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Financial Institutions and Markets Issue Area

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Foreword

This report was prepared primarily to inform Congressional members and key staff of ongoing assignments in the General Accounting Office's Financial Institutions and Markets issue area. This report contains assignments that were ongoing as of February 2, 1998, and presents a brief background statement and a list of key questions to be answered on each assignment. The report will be issued quarterly.

This report was compiled from information available in GAO's internal management information systems. Because the information was downloaded from computerized data bases intended for internal use, some information may appear in abbreviated form.

If you have questions or would like additional information about assignments listed, please contact Thomas McCool, Director, on (202) 512-8678; Richard Hillman, Associate Director, on (202) 512-9073; or Susan Westin, Associate Director, on (202) 512-3655.

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MAINTAIN FINANCIAL SYSTEM INTEGRITY

TITLE: **GOVERNMENT-SPONSORED ENTERPRISES: OVERSIGHT OF DERIVATIVES ACTIVITY (233470)**

KEY QUESTIONS : (1) What are the benefits and risks of issuing structured notes? (2) What are the GSEs' duties for disclosing information to investors and ensuring suitability of investors? (3) What is the nature and extent of federal regulators' oversight of GSEs? (GSEs include Fannie Mae, Freddie Mac, Sallie Mae, Farm Credit System, and Federal Home Loan Bank System).

TITLE: **ON-LINE BANKING SERVICES AND POTENTIAL PROBLEMS TO PAYMENT SYSTEM INTEGRITY (233501)**

KEY QUESTIONS : (1) What is the extent to which banks offer banking services on-line? (2) What is the known extent to which banks' proprietary systems are being attacked and what damage has resulted from these attacks?

TITLE: **ANALYSIS OF SEC/CFTC/SRO COLLECTION AND DETERRENT EFFECTS OF FINES (233508)**

KEY QUESTIONS : (1) What is the role of fines and how do regulators set fine amounts? (2) What oversight and evaluation of fine programs do regulatory agencies/Self Regulatory Organizations (SROs) perform? (3) How effective are agencies/SROs fine collection efforts?

TITLE: **REGULATORY APPROACHES TO RISK-BASED CAPITAL IN THREE FINANCIAL INDUSTRIES (233513)**

KEY QUESTIONS : (1) What is the definition & purpose of capital in relation to risk in banking, securities, futures, & life insurance? (2) What are the current regulatory risk-based capital rules in each industry? (3) How do sophisticated firms in these industries determine their optimal capital levels? (4) What changes to the rules are being considered by regulators?

TITLE: **HOW ARE THE INVESTMENT POLICY AND PRACTICES FOLLOWED BY THE FEDERAL HOME LOAN MORTGAGE CORPORATION (FREDDIE MAC) RELATED TO ITS MISSION TO PROMOTE HOME LENDING, IF AT ALL? (233519)**

KEY QUESTIONS : Freddie Mac was established by Congress in 1970 to provide secondary-market liquidity for housing lenders and thus increase home ownership opportunity for Americans. Freddie Mac recently purchased a large block of public investor bonds. The requester was concerned with such a transaction by a government-sponsored enterprise (GSE). What are the profiles of 3 GSEs' investment portfolios? What are these GSEs' investment policies and practices with respect to non-mortgage securities? Are such investments legal? How profitable are such investments? How do such investments relate to the GSEs' missions? What is the extent of the GSEs' arbitrage operations? What actions have the regulators taken concerning these investments?

TITLE: **SBA OVERSIGHT OF PROGRAM LENDERS AND ANALYSIS OF PROPOSED CHANGES TO RULES GOVERNING THE SBA SECONDARY LOAN MARKET (233524)**

KEY QUESTIONS : The Small Business Administration's (SBA) Section 7(a) general business loan guarantee program is by far the largest program the SBA administers in terms of numbers of loans. The program provides loan guarantees of 75% to 80% of loans made by private sector lenders who make loans to eligible small businesses that have been unsuccessful in obtaining private financing on reasonable terms. The Small Business Improvement Act of 1996 (SBPIA) made certain changes to the Section 7(a) program. (1) What oversight programs are in place for monitoring the SBA lenders? (2) What enhancements has SBA made in its oversight program in response to the SBPIA? (3) Are there opportunities for improving the oversight program as SBA implements these enhancements?

