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BROKER-DEALERS AND THE USA PATRIOT ACT: ANTI-MONEY LAUNDERING COMPLIANCE

Judith Chase

EXPLANATION AND BENEFITS OF FAIR VALUE ACCOUNTING

Prepared by:

• The Bond Market Association •
• International Swaps & Derivatives Association •
• Securities Industry Association •

SPECIAL PURPOSE ENTITIES AND THE SECURITIZATION MARKETS

Prepared by:

• The Bond Market Association •
• International Swaps & Derivatives Association •
• Securities Industry Association •

MONTHLY STATISTICAL REVIEW

Grace Toto

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BROKER-DEALERS AND THE USA PATRIOT ACT:
Anti-Money Laundering Compliance

How You Benefit From Compliance

Most SIA member firms are already acquainted with the provisions of the USA Patriot Act of 2001, because it requires that anti-money laundering (AML) programs were to be established in each firm by April 24, 2002. However, this Act is going to require an enormous amount of **internal firm coordination** among every business unit, department, and particularly among individual firm members. Moreover, the structure of compliance with the Act will vary across firms, depending on different firms' organization, size, business model, and products offered. Effective compliance will also require employees to **exercise judgment** in interactions with customers and regulators, and these judgments will vary depending on the specific situation at hand. Therefore, it makes sense to revisit the Act's requirements and discuss optimal ways to approach these compliance procedures.

Compliance with the USA Patriot Act is very clearly in each firm's and individual broker-dealer's interest for several reasons that go above and beyond the simple desire not to violate government legislation and regulation. First, by standing firm against those who seek to manipulate our financial system, the firm **enhances its reputation for integrity**. The firm is then able to **compete successfully** on the basis of that reputation, just as protecting a customer's privacy is a strength on the basis of which the firm can compete successfully with others.

Moreover, many provisions of the Act only serve to reinforce key elements of the broker-dealer's job. In particular, broker-dealers already spend time becoming familiar with customer profiles in order to be sure that **investments** made on the customers' behalf are **suitable** for them. At the same time, **"Know Your Customer"** provisions are crucial to the effectiveness of the Patriot Act.

Enhanced coordination within the firm brought about by compliance with the Act will also provide positive externalities for the firm. **Increased intra-firm communication** can only lead to an improvement in "knowing what you know" as a firm, save time in duplicated tasks, lead to an awareness and cross-fertilization of new business initiatives and best practices, and contribute to a team-oriented work environment. Similarly, cooperation between different government agencies and private industry can lead to regulators' increased understanding of the way that the securities industry operates, which can result **in less onerous and better-crafted regulation**. Finally, compliance with the USA Patriot Act is in our broker-dealers' interest simply because they have a unique opportunity to contribute to our War on Terrorism in one of the most effective ways possible, by **denying terrorists easy access** to networks of laundered funds.

New Patriot Act Provisions

One of the most important new provisions of the Patriot Act, as mentioned above, is the establishment of a **firm-wide AML program**. The Treasury Secretary will issue regulations that take into consideration the size, location, and activities of the financial institutions implementing these programs. There are, however, **four minimum statutory requirements** of these programs. These include: 1) designating a compliance officer to coordinate facets of the program; 2) creating an independent audit function to test the program; 3) facilitating ongoing employee training; and 4) developing internal policies, procedures, and controls related to the AML program.

The designated compliance officers' duties include, in part, **updating the firm's program to reflect new regulations** and directives that will be issued by Treasury and Financial Crimes Enforcement Network (FinCEN), a division of the U.S. Treasury, as well as other agency and SRO officials. Agile response to new regulations is a critical function, because government officials themselves readily admit that they, along with the firms themselves, will be learning which AML techniques are effective, and which are not.[1] These officials, however, reassure that the Patriot Act does give firms enough **flexibility to design the program** such that it reflects their respective business models.

The independent audit function of the program is one of the facts of the program that can be tailored effectively to fit with each firm's characteristics. For example, **the audit function can be performed internally, or outsourced** to an external firm. If the audit is performed internally, the employee or employees who carry out the audit may not be the same individual as the designated compliance officer, and they also may not be involved in the administration of the firm's AML program. The firm also has a choice about whether to create an entirely new audit center, or to add money-laundering requirements to an already existing internal audit center. The upper echelons of management at every firm should review the results of the audits regularly.

Whichever audit method is chosen, it must be remembered that your AML program will only be effective if employees involved in every aspect of the business **undergo ongoing training** and know what to look for in their specific line of business**. Broker-dealers only represent one section a long trade management process**. Sometimes suspicious activity will be identified through the vigilance of sales people, sales assistants, trading assistant, new account divisions, and particularly credit and margin departments. Moreover, the designated compliance officer will not be the only employee responsible for coordinating AML activity; essential to the coordinating function will also be managers of each business unit, as well as the manager of each branch office.

Some suggestions for effective AML training offered by the experts include videos, ongoing compliance alerts, and a special AML website with frequently asked questions and relevant links. We also recommend setting up presentations **with case study examples** and stories of brokers' real experiences. Working through case study examples is particularly helpful because the examples serve to identify exactly what different firm members' responsibilities are in specific situations, including obligations to respond to inquiries from regulators and law enforcement officials. Employees will often be obligated to maintain the confidentiality of some requests for information. Concrete examples help demonstrate exactly how to maintain a **careful and correct balance between obligations to customers and obligations to regulators**.

With regard to developing internal policies, procedures, and controls, **SROs are providing specific guidance** to their member firms as well; see for example NASD Rule 3011 and NYSE Rule 445. The NYSE also requires that the AML program receive written approval by senior management in the firm. We discuss other new, more specific provisions in the next section, such as the verification of

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[1] Lori Richards, Director, Office of Compliance Inspections and Examinations of the SEC, "Money Laundering: Life After the Patriot Act," speech given at the Securities Industry Association Conference on Anti-Money Laundering Compliance for Broker-Dealers, New York City, May 2, 2002. See http://www.sec.gov/news/speech/spch555.htm#P29_2763.

new accounts, filing Suspicious Activity Reports (SAR), and how to treat non-U.S. private banking accounts and non-U.S. correspondent accounts.

It is useful to keep in mind that all of these new provisions come on top of **approaches to thwarting money laundering that have been in place for years**. These include the Bank Secrecy Act of 1970 (BSA), which requires that currency transactions representing more than $10,000 be reported on a Currency Transaction Report (CTR), and that transactions involving the transportation of similar amounts be filed in a Currency or Monetary Instrument Transportation Report (CMIR). The BSA was subsequently amended to require verification of identity in currency sales of certain amounts. Many of our firms had taken the initiative and **prohibited or restricted the receipt of currency at the firm** in order to contribute to the fight against money laundering. The Money Laundering Control Act of 1986 (MLCA) officially made money laundering a crime, and prohibited structuring transactions such that reporting requirements could be avoided. The SEC and SROs also have regulations that reinforce certain reporting requirements.[2]

The Specifics: Verifying New Accounts, SARs, and Correspondent Accounts

In the discussion of specific Patriot Act requirements, the crucial point to remember is that straight compliance such as the filing of necessary documents may not be sufficient to create a truly effective AML program. The point of documenting suspicious activity, for example, is to create a record that could be **one data point in a larger pattern or network of suspicious activity**. One of the overall goals of an effective AML program, and one of the reasons for a designated AML compliance officer, is **the coordinated detection of these patterns of activity as part of an overall surveillance plan**.

A key part of the Patriot Act's "Know Your Customer" provisions is the duty to **verify the identity of new accountholders**. For decades the SROs have required the collection of basic information on customers when an account is opened, such as the name and residence of the customer. These requirements are found in the Conduct Rules of the NASD and Rule 405 of the NYSE. Additional information has been required depending on the type of account, such as the customer's tax identification number, occupation, and name and address of employer.

In the new provisions for verification of accountholders, firms will be required to have procedures in place to verify the identity of the customer wishing to open an account. Records will have to be maintained of this information. Before opening the account, employees are required **to consult government lists** of known and suspected terrorists. The Office of Foreign Assets Control (OFAC) does have lists of individuals, businesses, charities, and accounts specifically associated with Al Qaeda and non-Al Qaeda terrorist groups. The Federal Reserve, the FBI, and some European entities have similar lists.

The Treasury Secretary will be issuing more specific regulations for verification. However, information about the **legal structure of a retail customer's place of occupation or the legal structure of an institution opening an account** would be useful to hinder money laundering. Understanding whether the institution is a partnership or a corporation or a subsidiary of a corporation, as well as the place of incorporation, could be useful in identifying the source of funds going into the account or the destination of funds being taken out of the account.

[2] For more information on existing regulations, see http://www.sia.com/moneyLaundering/

One of the important new Patriot Act requirements for all broker-dealers is the filing of **Suspicious Activity Reports** (SARs). It should be noted, however, that broker-dealers who are responsible for the majority of client assets in the industry have long been filing SARs, either voluntarily or because they are employees of a subsidiary of a bank holding company. Final regulations are due by July 1, 2002. **Protections that already exist against liability for voluntarily disclosing suspicious activity have been broadened**. SAR regulations may be extended to cover futures commission merchants and investment companies.

Under the proposed SAR rule, the broker-dealer has an obligation to file an SAR when the **transaction has no apparent business purpose**, when the transaction is being undertaken in such a way to avoid already existing reporting requirements, when it involves or potentially involves funds that come from illegal activity worth at least $5,000, and of course when the transaction involves a violation or suspected violation of federal law. The SAR should be filed with FinCEN within 30 days, unless waiting to file could potentially harm an investigation. These SARs must be retained in the firm's files for 5 years, and any additional records relating to the account about which the SAR was filed must also be retained, even if those are not submitted along with the SAR.

Specific examples of SAR filings include reporting activity such as **unusual wire activity**: wires from third parties, wires involving large amounts of money sent to or from the same bank on a regular basis. Additional activity to watch would include transactions or transfers involving certain geographic destinations, particularly those identified by the Financial Action Task Force on Money Laundering (FATF) as non-cooperative. This is particularly true if minimal securities are purchased despite large deposits into the account. Transfers to individuals or institutions who do not hold accounts should also be watched. **Information both about the account and the activity therein should always be validated** when the employee is preparing to file an SAR.

