

# **Regulator Panel OCC Asset Management Update**

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**FIRMA's 27<sup>th</sup> National Risk Management  
Training Conference  
April 30<sup>th</sup>, 2013**

# OCC – National Bank and Federal Savings Association AM Supervision

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- OCC regulates 1,290 national banks & 540 Federal savings associations (FSAs).
  - They range from large complex banks with global footprints to local community banks.
  - Includes 70 limited purpose national trust banks (most uninsured) and 15 trust only thrifts (all insured).
- Approximately 43% of all national banks and 26% of Federal savings associations have Asset Management (AM) activities, which include:
  - Fiduciary and custody services; investment advice and investment management; employee benefit services; retail brokerage; collective funds; and securities lending activities

# OCC – National Bank and Federal Savings Association AM Supervision

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- OTS/OCC Integration (Effective July 2011)
  - Most OCC guidance, particularly in the AM area, now applies to both national banks and FSAs; combined OCC/OTS teams examine both entities.
  - OCC and OTS regulations have been reviewed and differences identified. Objective is to consolidate into single set of rules.
  - Schedule RC-T has replaced TFR-FS (March 2012)

# AM Guidance and Regulation

# Recent AM Guidance and Regulation

- Unique & Hard-to-Value Assets Handbook (August 2012)
  - Describes characteristics and risks of these assets including:
    - Residential and commercial real estate; farm & ranch; timber; mineral interests; closely held businesses; loans and notes; life insurance; tangible assets and collectibles
  - Highlights risks associated with these assets – operational, compliance, reputation and strategic:
    - Assets require specialized expertise; may be subject to special ownership rules; are frequently hard to value; pose challenges in terms of safeguarding assets; may have specialized transaction processing requirements; operate under complex framework of applicable law, including governing instrument; and often have special meaning/value to beneficiaries.

# Recent AM Guidance and Regulation

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- Unique & Hard-to-Value Assets - OCC Expectations
  - Pre-acceptance, initial and annual reviews
  - Policy guidelines for valuation frequency and methods
  - Sufficient expertise to monitor third parties servicing asset class
  - Process to ensure payment of applicable taxes and insurance
  - Process to ensure and track timely management actions
  - Process to track, collect and follow up on income receipts
  - Controls such as audit and compliance reviews
  - Risk assessment and defined risk tolerance
  - Exception monitoring and reporting
  - Controls to safeguard assets
  - Proper segregation of duties

# Recent AM Guidance and Regulation

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- Investment Issues – Unique Assets
  - Stale valuations/valuation practices
  - Stale reviews of unique assets
  - Lack of financial transparency
  - Lack of product knowledge and expertise
  - Client suitability

# Recent AM Guidance and Regulation

- OCC Short Term Collective Investment Fund (STIF) Rule
  - Revises 12 CFR 9.18(b)(4)(ii)(B); filing requirements described in OCC Bulletin 2013-8 (March 2013)
  - Effective July 1, 2013
  - Objective of revisions: To add safeguards designed to address potential risk of loss to a participant's principal
    - STIFs, like money market mutual funds are designed to provide a relatively risk free liquidity option.
    - Both STIFs and MMFs received sponsor support in 2007-2009.
    - SEC imposed additional restrictions on MMFs; OCC considers comparable restrictions on STIFs to be warranted.



# Recent AM Guidance and Regulation

- STIF Final Rule requirements include:
  - Measures governing the nature of STIFs investments
    - Shorter duration
    - Concentration standards
    - Portfolio and issuer qualitative standards
  - Ongoing monitoring of the STIF's mark-to-market value
  - Assessment of potential changes in STIF's mark-to-market value under adverse market conditions
  - Greater transparency and reporting of STIF's holdings
  - Procedures to protect fiduciary accounts from undue dilution in the event that the STIF loses ability to maintain a stable NAV.

