



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

February 13, 1992

DALLAS, TEXAS 75222

Notice 92-13

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

**Revised Supervisory Policy Statement
on Securities Activities**

DETAILS

The Federal Reserve Board has issued a revised Supervisory Policy Statement on Securities Activities, effective February 10, 1992. This policy statement supersedes the Supervisory Policy Concerning Selection of Securities Dealers and Unsuitable Investment Practices that was issued on April 20, 1988, as outlined in this Bank's Notice 91-05.

The new policy statement was developed under the auspices of the Federal Financial Institutions Examination Council. The policy addresses the selection of securities dealers and requires depository institutions to establish prudent policies and strategies for securities transactions.

The supervisory policy informs insured depository institutions about

- recommended procedures for the selection of securities dealers;
- the need for documentation and implementation of prudent policies concerning investment in, trading in, or sale of securities;
- the need to establish systems and internal controls designed to ensure that securities activities are consistent with applicable policies;
- securities trading and sales practices that are unsuitable when conducted in an investment portfolio;
- high-risk mortgage securities that are not suitable investment portfolio holdings for depository institutions; and
- the disproportionately large holdings of long-term zero-coupon bonds considered to be imprudent investments.

This supervisory policy provides additional information on the development of a portfolio policy and strategies for securities investments. The policy also identifies inappropriate securities practices for a depository institution's investment account. Factors to consider when evaluating the reporting of an institution's investment portfolio holdings are included in the policy. The statement also contains expanded guidance on the suitability of acquiring and holding mortgage derivative products, other similar products, and zero-coupon bonds.

MORE INFORMATION

For more information, please contact Daniel Kirkland at (214) 744-7433. For copies of the Supervisory Policy Statement or for additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

Robert D. McTeer, Jr.