Suspicious activity can be identified at any point along the process of a financial transaction, from the opening of the account to later transactions. Identifying patterns of suspicious activity will most likely be effectively facilitated by the **aggregation of several types of information**: financial data such as transaction and credit information, publicly available data, and qualitative descriptions of the relationship with the client. While employees are not required by the regulations to close suspicious accounts, the employee should be sensitive in dealings with the customer to any confidentiality statutes or other obligations he or she has. The designated compliance officer or internal counsel should be consulted for guidance about prudent conduct in specific situations.

The same exercise of judgment will hold true when it comes to looking more closely at **correspondent accounts**, which is another new provision of the Patriot Act that goes into effect July 24, 2002. A correspondent account is a U.S. account held by a foreign bank used for any type of financial transaction, including custodial accounts and clearing accounts. The account will require **enhanced due diligence** if the bank is licensed by a foreign country or territory that the FATF has designated as non-cooperative, or if the bank is licensed offshore. Firms are not allowed to keep a correspondent account for a shell bank, which is a bank with no physical presence in any jurisdiction, and therefore not regulated.

The enhanced due diligence for correspondent accounts will include **identifying the owners of the bank**, information about the nature of the owners' interest, and whether or not that bank is a provider of correspondent accounts to other banks. Databases of this information must also be maintained. In March 2002, the New York Clearing House issued anti-money laundering guidelines for correspondent accounts. The guidelines recommend **determining the level of expected activity in the account**, reviewing reports by bank rating agencies, reviewing the bank's financial statements, and identifying the bank's board of directors.[3]

Enhanced due diligence for **foreign private banking client accounts** will also be required under the Patriot Act. In order to qualify as a private banking account, the account in question must contain at least $1 million. This expanded due diligence involves identifying the sources of the funds being deposited into the account, and who are the legal owners and who are the beneficial owners of those funds.

Finally, the Patriot Act specifically requires closer scrutiny of any type of financial account owned by **senior foreign political officials** or entities representing these officials, close associates and family members of the official. This senior official can belong to any branch of the government, or be in the military, or be an executive in a government-owned corporation. The task of watching these accounts would be greatly facilitated if **lists of the names and positions** of foreign political officials and government-owned corporations were to be provided to our firms.

An Integrated Approach: Best Practices and AML Tools

The SEC, NASD and NYSE conducted examinations of 26 broker-dealers of all sizes and business models in order to gauge the **usefulness of different AML techniques**.[4] They came away with a general list of techniques that appear to be effective and some that appear to be less effective.

One of the more effective techniques they identified in these firms was a **comprehensive monitoring system that evaluated individual activity and generated exception reports**. Automated systems that are able to take many different factors into account simultaneously appear to work particularly well. They also note that existing **anti-fraud systems** are often not geared to flag suspicious activity related to money laundering, and are therefore **not likely to also function as effective AML tools** unless some targeted adjustments are made to them.

Other effective techniques were identified that related to detecting suspicious wire activity. A system that **flagged wires** from accounts making few securities purchases or making transfers to other accounts appeared to be effective. But most effective would undoubtedly be this type of system, combined with the automatic matching against the **firm's own lists of accounts** previously identified with potentially suspicious behavior, combined with the procedure of conducting **historical reviews of activity** in that specific account prior to authorizing the wire. Looking at one wire at a time probably does not easily lend itself to the detection of patterns of suspicious behavior. The **use of margin departments** was also reported to be useful as a center from which to screen these wire transfers.

Firms with set procedures outlining exactly when to file an SAR, and with **set procedures to follow up on the suspicious activity** that was detected tended to have particularly successful AML programs. Moreover, firms that conducted comprehensive background

[3] See http://www.theclearinghouse.org/antimoneylaundering.htm.

[4] See again speech by Lori Richards, http://www.sec.gov/news/speech/spch555.htm#P29_2763.

checks on new account applications were also effective at detecting suspicious activity. It is possible to outsource this function to an outside vendor. Finally, the study found that introducing brokers and clearing firms need to work together to **designate which party will be responsible for which AML functions in the clearing contract** itself, because both parties do have obligations to fulfill under the Patriot Act.

The common denominator in many of these best practices does appear to relate to the implementation of **flexible, responsive, and comprehensive automated systems**. Indeed, the Tower Group reports that the complexity of the Patriot Act provisions "…makes manual compliance untenable for most banks."[5] Clearing firms will undoubtedly begin to develop tools for their introducing firms as a parameter on which to compete with other clearing firms. It is also likely that vendors will respond to new demand and create a **real-time commercial verification product**.

It is clear, however, that many smaller broker-dealers will not have the resources to implement the most comprehensive automated AML systems. The Tower Group estimates that U.S. firms will collectively spend more than $60 million over the next 12 months on AML products as a result of the Patriot Act.[6] Fortunately, there is a **range of automated AML tools on the market offered by various vendors, from straight compliance products to integrative intelligent risk management technologies**.[7] In fact, it is likely that firms will approach AML compliance in a way that **parallels their respective risk management systems**, as risk management is also an example of a necessary function that affects the entire breadth of the firm, as well as all of the firm's internal operations and personnel.

Whether or not your firm chooses to implement software in order to comply with the Patriot Act, establishing **some type of set procedures to comply with the various provisions now will save time later**, especially if the need to respond to law enforcement inquiries should arise. Finally, we should all keep in mind that one of the best ways to deter illegal financial activity, in addition to following these set procedures, is to use **everyday common sense**.

Judith Chase
Vice President and Director, Securities Research

[5] Breffni McGuire, "The USA Patriot Act: New Regulations Spell New Burdens for Banks," *Tower Group Research Note*, February 2002, p.2.
[6] Breffni McGuire, "The USA Patriot Act: Impact on AML Vendors and the Market," *Tower Group Research Note*, March 2002, p.1.
[7] For an overview of vendors and products, see the above-cited *Tower Group Research Note*, March 2002.

EXPLANATION AND BENEFITS OF FAIR VALUE ACCOUNTING

Prepared by

• The Bond Market Association •
• International Swaps & Derivatives Association •
• Securities Industry Association •

March 26, 2002

Key Points

- Many financial instruments are measured and reported at "fair value."
- Financial firms use some form of modeling in estimating fair value for many instruments.
- Most firms have a robust internal control process for ensuring that the models used in these valuations are reasonable and reflect underlying market conditions.
- Information about how firms calculate fair value is fully disclosed in financial reports.

Definition

Fair value is an estimate of the price an entity would realize if it were to sell an asset, or the price it would pay to relieve a liability. Many financial instruments – such as shares traded on an exchange, debt securities (U.S. Treasury bonds), and derivatives – are measured and reported at fair value.

Use of Fair Value

Fair value is a required measure for many financial instruments. Determining whether a financial instrument should be recorded at fair value in a company's financial statements depends in part on what type of institution owns the instrument and the intended use of that instrument. For example, in the case of a broker-dealer, a high percentage of its assets typically are traded and must therefore be accounted for at fair value. Other institutions record financial instruments at fair value depending on what their intent is for holding the instrument or the nature of the business activity. If an institution decided to hold a U.S. Treasury bond to maturity, for example, the bond can be shown at its original cost. If the institution purchases another identical Treasury bond that it intends to sell in the near future, that bond would be accounted for at fair value.

In addition to using fair value measures to comply with public reporting requirements, companies measure their financial instruments at fair value for a number of internal processes, including: making investing and trading decisions, managing and measuring risks, determining how much capital to devote to various lines of business, and calculating compensation. The use of fair value measurements is deemed to be relevant in these areas.

Determining Fair Value

The process of valuing an instrument to its fair value depends on how easy it is to determine a price for that instrument. Since fair value is the price at which a willing buyer and seller agree to trade, finding the right price is the key to valuation. In the simplest case, a firm can find the price or value of an instrument in a newspaper or other quotation system. These prices typically reflect the last price reported to the secondary market. This usually works very well because listed prices are generally available for such securities.

Listed, published prices are not available, however, for all financial instruments. In those cases, some estimation is often required to determine fair value. Firms use valuation models that take into account a variety of relevant data, such as current economic forecasts, general market conditions, the price of similar financial instruments, etc. to measure fair value. For example, corporate bonds typically trade in a well-defined range over Treasury securities of a similar maturity. Contemporaneous transaction prices in such instruments will generally be very helpful in estimating the fair value of similar securities. In most cases, some verifiable market data exists to bolster the objective determination of fair value through modeling. Firms rely primarily on judgment only for the very complex instruments where market parameters and prices do not exist.

Ensuring Accuracy

Although judgment is involved in the fair valuation process, most firms have a robust internal control process for ensuring valuations are reasonable and consistent. Management review and oversight are key to ensuring accuracy. Valuation models are subject to independent review as part of the internal control process to ensure that they reflect underlying market conditions; moreover, they cannot be changed without approvals. In addition, estimates generated by the models are compared to actual trades to determine the reasonableness of the estimates. Firms also employ other means of independent verification, such as comparing estimates to the value of the instrument at termination.

Benefits

Fair value provides important information about financial assets and liabilities as compared to values based only on their historical cost (original price paid or received). Since fair value reflects current market conditions, it provides comparability of the value of financial instruments bought at different times. In addition, financial disclosures that use fair value provide investors with insight into prevailing market values, further helping to ensure the usefulness of financial reports.

Disclosure

Regardless of whether financial instruments are reported at fair value on the face of a firm's balance sheet, the financial statement footnotes contain information about the fair values of all a firm's financial instruments. These footnotes provide details on how such values are determined, e.g., quoted prices, comparison to similar instruments, other valuation models, etc.

In addition, firms will begin highlighting their most critical accounting policies in the Management's Discussion and Analysis (MD&A) section of their financial statements for years ended 2001. Many view the fair valuation process as one of those critical policies.

Glossary of Terms

Quotation System: A quotation system can include: newspaper quotes, broker quotes, electronic systems where prices of Treasuries and other securities can be viewed, or subscription services that provide price data for specific instruments

Secondary Market: When a security is initially purchased from the firm issuing it, that transaction takes place in the primary market. Subsequent transactions in that security take place in what is sometimes called the after-market or the secondary market. This is what most people mean when they refer to "the market."