# Recent AM Guidance and Regulation

- STIF Final Rule Disclosure requirements (continued):
  - Fund level portfolio information - Disclose to OCC, STIF participants within 5 days of end-of-month (EOM):
    - Total assets under management
    - Mark-to-market and amortized cost NAV (both with and without capital support agreements)
    - Dollar-weighted average portfolio maturity
    - Dollar-weighted average portfolio life maturity
    - For each security owned as of EOM:
      - Issuer name
      - Category of investment
      - Principal amount
      - Maturity information
      - Coupon or yield
      - Amortized cost value
      - CUSIP or other standard identifier

# AM Operating Environment and Associated Regulatory Concerns

# Operating Environment – Asset Management

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- Prolonged domestic and global economic weakness and uncertainty.
- AM activities – revenue streams increasingly important to bank earnings.
- Anxiety for income/improved investment performance.
- Liquid AM revenue (e.g., MMFs) continues to be impacted by fee waivers due to low rate environment.
- Business restructuring, exiting certain products and markets, expanding into others.
- Strategic initiatives designed to improve earnings and growth in challenging market environment.

# Operating Environment – Asset Management

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- Proliferation of New Product Offerings
  - Exchange traded fund growth
    - Number of funds
    - Total assets
    - Complexity
    - Concentration among limited number of sponsors
    - Leverage risks
  - Structured products
    - Provide alternatives in low-rate environment
    - Pose heightened reputation risk
    - Proprietary and high fee products pose conflict issues

# Operating Environment – Asset Management

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- Compliance Risk and Control Structures
  - Regulatory exams, investigations and inquiries
    - Client trading activity
    - Documentation
    - Investment suitability
  - Impact of new and proposed rules (US and foreign)
  - Potential impact of Volcker Rule on banks and affiliates that organize and offer funds with hedge fund or private equity characteristics.

- Investment Issues/concerns
  - Anxiety for income/improved investment performance – increased risk taking
  - Thoroughness of due diligence processes in selecting, retaining, and monitoring investment managers, funds, and other investment vehicles
  - Independence of risk management function over investment area
  - Need for comprehensive model risk management (OCC Bulletin 2011-12)
  - Improper oversight and controls over delegation of fiduciary assets to affiliated broker's financial advisors 15

# OCC Supervisory Focus – Asset Management

- **Impact of earnings pressure on:**
  - Internal controls
  - Staffing
  - Compliance/Risk Management functions
  - Audit Coverage
  
- **Issues associated with service provider selection and oversight:**
  - IT, outsourced operations, administration, tax preparation, investments, custody
  - Affiliated and non-affiliated service providers



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# Appendix I

**-OCC Asset Management-  
“Matters Requiring  
Attention”**

# AM MRAs

<b>Compliance</b>	<b>Trust Risk Management Process</b>	<b>Trust Asset/ Investment Management</b>	<b>Trust Board/ Management Oversight</b>
No Pre-acceptance Reviews	Audit & Internal Controls	Annual Investment Reviews	Policies & Procedures
Pledging Problems	Lack of Exception Tracking Report	Lack of guidance on use of alternative investments	Repeat of Weak Internal Controls
No initial post acceptance review	Vendor Management	Problems with third party investment manager agreements	Poor corporate governance of AM dept
Conflicts of interest	Poor risk management process/controls	Weak unique asset administration	Lack of Reg R documentation