TITLE: **HRA 27: EFFECT OF ONLINE BANKING ON FEDWIRE SECURITY (233527)**

KEY QUESTIONS : The requester is concerned about the security of Fedwire--the Federal Reserve's electronic funds transfer systems which on an average day processes some 328,000 transactions involving approximately $1 trillion. While electronic banking has brought benefits to the nation's depository institutions, it has also increased the risks of unauthorized access by intruders with intentions to manipulate information or sabotage operations. The Fedwire is the backbone of the United States' payment system. Any threat to the integrity of the Fedwire is a potential threat to national security. (1) What risks do Internet and on-line banking pose to the security of the Fedwire? (2) What steps have been taken by depository institutions and banking regulators to protect against unauthorized access to the F

TITLE: **HRA:28 ISSUES ASSOCIATED WITH THE SEC RESPONSE TO THE YEAR 2000 COMPUTING PROBLEM (233533)**

KEY QUESTIONS : Computer systems' failure to recognize dates with the year 2000 could cause major problems, such as gridlock, for financial firms and regulators. SEC is monitoring and reporting securities firm, self-regulatory, and its own efforts to address the year 2000 issue, and released its first report to Congress in June 1997. GAO will (1) assess the accuracy and completeness of SEC's report and, if appropriate, recommend ways to improve future reports; (2) assess SEC's evaluation of year 2000 remediation efforts of self-regulatory organizations, broker dealers, and other regulated entities; (3) assess the guidance SEC has provided to public companies for disclosing year 2000 remediation efforts; and (4) determine and test the year 2000 readiness of SEC's internal information systems.

TITLE: **DID OCC FOLLOW ITS POLICIES WHEN IT CLOSED RUSHVILLE BANK (233534)**

KEY QUESTIONS : This job concerns the Office of the Comptroller of the Currency (OCC) closure of Rushville (Indiana) National Bank. Former bank officials and directors allege that OCC improperly closed the bank in December 1992. Key issues are (1) the application of OCC procedures for determining net worth of a national bank, classification of loans, and determining solvency, (2) the application of OCC procedures for contacts with bank creditors, (3) the impact of the Federal Deposit Insurance Corporation Improvement Act on the decision to close the bank, (4) the application of OCC's process for determining civil money penalties, and (5) OCC procedures for bank officer sale of bank stock.

TITLE: **HRA:18 HUD'S MISSION OVERSIGHT OF FANNIE MAE AND FREDDIE MAC (233541)**

KEY QUESTIONS : Fannie Mae & Freddie Mac are govt.-sponsored enterprises that were created to help facilitate the supply of residential mortgage credit. Congress is interested in how HUD carries out its responsibilities as their mission regulator. HUD establishes specific numerical goals for the enterprises in funding mortgages for very low-, low-, & moderate-income households & borrowers in underserved areas. We will assess (1) HUD's legal authority for establishing numeric goals, (2) HUD's justification for setting the goals at their current levels, (3) HUD's criteria for authorizing new enterprise programs, & (4) HUD's resources available to carry out its responsibilities, including its coordination with the Office of Fed. Housing & Finance Board.

TITLE: **REVIEW OF REGULATOR'S OVERSIGHT OF OFFSHORE PRIVATE BANKING ACTIVITIES TO MINIMIZE VULNERABILITY TO MONEY LAUNDERING (233542)**

TITLE: **TESTIMONY-ON-LINE BANKING EXPERIENCE (233547)**

KEY QUESTIONS : Banks have become extremely dependent on the use of computers and telecommunication networks to perform major banking functions. Individual banks can now offer home banking services on-line. While this technology offers important benefits, there is concern that it may also make bank proprietary systems vulnerable to unauthorized access. (1) What is the extent to which banks offer banking services on-line? (2) What is the known extent to which banks' proprietary systems are being attacked and what damage has resulted from these attacks?

TITLE: **POTENTIAL LIABILITY TO THE GOVERNMENT OF FINANCIAL SERVICE INSTITUTIONS (233549)**

KEY QUESTIONS : The requester is interested in the potential liability faced by the U.S. Treasury as a result of financial institutions with some type of federal charter or sponsorship. We will address: (1) What financial institutions are chartered or sponsored, in whole or in part, by the federal government? (2) To what extent are these financial institutions regulated and examined? (3) What fees and charges are levied by the regulator on the financial institution or to the taxpayer? (4) What potential liability do these financial institutions pose to the federal government?

TITLE: **OTC DERIVATIVES: LAWSUITS INVOLVING SALES PRACTICE CONCERNS (233551)**

KEY QUESTIONS : We were asked to prepare a list of law suits concerning over-the-counter derivatives.

TITLE: **US COMMITMENTS TO RESOLVE THE ASIAN FINANCIAL CRISIS (233552)**

KEY QUESTIONS : GAO was asked to provide information on the commitments that the US government is making to help resolve the Asian financial crisis.

FACILITATING FINANCIAL SERVICE CHOICES

TITLE: **REVIEW OF NASDAQ SMALLCAP MARKET ISSUES (233515)**

KEY QUESTIONS : (1) Did Nasdaq follow its listing and maintenance requirements with respect to Comparator? (2) What are SEC's oversight responsibilities regarding Nasdaq's listing standards? What has SEC done to meet those responsibilities? (3A) What actions has Nasdaq taken since Comparator? (3B) How does Nasdaq monitor the effectiveness of their exceptions granting policies?