Valuation Model: Statistical techniques that take into account various factors so as to provide an estimate of the value of a financial instrument. These are often called pricing or valuation models. These models are regularly subject to rigorous review by the firms employing them to ensure that they accurately reflect current market realities.

SPECIAL PURPOSE ENTITIES AND THE SECURITIZATION MARKETS[1]

Prepared by:

• The Bond Market Association •
• International Swaps & Derivatives Association •
• Securities Industry Association •

February 1, 2002

Overview

Special Purpose Entities ("SPEs") are legal entities created for a particular purpose and are used in structuring a wide range of capital markets products across the globe. This paper describes SPEs created in connection with securitizations. The U.S. securitization market has grown to $5.2 trillion, providing necessary liquidity to U.S. financial institutions and their customers, including both individuals and businesses.[2] SPEs are a critical component of this process.

Securitization market growth is due primarily to market acceptance of the strength of securitization transactions in providing investors with sound investment opportunities and U.S. financial institutions and their customers with necessary liquidity. The liquidity provided by the securitization markets results not only in making credit more widely available to consumers in the form of mortgage, auto, student and home equity loans, as well as credit cards and other credit products, but it also results in lower interest rates for customers.

1 Special Purpose Entities are also referred to as Special Purpose Vehicles (SPVs). The terms are used interchangeably in the financial markets.

2 Source: The Bond Market Association, data as of September 30, 2001

What is Securitization?

- Securitization is a process by which securities are created whose payments are supported by cash flows generated by of a pool of financial assets. This process provides funding to the marketplace, thereby helping to ensure that consumers can obtain necessary credit. The efficiencies realized by the marketplace through securitization are passed on to consumers in the form of lower interest rates. Absent securitization, the cost of obtaining consumer credit would likely increase, because it would be more costly for lenders to obtain the funds necessary to extend credit or make loans to consumers.
- Residential and commercial mortgages, home equity loans, student loans, credit card receivables and other such promises to repay debts are among the assets of the lender that can be securitized. These assets — which include the payments that borrowers are obligated to make to lenders in the form of principal and interest ("P&I") payments — are deposited into an SPE. These payments in turn are used to make payments of P&I to investors on a specific group of securities, such as mortgage and asset-backed securities ("MBS" and "ABS"). Appendices A and B set forth the current and historical outstanding volume of MBS and ABS.
- The securitization process benefits a range of parties, including consumers. For example, once a lender extends a mortgage loan to a borrower, those funds are out of the lender's hands and in the hands of the borrower. By selling the loans to an SPE that issues securities--and indirectly to investors in the capital markets--through the securitization process, those funds are replenished and are available for additional loan originations.
- For a basic graphic depiction of this process, see **Appendix D**.

What are SPEs and what function do they serve?

- Securitization SPEs are legal entities such as corporations, trusts, or partnerships established for a specific and limited purpose. An SPE essentially acts as a depository for a specific group of assets in a securitization, and in turn, issues securities to the marketplace for purchase by investors.
- SPEs do not have the right or ability to engage in any activities other than those rights granted to them in the legal documents creating and governing the securitization transaction and the SPE. Once the SPE is created, it must operate as a wholly independent entity. This generally includes appointing its own directors, paying all of its own expenses, not paying the expenses of the selling entity and not commingling its assets with those of any other entity, including the seller.
- Once assets are transferred to an SPE, they are "legally isolated" and consequently are no longer available to the seller or its creditors. The deposited assets can be used only to make payments on the securities issued to investors and may not be reclaimed by the seller.
- Securitizations would not take place without the ability to establish SPEs. Investors do not want to take on any risk associated with the seller. They only are willing to take on a specified degree of risk associated with the specific pool of securitized assets in which they are investing. In other words, SPEs protect investors from the bankruptcy or other adverse credit event affecting the financial institution that establishes and/or sells assets to the SPE. These securitization SPEs are considered "bankruptcy remote" since they are isolated from the financial institution that created and/or sold assets to them, and are precluded from taking on new activities and new financial obligations.

Why invest in securitized instruments?

- Diversification: Securities issued by SPEs are typically backed by numerous assets. By investing in a pool of assets rather than in an individual asset, investors can diversify their risk. This is similar to the difference between investing in mutual funds as opposed to individual stocks.
- Liquidity: There is an active secondary market in many types of ABS and MBS, whereas there is relatively little trading in the underlying assets themselves.
- Varying investor needs: Securitized instruments can be designed, or "structured" to meet different investor needs. For example, some investors require shorter-term investments, while others wish to make longer-term investments. Some wish to invest in securities that pay a fixed rate of interest, while others wish to invest in securities where the interest rate adjusts periodically.
- Stability: The securitization market has exhibited very stable credit performance overall, and has experienced relatively few adverse credit events such as downgrading or default of SPE securities or bankruptcy of SPEs.

Who invests in securitized instruments?

Principally, large and sophisticated institutional investors, such as:

- Private pension funds
- Government pension funds
- Government agencies
- Banks and thrifts
- Bank trust departments
- Credit unions
- Insurance companies
- Money market funds
- Mutual funds

Who sets standards for accounting for SPEs?

- The SEC has the legal authority to establish financial accounting and reporting standards for issuers of securities sold to the public, including SPEs and their sponsors. The SEC has delegated standard-setting authority to the Financial Accounting Standards Board ("FASB"), so long as the public interest is served.
- The FASB was established in 1973 and sets financial accounting and reporting standards for publicly and privately held companies.
- The FASB's Emerging Issues Task Force ("EITF") assists the FASB in the early identification of issues affecting financial reporting and with implementation of authoritative pronouncements.
- The SEC, the FASB and the EITF have issued a number of pronouncements on accounting for SPEs.

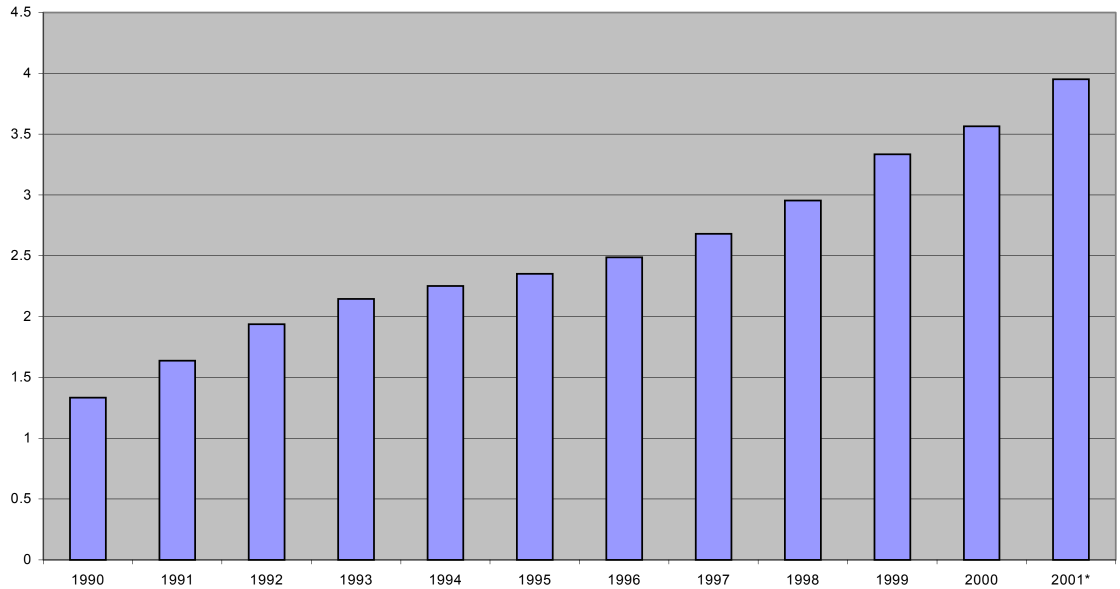
SPE Accountability

- Depending on the features of the SPE, the assets and liabilities of an SPE may or may not be required to be included, or "consolidated" in the financial statements of the entity that created the SPE.
- SPEs often are not permitted to be consolidated in the financial statements of the entity that created that SPE because doing so may make a company appear to be larger than it actually is. This would be particularly relevant in the event of a bankruptcy, where any assets deposited into a bankruptcy-remote SPE could not be accessed by the creditors of the entity that created it, even if the SPE has been consolidated in (or appears on) that entity's financial statements. In addition, consolidating an SPE on the financial statements of a company would imply a level of control over the SPE which the company does not exercise.
- Even without consolidating the SPE, any risks associated with SPE transactions are required to be disclosed in a company's financial statements.
- Lending obligations to SPEs are included in disclosures about commitments.
- Securities issued by the SPE, but retained by the financial institution that established the SPE rather than sold to third parties, are included on the balance sheet and disclosed in the footnotes to the financial statements.
- Derivative positions[3] with SPEs are recorded on the balance sheet and disclosed in public filings.

[3] For example, the selling financial institution may be a counterparty to an interest rate swap agreement with the SPE to convert fixed rate assets into floating rate assets, or vice versa.

