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Disclaimer

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Agenda

1. Federal Reserve Consolidated Supervision Framework: Overview
2. 2012-13 Asset & Wealth Management Supervisory Priorities
3. 2012-13 Examination Findings Highlights



FEDERAL RESERVE CONSOLIDATED SUPERVISION FRAMEWORK



Federal Reserve Consolidated Supervision Framework

- Expanded responsibilities following DFA's repeal of GLBA "Fed Lite" restrictions.
- Now the umbrella supervisor of traditional BHCs - plus SLHCs, SIFIs & FMUs.
- Provide enterprise wide risk assessment of all fiduciary risk under the holding company.
- Ensure that exams, risk assessments & supervisory plans consider the impact from BD, RIA, and trust activities.



2012-13 ASSET & WEALTH MANAGEMENT SUPERVISORY PRIORITIES



1. Money Market Mutual Funds

RISK

- Implied support of stressed funds remains greatest source of systemic risk.
- Represents contingent liability claim on capital.
- SEC mandated stress testing remains most valued tool in assessing this risk.
- Stress testing results should tie into firm's CCAR assessments & living wills.



2. Significant NBS Activities

RISK

- Non-bank subsidiaries (NBS) impact to firms' risk profiles, which are driven primarily by...
 - MMF support vulnerability
 - Significant asset manager activities
 - Significant retail BD activities



3. Open Architecture

RISK

- Potential conflicts of interest arising from firms' divestiture of asset management businesses or activities.
- Imprudent use of sub-par funds or composite models.
- Inadequate 3rd party money manager due diligence & monitoring.
- Use of higher risk investment strategies.



4. Model Risk Management: *SR Letter 11-7*

RISK

- Inadequate challenge of...
 - Asset management model assumptions
 - Outputs vs. objectives
 - Overall level of reliance on models
- Under-reporting of models used in Asset & Wealth business lines.
- Inadequate model benchmarking, back-testing & validation.



2012-13 EXAMINATION FINDINGS: HIGHLIGHTS



Risk Management

Improve or develop...

- Fiduciary risk assessment program for identifying, measuring, monitoring and reporting on whether inherent risks are appropriately mitigated within Board approved risk appetites for the wealth management LOB.
- Staff resources so that they can support the risk management and compliance function.



Risk Management

- Audit coverage of certain manual transaction procedures associated w/EB account administration.
- Management succession planning.
- Policies governing selection/retention of 3rd party money managers.
- Policies governing how potential prohibited transactions in self-directed IRAs are identified, assessed, escalated, and documented.



Conflicts of Interest & Self Dealing

Improve or develop...

- Measures taken to avoid the appearance of conflicts of interest and self dealing when using own-bank deposit products.
- Controls designed to prevent the holding of large own-bank deposit balances for significant periods of time.
- Policies addressing the collection of 12b-1 fees in compliance with the SR Letter 99-7.



Investment & Admin Reviews

Improve or develop...

- Initial documentation & periodic reaffirmation of client investment objectives.
- Documentation of unapproved holdings or proprietary funds in discretionary accounts (retention letters).
- Policy relating to the use of model portfolios for discretionary accounts.



Investment & Admin Reviews

- Documentation of asset allocation guidelines and performance benchmarks in support of client investment objectives.
- Monitoring of portfolio returns to see if they are aligned with investment objectives.
- Monitoring of municipal bond credit quality ratings for trust assets (or credit analysis non-rated issues).
- Administrative review timeliness.



Investment & Admin Reviews

- Capturing of & review process governing investment concentrations, own-bank stock, or unique assets exceptions.
- Documentation of decisions taken to retain or sell an asset, and monitoring thereof until completion.
- Policies governing the levels of approval and documentation required for decisions concerning discretionary distributions.



Vendor Management

Improve or develop...

- How the periodic reviews of 3rd party service agreements (including non-technology service providers) are conducted to ensure all services are provided as agreed.
- How the continued viability of vendors is evaluated.



Questions

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REFERENCES



Fiduciary Activities Related Supervisory Guidance

- SR 08-8: Compliance Risk Management Programs & Oversight at Large Banks with Complex Compliance Profiles
- SR 04-7: SEC Guidance on the Potential Liability of Financial Institutions for Securities Law Violations Arising from Deceptive Structured Finance Products and Transactions
- SR 04-1: Interagency Policy on Banks/Thriffs Providing Financial Support to Funds Advised by the Banking Organization



Fiduciary Activities Related Supervisory Guidance

- SR 01-5: Examination of Fiduciary Activities
- SR 99-7: Supervisory Guidance Regarding the Investment of Fiduciary Assets in Mutual Funds and Potential Conflicts of Interest
- SR 98-37: Uniform Interagency Trust Rating System
- SR 97-3: Conversion of Common Trust Funds to Mutual Funds



Fiduciary Activities Related Supervisory Guidance

- SR 96-10: Risk-Focused Fiduciary Examinations
- SR 94-53: Investment Adviser Activities
- SR 91-4: Guidelines for the Inspection of Investment Adviser Subsidiaries of Bank Holding Companies
- SR 83-39: Trust Department Uses of Options and Futures Contracts



Fiduciary Activities Related Supervisory Guidance

- SR 81-697: Uniform Interagency Agreement for Reporting Violations of ERISA
- SR 77-395: Exemptions from Prohibited Transactions Provision of ERISA
- SR 72-180: Analysis of Trust Provisions of the Bank Holding Company Act
- Federal Reserve Bank Holding Company / Commercial Bank Exam Manuals