TITLE: **PREPARATORY WORK FOR 1998 SURVEY OF AUTOMATED TELLER MACHINE (ATM) SURCHARGES FOR THE SENATE BANKING COMMITTEE (233550)**

ENHANCING FINANCIAL EFFICIENCY

TITLE: **COMPARISON OF THE GROWTH RATES OF THE AT&T FEDERAL CREDIT UNION AND BANKS AND THRIFTS IN NORTH CAROLINA (233500)**

KEY QUESTIONS : A significant issue facing the Congress concerns the common bond of credit unions. This issue of multiple common bonds within one credit union is now a matter before the Supreme Court. Beginning in 1982, the National Credit Union Administration began a policy of allowing multiple common bonds within one credit union. A critical question is whether the growth of credit unions with multiple common bonds is adversely affecting for-profit federally insured institutions. The litigation concerning this issue began in 1990. The requester is interested in the relative growth rates of the AT&T Federal Credit Union compared with banks and thrifts in North Carolina and nationally.

TITLE: **THE USE OF ELECTRONIC CHECK PRESENTMENT BY THE FEDERAL RESERVE AND THE PRIVATE SECTOR PROVIDERS (233528)**

KEY QUESTIONS : In 1996, the Federal Reserve Board recommended that the maximum permissible hold period for local checks be lengthened from 2 to 3 business days. The Board believes that an additional day would allow banks to identify more dishonored checks before the time that funds must be made available to depositors. The requesters want to know whether electronic check technologies could facilitate clearing sufficiently to make the extra day unnecessary. We will examine: (1) What percentage of U.S. check clearing volume is presented electronically to the Federal Reserve versus private clearinghouses? (2) To what extent does electronic check presentment shorten the time that it takes for a dishonored check to be returned? (3) Has electronic check presentment affected banks' check fraud losses?

TITLE: **FEDERAL HOUSING FINANCE BOARD SAFETY AND SOUNDNESS AND MISSION OVERSIGHT OF THE FEDERAL HOME LOAN BANK SYSTEM (233539)**

KEY QUESTIONS : Federal Housing Finance Board (FHFB) is responsible for the safety and soundness and mission-related oversight of the 12 Federal Home Loan Banks (System). Although the FHFB is tasked with many of the responsibilities held by other regulators, it remains less than arm's-length because of its dual role as regulator/manager-promoter of the System. (1) What is the Finance Board's examination process? (2) What impact, if any, does FHFB's dual role have on its ability to regulate effectively? (3) How does FHFB function operationally?

TITLE: **ANALYSIS OF SOES EFFICIENCY AND RISK (233540)**

KEY QUESTIONS : The Small Order Execution System (SOES) was created by the National Association of Securities Dealers (and approved by SEC) after the 1987 market crash to ensure small investors access to the NASDAQ stock market. SOES automatically executes trades of up to 1,000 shares at a NASDAQ market makers quoted price. Concerns have risen about whether SOES is the most efficient way of ensuring small investors access at the best possible price. (1) Does SOES increase market efficiency? (2) Does SOES create new risks of fraud and abuse? (3) How does SOES affect market volatility? (4) Do SOES traders add value to the market?

TITLE: **SBA SECTION 7(A) LOAN SECURITIZATION (233543)**

KEY QUESTIONS : The Small Business Administration (SBA) assists small businesses by providing loan guarantees under section 7(a) of the Small Business Act. SBA can guarantee 75 percent to 80 percent of a loan, depending on the amount and purpose. An active secondary market in notes backed by the guaranteed portion of SBA loans has existed since 1975. In addition, a secondary market for the unguaranteed portion of these loans is developing. However, little has been written about these markets. As a result, the requester asked GAO to study these markets and compare them with other similarly-structured secondary markets. Our study will include an analysis of the structure, fees, and contract arrangements, and also SBA's regulation of these markets.

TITLE: **REVIEW OF THE COMMODITY FUTURES TRADING COMMISSION'S REORGANIZATION OF ITS ENFORCEMENT DIVISION (233548)**

KEY QUESTIONS : In October 1995, we testified that the Commodity Futures Trading Commission (CFTC) began to reorganize its Enforcement Division after an internal review disclosed serious problems with its management. We noted that such problems raised questions about CFTC's ability to perform its enforcement mission; however, we also noted that it was too early to assess the effectiveness of CFTC's changes. We are to (1) identify the reorganizational changes that CFTC has made to its Enforcement Division since 1995 and (2) assess the extent to which such changes have improved the effectiveness of the division, including the enforcement activities in its New York and Chicago regional offices.