Appendix A

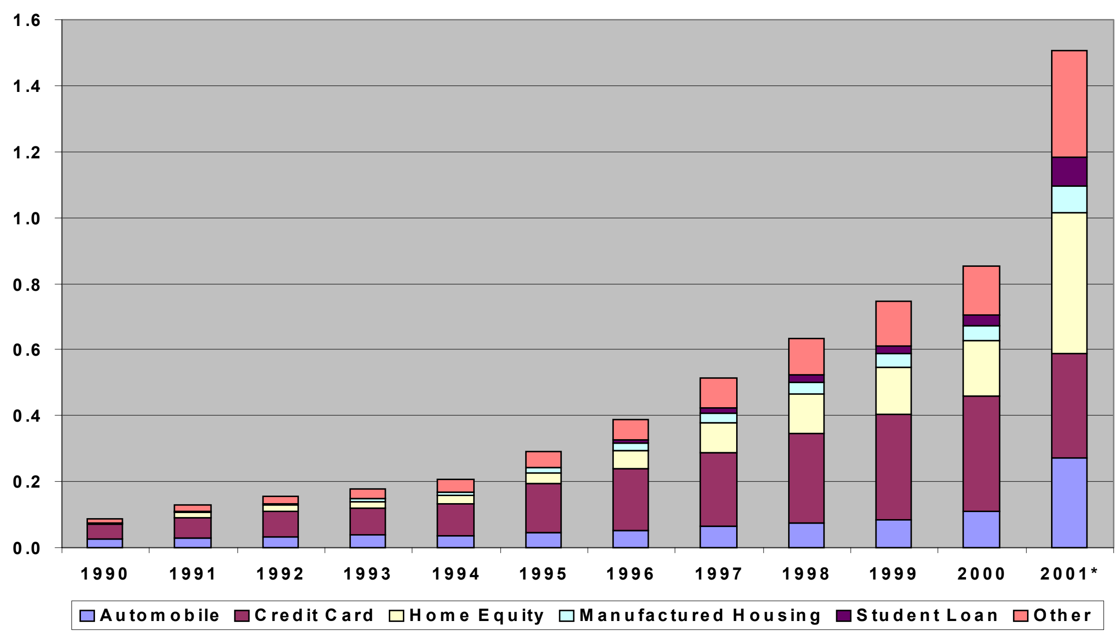
Outstanding Volume of
Mortgage-Related Securities
(trillions)



Source: The Bond Market Association
*As of September 30, 2001

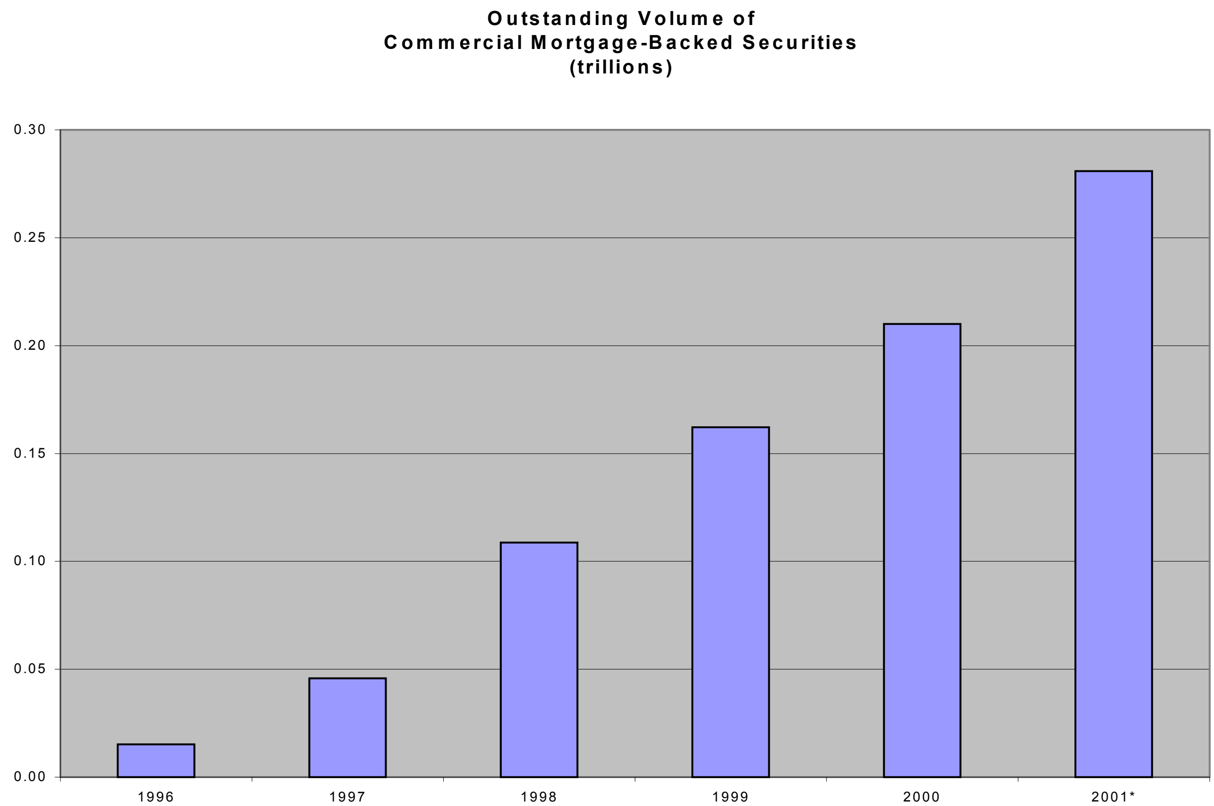
Appendix B

Outstanding Volume of
Asset-Backed Securities
(trillions)



Source: The Bond Market Association
*As of September 30, 2001

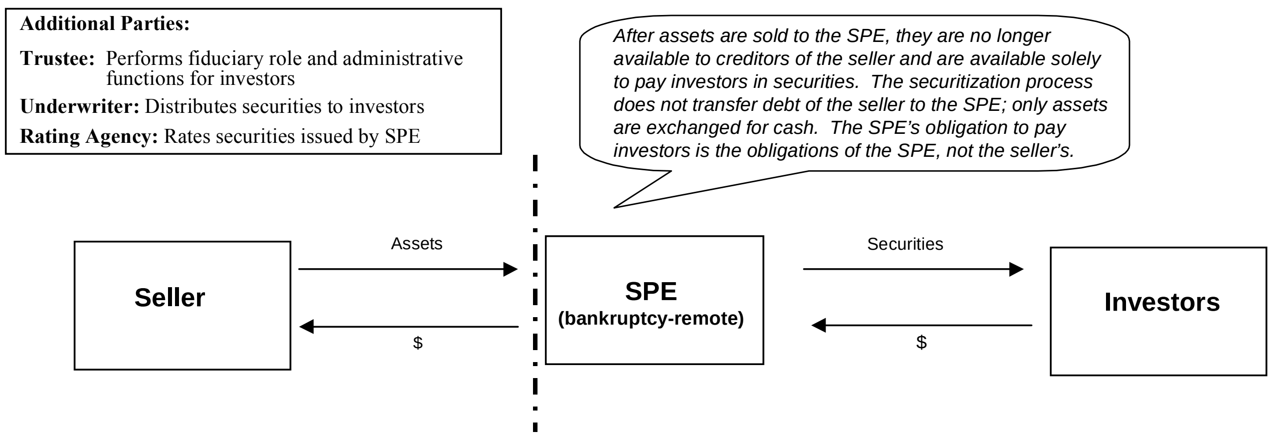
Appendix C



Source: Trepp, LLC
*As of December 31, 2001

Appendix D

Basic Securitization Structure



Example: Following is a general description of the securitization process, using mortgages and mortgage-backed securities as an example. Although there may be additional steps involved in a securitization, we describe here the basic process:

1. Seller (typically a mortgage lender) extends mortgage loans to borrowers.
2. Seller and a trustee representing investors create an entity (an "SPE").
3. Seller then sells a group, or "pool" of assets (mortgage loans) to the SPE into which the loans are deposited. The payment it receives in exchange for the loans replenishes the funds used to make the original loans. Those funds now are available to the lender for other uses, including making loans to other potential homeowners.
4. Based on the income stream expected from the mortgages held in the SPE, the SPE issues securities. The monthly principal and interest to be received from the mortgage borrowers will be used to make monthly principal and interest payments to investors in the issued securities. The securities that the SPE issues are called "mortgage-backed securities" ("MBS") because they are backed by the pool of mortgage loans that the SPE holds.
5. The securities then are sold into the marketplace to investors.

Glossary

ABS (Asset-Backed Securities) – Securities issued by an SPE that owns a pool of assets such as credit card receivables, student loans, home equity loans or other assets.

Bankruptcy-Remote SPE – An SPE satisfying certain legal criteria, whose assets have been isolated from and are outside of the reach of the creditors of the institution from whom it purchased the assets. Bankruptcy remoteness is a critical feature of SPEs that protects the investors that purchase the securities issued by the SPE.

CMBS (Commercial Mortgage-Backed Securities) – Securities issued by an SPE that owns a pool of large commercial mortgage loans.

Consolidation – An accounting term used to refer to the process of including the assets and liabilities of one entity, such as an SPE, in the financial statements of another entity, such as the sponsor of an SPE.

FASB (Financial Accounting Standards Board) – Sets accounting standards for public and private companies.

Interest Rate Swap – A contract between two parties, wherein the first counterparty agrees to make fixed-rate interest payments to the second counterparty in exchange for floating-rate interest payments to the first counterparty by the second counterparty. The fixed rate of interest is called the "swap coupon". The interest payments are calculated on the basis of a hypothetical amount of principal called the "notional principal" or the "notional amount". Only the interest payments are exchanged, the notional principal is not exchanged.

MBS (Mortgage-Backed Securities) – Securities issued by an SPE that owns a pool of mortgage loans.

P&I (Principal and Interest) – payments on a loan or security.

Securitization - A process by which certain securities are created from the cash flows of a pool of loans or other assets.

