and unsafe or unsound practices regarding identity theft, falsification of bank records, misapplication of bank funds, self-dealing, and violations of institutional internal controls that resulted in losses and other damage to the bank and personal gain to Mr. Smolinski.

CHANGES IN BOARD STAFF

The Board of Governors has approved the promotion of Fay Peters to director of the Management Division.

Ms. Peters was appointed to the official staff as deputy director of the Management Division in April 2003 and has served as acting director since William R. Jones retired in August 2003. Ms. Peters joined the Federal Reserve System in 1982 as an attorney in the Legal Department of the Federal Reserve Bank of Boston. In 1988 she transferred to the Federal Reserve Bank of Minneapolis as assistant general counsel and deputy equal employment opportunity (EEO) officer. In 1999 she was promoted to vice president, with responsibilities for managing the Bank's facilities, protection, and administrative services functions and advising Bank executives on EEO matters. Ms. Peters holds a B.S. in business administration from Northeastern University and a J.D. from the Boston University School of Law.

The Board of Governors has approved the appointment of Peter J. Purcell as associate director and chief technology officer for the System's supervision function.

Mr. Purcell will coordinate Information Technology (IT) support and development efforts for the System's supervision function. Before joining the Board, Mr. Purcell held IT management positions at several banking organizations and was an interna-

tional technology services provider. He started his career in information technology at the Federal Reserve Bank of Boston. Mr. Purcell holds a B.B.A. from Nazareth College and an M.B.A. in management from Western Michigan University. □