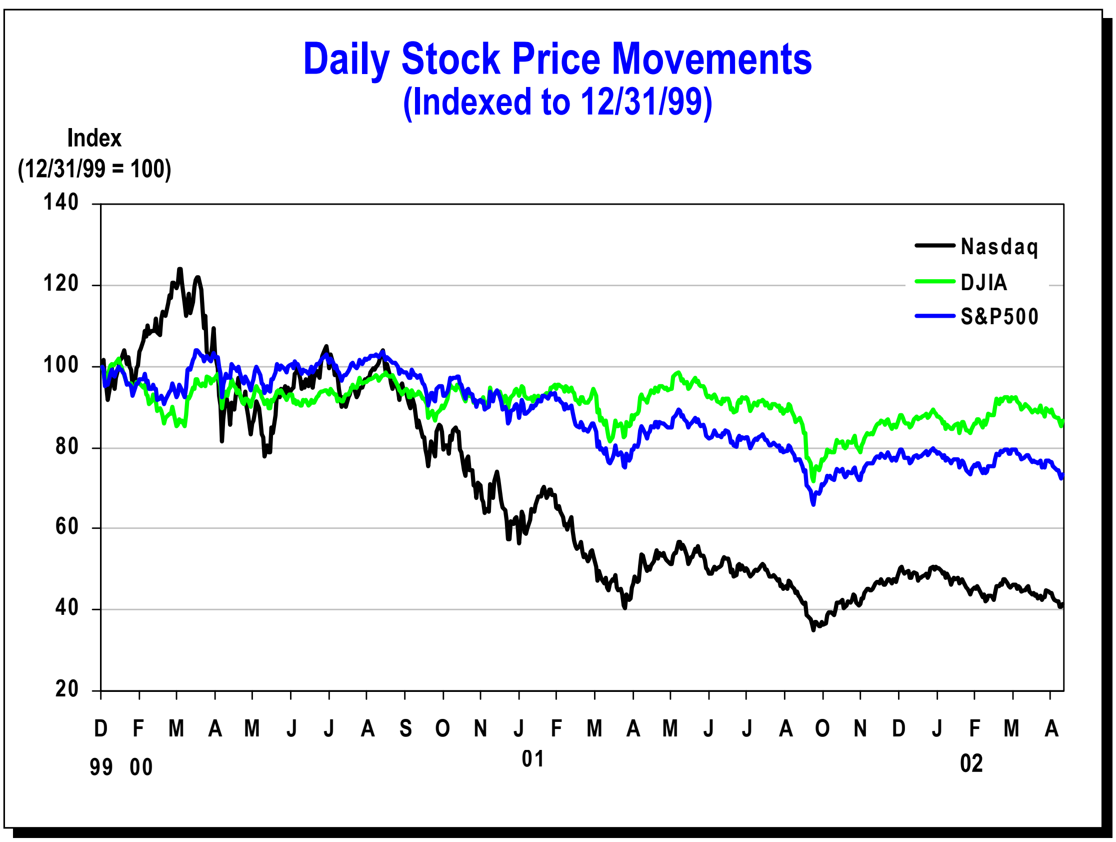
SPE (Special Purpose Entity). Also referred to as **SPV (Special Purpose Vehicle)**. SPEs are legal entities such as corporations, trusts, or partnerships established for a specific and limited purpose.

SPV (Special Purpose Vehicle) – Alternate name for SPE.

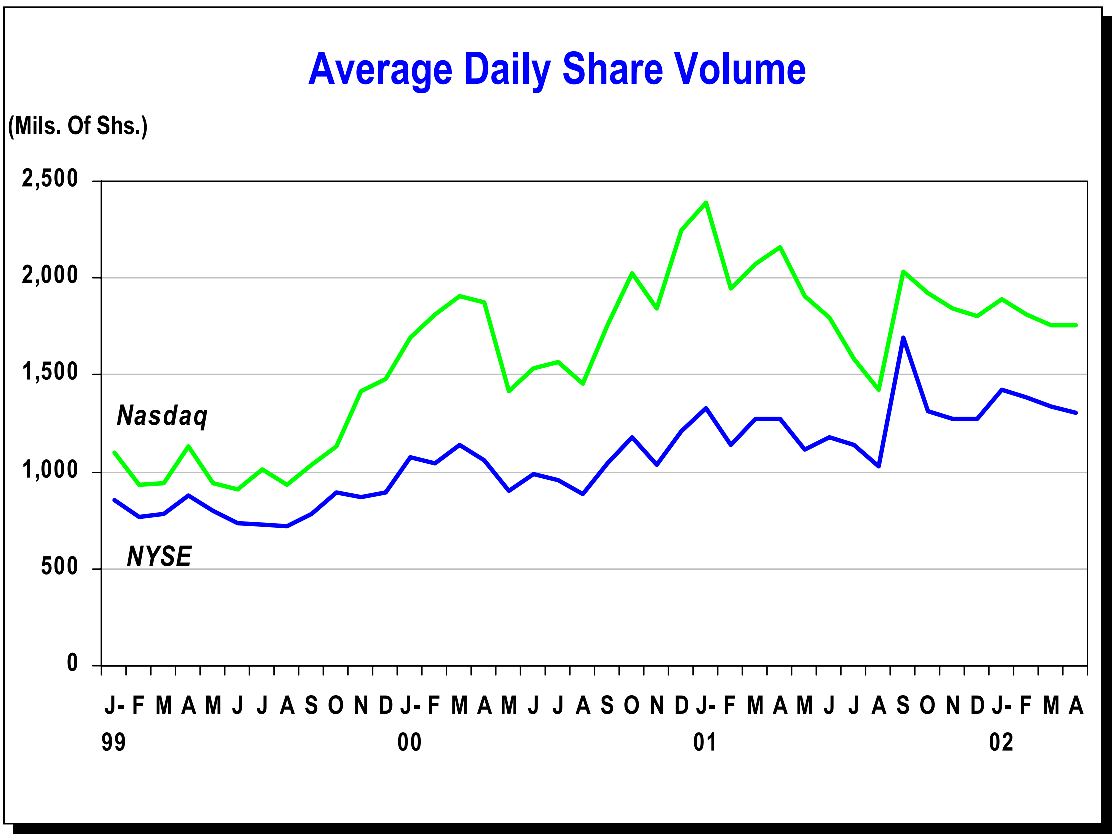
U.S. Equity Market Activity

Stock Prices – After gyrating during the first two weeks of April, stock prices crumpled in the latter half of the month as investors turned pessimistic about corporate earnings and the shaky economic recovery. Heavy selling pressure pushed the Nasdaq Composite and S&P 500 to their lowest levels since October. During the week ended April 26, the DJIA dipped below the 10,000 mark for the first time since February, which brought its one-week decline to 3.4%. That was the worst weekly performance of the Dow industrials since the week ended Sept. 21, when the blue-chip indicator sank 14.3%. Nasdaq stocks fared even worse, with the Nasdaq Composite dropping 7.4% on the week, its worst weekly showing since falling 16.1% in the week following the terrorist attacks.

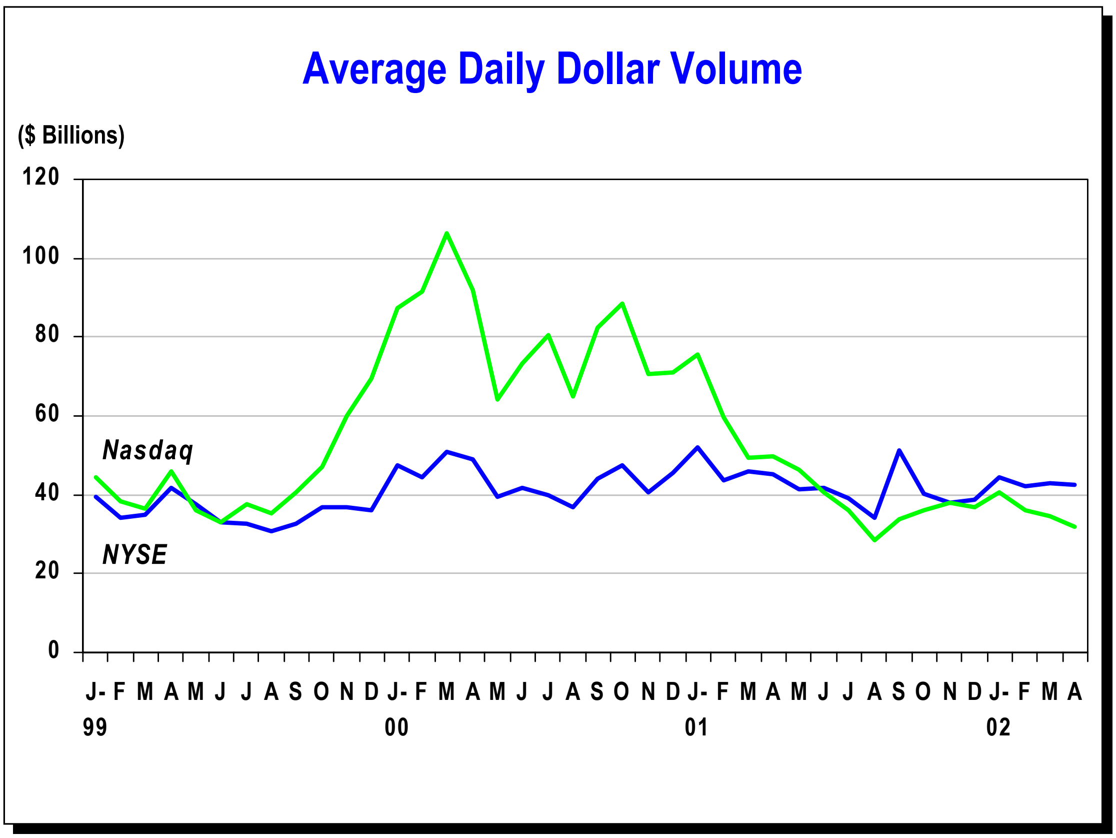
For the month overall, the major stock indexes suffered deep losses. In April, the DJIA and S&P 500 declined 4.4% and 6.1%, respectively, their biggest monthly declines since last September. Meanwhile, the Nasdaq Composite sank 8.5% in April, marking its second largest monthly percentage drop since last September, behind the 10.5% decline in February 2002. Year-to-date through the end of April, the Nasdaq Composite has plunged 13.4%, while the S&P 500 declined 6.2%, and the DJIA fell 0.8%.



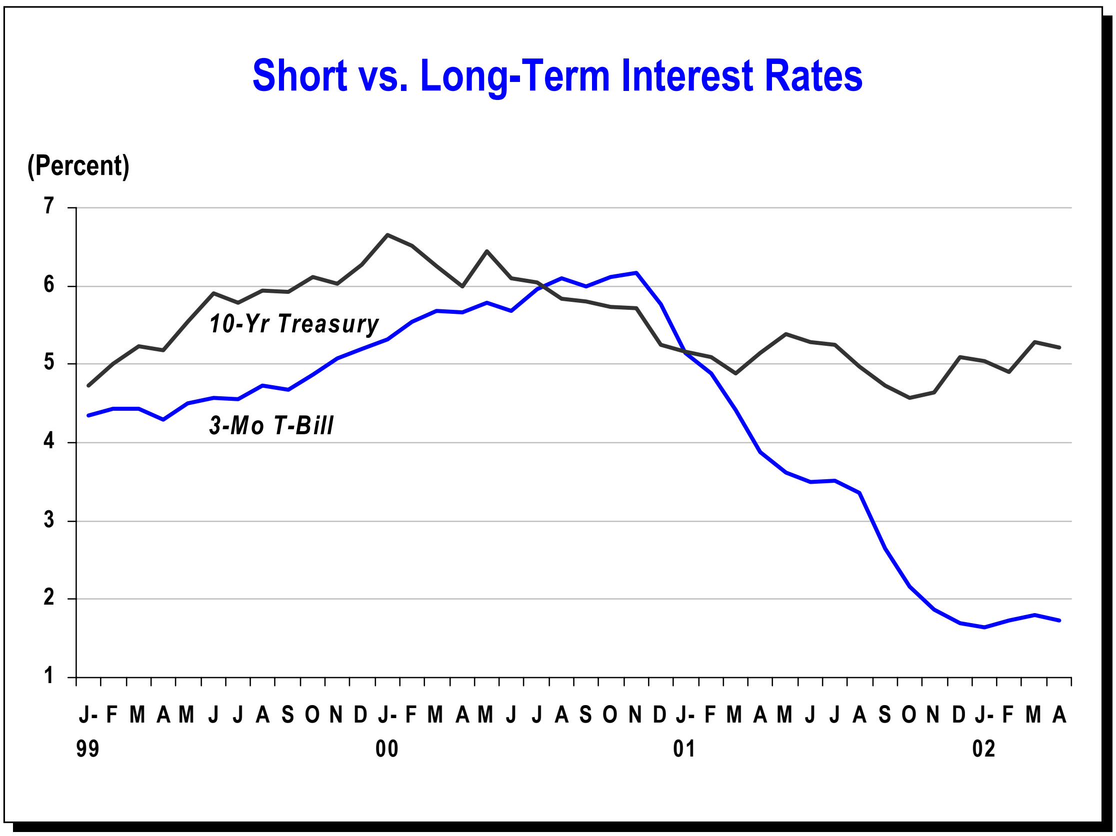
Share Volume – April witnessed the third consecutive monthly decline in trading volume on both the NYSE and Nasdaq. Average daily volume on the NYSE in April slid to a 2002 monthly low of 1.31 billion shares daily from 1.34 billion per day in March. Despite the slowdown in trading, the NYSE's average daily volume of 1.36 billion shares daily year-to-date is 9.9% higher than last year's annual record pace of 1.24 billion per day. On Nasdaq, volume slipped to a 2002 monthly low of 1.756 million daily in April, a hair lower than 1.757 million shares daily in March. That brought the year-to-date average to 1.8 billion shares daily, 5.1% short of the 1.9 billion daily record set last year.



Dollar Volume – Plunging stock prices and curtailed trading activity depressed the dollar value of trading on the major exchanges in April. Average daily dollar volume in Nasdaq stocks sank 7.8% from $34.5 billion daily in March to $31.8 billion in April, its lowest level in eight months. That dragged down the year-to-date average to $35.7 billion daily, a 19.0% drop from 2001's $44.1 billion daily average. The value of trading on the NYSE slipped 1.2% from March's level to $42.4 billion daily in April. At $43.0 billion daily year to date, dollar volume in NYSE stocks remains slightly ahead of 2001's $42.3 billion daily pace but still trails the $43.9 billion daily record set in 2000.

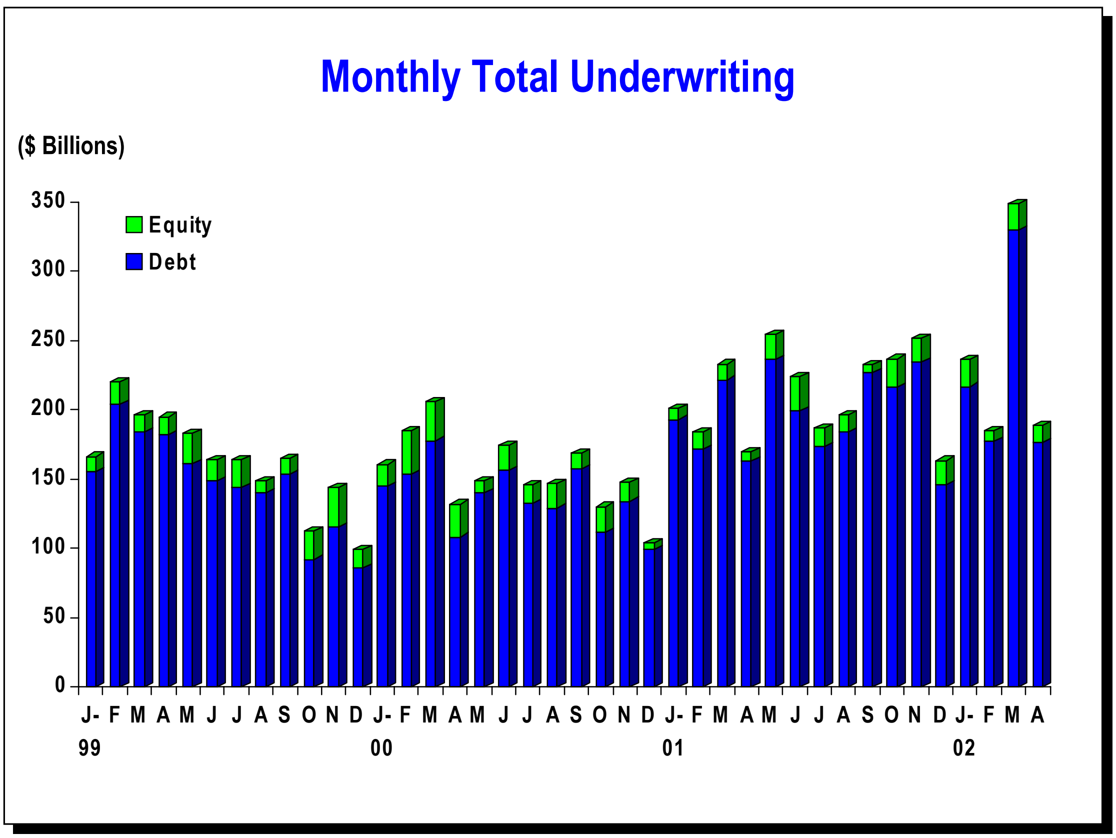


Interest Rates – Bonds rallied as falling stock prices and escalating tensions in the Middle East drove nervous investors to the relative safety of short-term government securities. Also sending bond prices higher was the expectation that interest rates will rise much more slowly than earlier projected. The benchmark 10-year Treasury bond yield, which moves inversely to price, fell to 5.21% in April, down 7 basis points (bps) from the previous month but 7 bps above where it stood a year ago. On the short-end, 3-month T-bills averaged 1.72% in April, down 7 bps from March's average and 215 bps below its year-earlier level. As a result, the yield spread between the 10-year Treasury and the 3-month T-bill remained at a historically wide 349 bps in April.

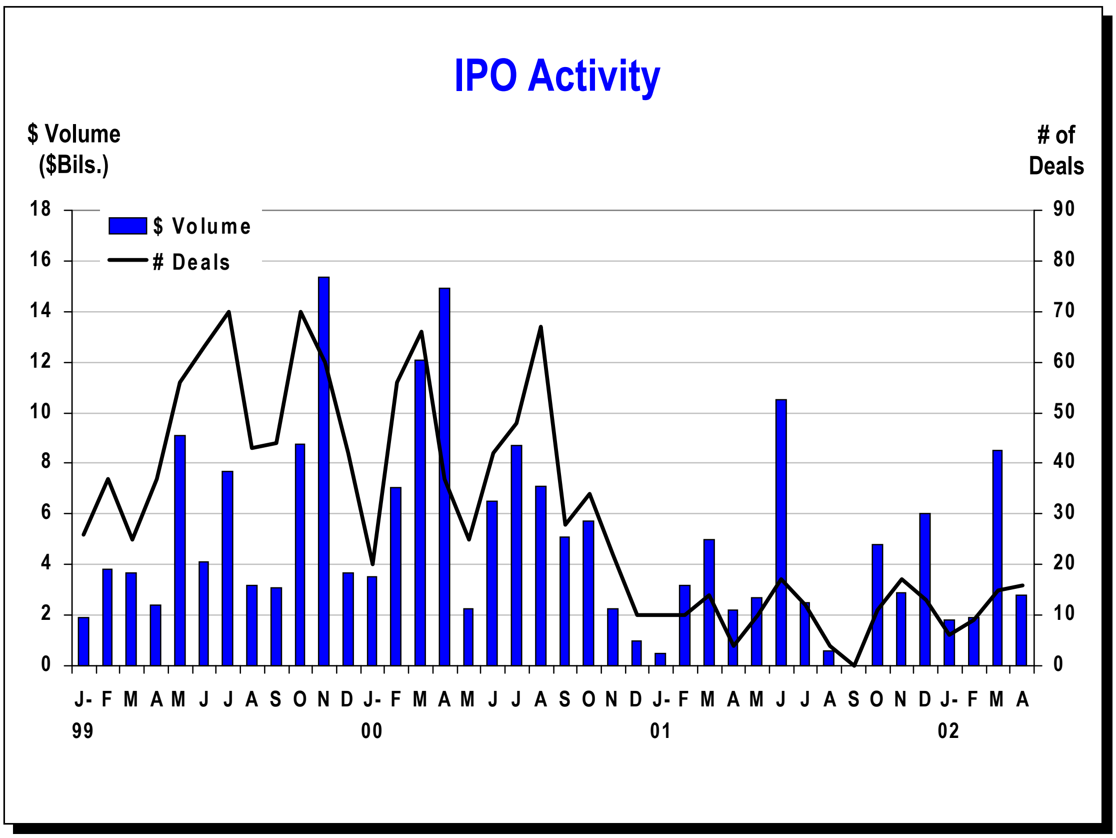


U.S. Underwriting Activity

New issue activity tanked in April across most debt and equity products, with the exception of preferred stocks. After surging to a record $349.0 billion in March, the total amount underwritten plunged 46.0% to $188.6 billion in April, an amount more in line with February's level. Despite the monthly decline in both debt and equity offerings, $959.2 billion was raised in the U.S. corporate underwriting market so far this year, a 21.7% increase over the $788.1 billion raised in last year's comparable period.



Equity Underwriting – Dollar proceeds from IPOs (including closed-end funds) plunged by over two-thirds from March's elevated level of $8.5 billion to $2.8 billion in April. It should be remembered, however, that $6.2 billion of March's volume came from two jumbo deals alone, thus masking the continued weakness in this market. Through the first four months of 2002, IPO proceeds totaled $15.0 billion, representing a 39.1% increase over the $10.8 billion raised in last year's comparable period.

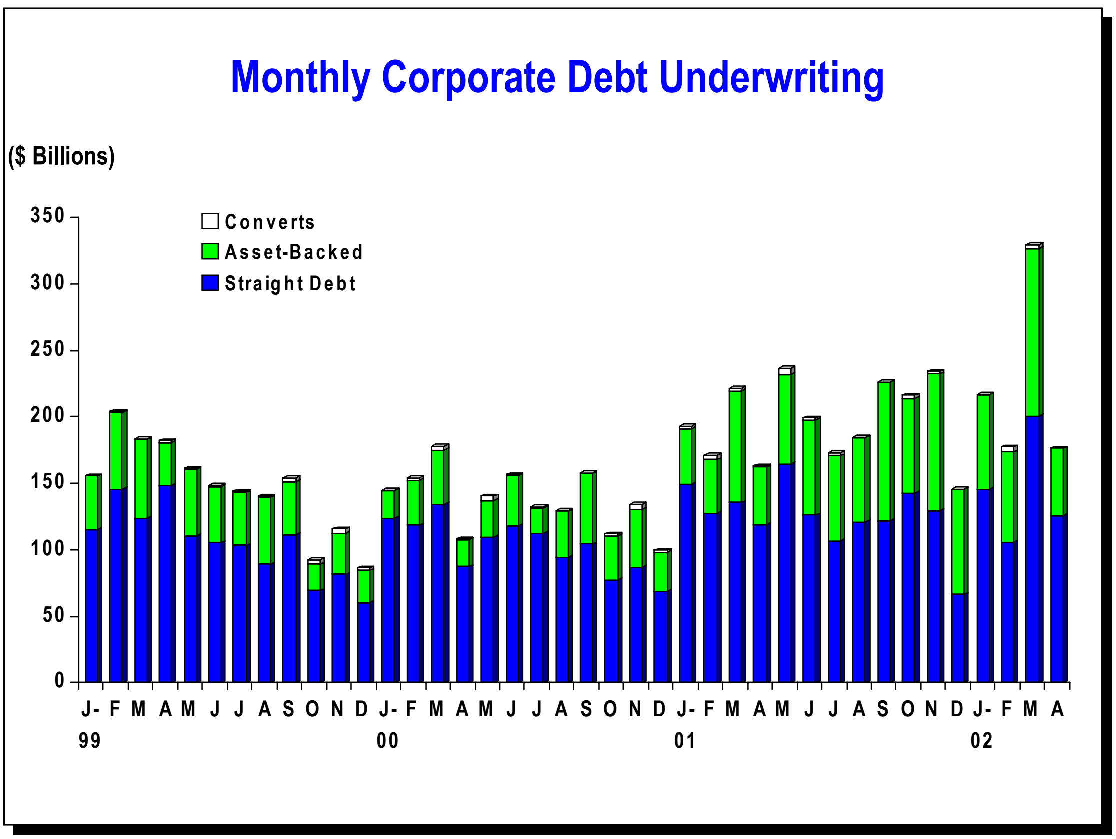


Follow-on common stock offerings plummeted 34.9% from March's level to $5.4 billion in April. Although down in April, the year-to-date total of $25.3 billion is up 20.8% from the same period last year.

Corporate Bond Underwriting – Issuers and investors alike fled the corporate debt market in droves during April, reflecting heightened concerns about corporate credit and questionable accounting practices. Domestic underwriting of corporate debt securities plummeted 46.4% to $176.5 billion in April from the monthly record of $329.5 billion in March. Still, the amount of corporate debt deals underwritten so far this year, at $900.3 billion, is up 20.1% from $749.3 billion a year ago.

New issuance of straight corporate debt stumbled 37.2% from March's record $200.3 billion to $125.7 billion in April. That brought the year-to-date total to $577.9 billion, 8.6% above the $532.0 billion raised in the same period last year.

Proceeds from asset-backed bond offerings, which surged to a monthly record of $126.0 billion in March, plunged 59.7% to $50.8 billion in April. That was the lowest monthly total in a year, when $42.9 billion was raised in April 2001. Yet, year-to-date dollar volume of $315.2 billion is up 50.9% from where it stood a year ago. Given the weakness in both the fixed income and equity markets, no convertible debt securities were offered in the U.S. public market during the month of April.



Grace Toto
Assistant Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	**TOTAL DEBT**	High-Yield Bonds	Common Stock	Preferred Stock	**TOTAL EQUITY**	All IPOs	Follow-Ons	**TOTAL UNDER-WRITINGS**
1985	76.4	7.5	20.8	104.7	14.2	24.7	8.6	33.3	8.5	16.2	138.0
1986	149.8	10.1	67.8	227.7	31.9	43.2	13.9	57.1	22.3	20.9	284.8
1987	117.8	9.9	91.7	219.4	28.1	41.5	11.4	52.9	24.0	17.5	272.3
1988	120.3	3.1	113.8	237.2	27.7	29.7	7.6	37.3	23.6	6.1	274.5
1989	134.1	5.5	135.3	274.9	25.3	22.9	7.7	30.6	13.7	9.2	305.5
1990	107.7	4.7	176.1	288.4	1.4	19.2	4.7	23.9	10.1	9.0	312.3
1991	203.6	7.8	300.0	511.5	10.0	56.0	19.9	75.9	25.1	30.9	587.4
1992	319.8	7.1	427.0	753.8	37.8	72.5	29.3	101.8	39.6	32.9	855.7
1993	448.4	9.3	474.8	932.5	55.2	102.4	28.4	130.8	57.4	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	33.3	61.4	15.5	76.9	33.7	27.7	716.4
1995	466.0	6.9	152.4	625.3	28.9	82.0	15.1	97.1	30.2	51.8	722.4
1996	564.8	9.3	252.9	827.0	37.2	115.5	36.5	151.9	50.0	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	31.4	120.2	33.3	153.4	44.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	42.9	115.0	37.8	152.7	43.7	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	36.6	164.3	27.5	191.7	66.8	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	25.2	189.1	15.4	204.5	76.1	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	30.6	128.4	41.3	169.7	40.8	87.6	2,535.1
2001											
Jan	149.6	1.7	41.7	193.0	5.9	5.4	2.7	8.1	0.5	4.9	201.1
Feb	127.5	3.3	40.5	171.3	4.1	11.3	1.5	12.8	3.2	8.1	184.1
Mar	135.5	2.3	83.8	221.6	1.3	10.1	1.4	11.5	5.0	5.1	233.1
Apr	119.3	1.1	42.9	163.4	3.1	5.0	1.5	6.5	2.2	2.8	169.9
May	164.8	4.8	67.0	236.6	3.1	14.4	3.3	17.8	2.7	11.7	254.4
June	126.1	1.0	71.9	199.0	3.6	21.4	3.5	24.9	10.5	10.9	223.8
July	106.8	2.6	63.9	173.3	0.2	10.6	3.3	13.9	2.5	8.1	187.2
Aug	121.2	0.2	63.0	184.4	2.7	7.6	4.7	12.3	0.6	6.9	196.7
Sept	121.8	0.0	104.6	226.5	0.2	2.9	3.4	6.3	0.0	2.9	232.8
Oct	142.8	2.7	70.8	216.4	1.9	13.7	6.7	20.4	4.8	9.0	236.8
Nov	129.3	1.9	102.9	234.2	3.1	12.4	5.2	17.6	2.9	9.5	251.8
Dec	66.4	0.0	79.4	145.8	1.4	13.6	4.1	17.7	6.0	7.6	163.4
2002											
Jan	145.9	0.2	70.7	216.9	4.8	8.6	10.8	19.4	1.8	6.9	236.3
Feb	106.0	3.8	67.7	177.4	1.2	6.7	1.2	7.9	1.9	4.8	185.3
Mar	200.3	3.2	126.0	329.5	4.5	16.8	2.7	19.5	8.5	8.3	349.0
Apr	125.7	0.0	50.8	176.5	2.6	8.1	4.0	12.1	2.8	5.4	188.6
May											
June											
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '01	532.0	8.4	208.9	749.3	14.3	31.7	7.1	38.8	10.8	21.0	788.1
YTD '02	577.9	7.1	315.2	900.3	13.1	40.3	18.7	59.0	15.0	25.3	959.2
% Change	8.6%	-15.3%	50.9%	20.1%	-8.5%	27.0%	164.1%	52.0%	39.1%	20.8%	21.7%

Note: High-yield bonds is a subset of straight corporate debt. IPOs and follow-ons are subsets of common stock.
Source: Thomson Financial Securities Data

MUNICIPAL BOND UNDERWRITINGS
(In $ Billions)

INTEREST RATES
(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	**TOTAL REVENUE BONDS**	Compet. G.O.s	Nego. G.O.s	**TOTAL G.O.s**	**TOTAL MUNICIPAL BONDS**	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
2001										
Jan	1.2	4.9	6.1	4.4	1.9	6.3	12.4	5.15	5.16	0.01
Feb	0.9	10.3	11.2	4.7	5.1	9.8	21.0	4.88	5.10	0.22
Mar	1.2	16.2	17.4	2.7	5.1	7.8	25.1	4.42	4.89	0.47
Apr	1.0	10.5	11.5	3.6	3.5	7.1	18.6	3.87	5.14	1.27
May	1.2	18.5	19.7	4.4	4.5	8.9	28.6	3.62	5.39	1.77
June	1.8	18.1	19.9	5.1	4.8	9.9	29.9	3.49	5.28	1.79
July	1.5	13.1	14.7	3.8	2.3	6.1	20.8	3.51	5.24	1.73
Aug	1.6	12.6	14.2	3.9	5.8	9.7	23.9	3.36	4.97	1.61
Sept	0.9	9.1	10.0	2.2	2.0	4.2	14.1	2.64	4.73	2.09
Oct	3.1	15.1	18.2	4.8	9.0	13.8	32.0	2.16	4.57	2.41
Nov	2.0	18.2	20.2	3.4	5.8	9.2	29.4	1.87	4.65	2.78
Dec	1.1	17.6	18.8	2.5	6.5	9.0	27.8	1.69	5.09	3.40
2002										
Jan	1.1	12.2	13.3	4.3	3.8	8.1	21.4	1.65	5.04	3.39
Feb	1.5	10.4	11.9	4.9	3.9	8.8	20.7	1.73	4.91	3.18
Mar	1.6	12.5	14.2	5.0	5.4	10.4	24.6	1.79	5.28	3.49
Apr	2.3	11.2	13.5	4.4	3.8	8.2	21.7	1.72	5.21	3.49
May										
June										
July										
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '01	4.2	41.9	46.2	15.3	15.6	30.9	77.1	4.58	5.07	0.49
YTD '02	6.5	46.4	52.9	18.6	16.9	35.5	88.4	1.72	5.11	3.39
% Change	53.3%	10.6%	14.5%	21.5%	8.3%	14.8%	14.6%	-62.4%	0.7%	587.8%

Sources: Thomson Financial Securities Data; Federal Reserve

	STOCK MARKET PERFORMANCE INDICES (End of Period)				**STOCK MARKET VOLUME** (Daily Avg., Mils. of Shs.)			**VALUE TRADED** (Daily Avg., $ Bils.)	
	Dow Jones Industrial Average	S&P 500	NYSE Composite	Nasdaq Composite	NYSE	AMEX	Nasdaq	NYSE	Nasdaq
1985	1,546.67	211.28	121.58	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	138.58	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	138.23	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	156.26	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	195.04	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	180.49	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	229.44	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	240.21	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	259.08	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	250.94	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	329.51	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	392.30	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	511.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	595.81	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	650.30	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	656.87	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001R	10,021.50	1,148.08	589.80	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2001									
Jan	10,887.36	1,366.01	663.64	2,772.73	1,325.9	72.5	2,387.3	52.0	75.6
Feb	10,495.28	1,239.94	626.94	2,151.83	1,138.5	70.9	1,947.6	43.8	59.7
Mar	9,878.78	1,160.33	595.66	1,840.26	1,271.4	82.5	2,071.4	45.9	49.2
Apr	10,734.97	1,249.46	634.83	2,116.24	1,276.5	78.4	2,162.8	45.1	49.6
May	10,911.94	1,255.82	641.67	2,110.49	1,116.7	66.7	1,909.1	41.4	46.4
June	10,502.40	1,224.42	621.76	2,160.54	1,175.0	63.8	1,793.9	41.6	40.6
July	10,522.81	1,211.23	616.94	2,027.13	1,137.1	56.0	1,580.7	39.0	36.0
Aug	9,949.75	1,133.58	587.84	1,805.43	1,025.7	49.1	1,426.4	34.0	28.4
Sept	8,847.56	1,040.94	543.84	1,498.80	1,694.4	72.8	2,033.0	51.2	33.9
Oct	9,075.14	1,059.78	546.34	1,690.20	1,314.3	67.8	1,926.0	40.1	36.1
Nov	9,851.56	1,139.45	579.27	1,930.58	1,270.1	57.8	1,840.3	38.1	37.8
Dec	10,021.50	1,148.08	589.80	1,950.40	1,275.3	54.1	1,807.0	38.8	36.2
2002									
Jan	9,920.00	1,130.20	578.50	1,934.03	1,425.9	56.1	1,888.7	44.5	40.8
Feb	10,106.13	1,106.73	578.60	1,731.49	1,381.8	56.3	1,812.8	42.1	35.9
Mar	10,403.94	1,147.39	600.43	1,845.35	1,337.1	57.1	1,756.8	42.9	34.5
Apr	9,946.22	1,076.92	574.18	1,688.23	1,307.3	55.4	1,755.6	42.4	31.8
May									
June									
July									
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '01	10,734.97	1,249.46	634.83	2,116.24	1,255.8	76.3	2,145.9	46.8	58.5
YTD '02	9,946.22	1,076.92	574.18	1,688.23	1,362.2	56.2	1,803.2	43.0	35.7
% Change	-7.3%	-13.8%	-9.6%	-20.2%	8.5%	-26.3%	-16.0%	-8.2%	-39.0%

MUTUAL FUND ASSETS
($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**
1985	116.9	12.0	122.6	243.8	495.4
1986	161.4	18.8	243.3	292.2	715.7
1987	180.5	24.2	248.4	316.1	769.2
1988	194.7	21.1	255.7	338.0	809.4
1989	248.8	31.8	271.9	428.1	980.7
1990	239.5	36.1	291.3	498.3	1,065.2
1991	404.7	52.2	393.8	542.5	1,393.2
1992	514.1	78.0	504.2	546.2	1,642.5
1993	740.7	144.5	619.5	565.3	2,070.0
1994	852.8	164.5	527.1	611.0	2,155.4
1995	1,249.1	210.5	598.9	753.0	2,811.5
1996	1,726.1	252.9	645.4	901.8	3,526.3
1997	2,368.0	317.1	724.2	1,058.9	4,468.2
1998	2,978.2	364.7	830.6	1,351.7	5,525.2
1999	4,041.9	383.2	808.1	1,613.1	6,846.3
2000	3,962.0	346.3	811.1	1,845.2	6,964.7
2001R	3,418.2	346.3	925.1	2,285.3	6,975.0
2001					
Jan	4,093.5	354.9	833.3	1,954.8	7,236.5
Feb	3,688.9	344.9	844.5	2,018.7	6,897.0
Mar	3,402.9	333.7	852.1	2,035.5	6,624.2
Apr	3,715.7	348.0	846.0	2,031.5	6,941.2
May	3,744.6	352.6	858.4	2,070.9	7,026.5
June	3,677.2	349.9	860.8	2,052.5	6,940.4
July	3,589.3	351.7	882.3	2,069.8	6,893.1
Aug	3,382.7	342.6	908.3	2,104.3	6,737.9
Sept	3,018.9	324.1	909.6	2,161.7	6,414.3
Oct	3,111.2	330.3	935.2	2,239.7	6,616.4
Nov	3,348.6	343.0	934.1	2,306.5	6,932.2
Dec	3,418.2	346.3	925.1	2,285.3	6,975.0
2002					
Jan	3,373.5	347.2	947.0	2,303.5	6,971.2
Feb	3,312.0	348.4	962.7	2,301.2	6,924.3
Mar	3,498.5	359.2	958.8	2,250.3	7,066.8
Apr					
May					
June					
July					
Aug					
Sept					
Oct					
Nov					
Dec					
YTD '01	3,402.9	333.7	852.1	2,035.5	6,624.2
YTD '02	3,498.5	359.2	958.8	2,250.3	7,066.8
% Change	2.8%	7.6%	12.5%	10.6%	6.7%

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	8.5	1.9	63.2	-5.4	68.2	73.6
1986	21.7	5.6	102.6	33.9	163.8	129.9
1987	19.0	4.0	6.8	10.2	40.0	29.8
1988	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	5.8	4.2	-1.2	64.1	72.8	8.8
1990	12.8	2.2	6.2	23.2	44.4	21.2
1991	39.4	8.0	58.9	5.5	111.8	106.3
1992	78.9	21.8	71.0	-16.3	155.4	171.7
1993	129.4	39.4	73.3	-14.1	228.0	242.1
1994	118.9	20.9	-64.6	8.8	84.1	75.2
1995	127.6	5.3	-10.5	89.4	211.8	122.4
1996	216.9	12.3	2.8	89.4	321.3	232.0
1997	227.1	16.5	28.4	102.1	374.1	272.0
1998	157.0	10.2	74.6	235.3	477.1	241.8
1999	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	309.4	-30.7	-49.8	159.6	388.6	228.9
2001R	32.2	9.5	87.8	375.3	504.8	129.6
2001						
Jan	24.9	2.5	9.0	103.5	139.9	36.4
Feb	-3.3	1.3	8.9	58.2	65.1	6.8
Mar	-20.7	-0.4	7.7	13.7	0.4	-13.3
Apr	19.1	1.3	1.4	-10.3	11.6	21.8
May	18.4	0.9	6.3	34.3	59.8	25.6
June	10.9	1.2	2.3	-24.2	-9.8	14.3
July	-1.3	1.3	9.3	12.2	21.5	9.3
Aug	-5.0	-0.7	16.7	26.1	37.2	11.0
Sept	-30.0	-1.3	7.7	52.9	29.3	-23.6
Oct	0.9	1.6	13.6	74.2	90.2	16.0
Nov	15.3	1.0	6.9	60.3	83.5	23.2
Dec	2.9	1.0	-1.9	-25.4	-23.3	2.1
2002						
Jan	20.0	2.2	10.5	14.0	46.7	32.7
Feb	5.4	2.3	10.7	-5.5	12.9	18.4
Mar	29.3	3.4	6.8	-53.1	-13.6	39.5
Apr						
May						
June						
July						
Aug						
Sept						
Oct						
Nov						
Dec						
YTD '01	1.0	3.4	25.6	175.4	205.3	29.9
YTD '02	54.7	7.9	28.0	-44.6	46.0	90.6
% Change	5607.6%	135.4%	9.4%	-125.4%	-77.6%	202.9%

* New sales (excluding reinvested dividends) minus redemptions, combined with net exchanges
Source: Investment Company Institute

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