# Appendix II - Asset Management Statistics

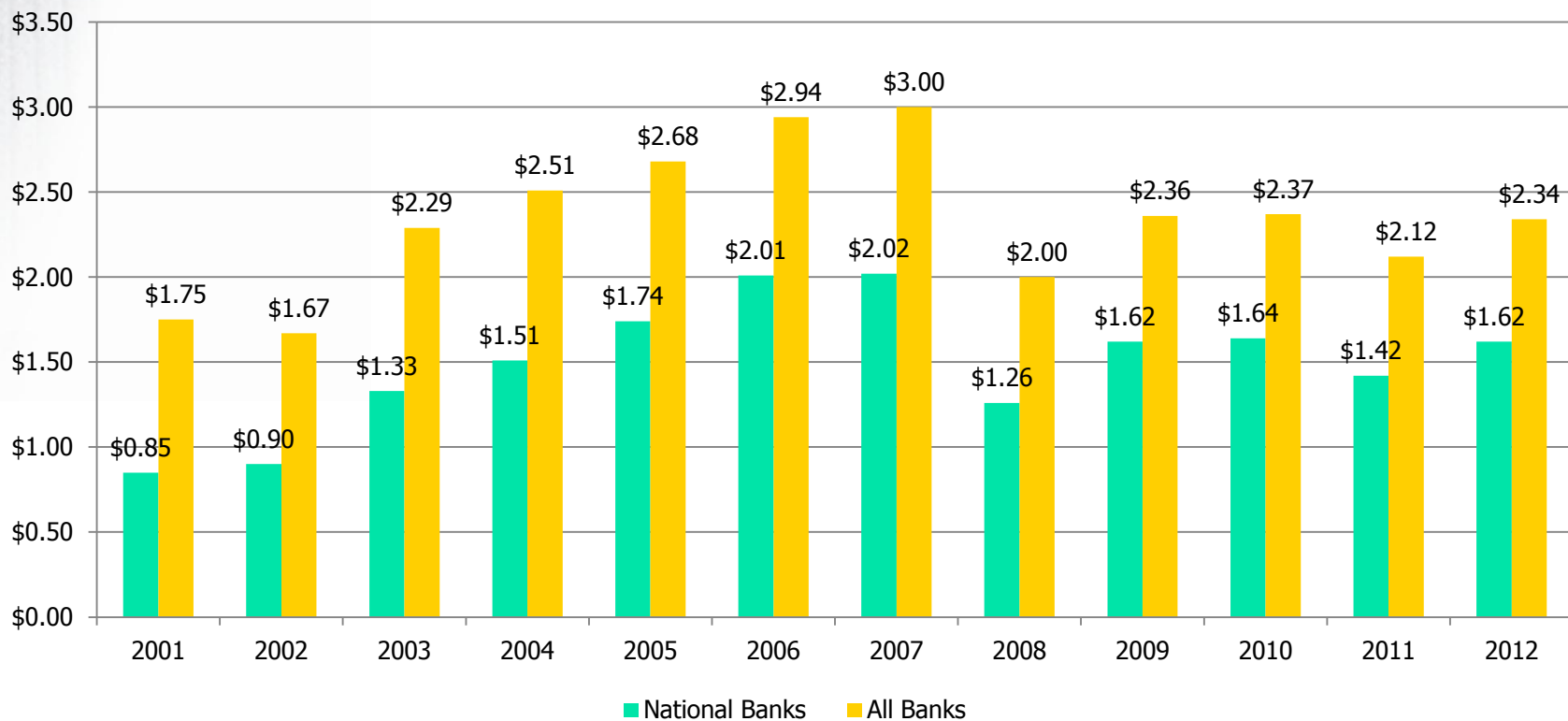
# Fiduciary and Related Assets

## All Banks and Federal Savings Associations - 12/31/2012

<b>FIDUCIARY AND RELATED ASSETS (\$000s)</b>	<b>Managed</b>	<b>Non-Managed</b>	<b>Total Assets</b>	<b>% of Fid Assets</b>
<b>Personal trust and agency accounts</b>	\$679,916,858	\$294,407,316	\$974,324,174	5%
<b>Employee benefit &amp; retirement related trust &amp; agency</b>				
<b>Employee benefit - Defined contribution</b>	\$758,950,227	\$2,613,489,553	\$3,372,439,780	18%
<b>Employee benefit - Defined benefit</b>	\$932,514,825	\$3,584,914,073	\$4,517,428,898	24%
<b>Other employee benefit and retirement related</b>	\$260,576,680	\$2,322,296,517	\$2,582,873,197	14%
<b>Corporate trust and agency accounts</b>	\$34,141,372	\$2,692,993,479	\$2,727,134,851	15%
<b>Investment management and investment advisory</b>	\$1,212,053,159	\$62,675,248	\$1,274,728,407	7%
<b>Foundation and endowment</b>	\$217,641,825	\$75,660,831	\$293,302,656	2%
<b>Other fiduciary accounts</b>	\$222,439,292	\$2,490,377,247	\$2,712,816,539	15%
<b>Total Fiduciary Accounts</b>	\$4,318,234,238	\$14,136,814,264	\$18,455,048,502	100%
<b>Custody and Safekeeping Accounts</b>		\$76,856,200,296	<b>\$76,856,200,296</b>	
<b>Total Fiduciary &amp; Custody/Safekeeping Accounts</b>			<b>\$95,311,248,798</b>	

# Collective Investment and Common Trust Funds

## All Banks and FSAs: 2001 – 2012



# Collective Investment and Common Trust Funds

## All Banks and FSAs: 2011 - 2012

2011  
\$000s

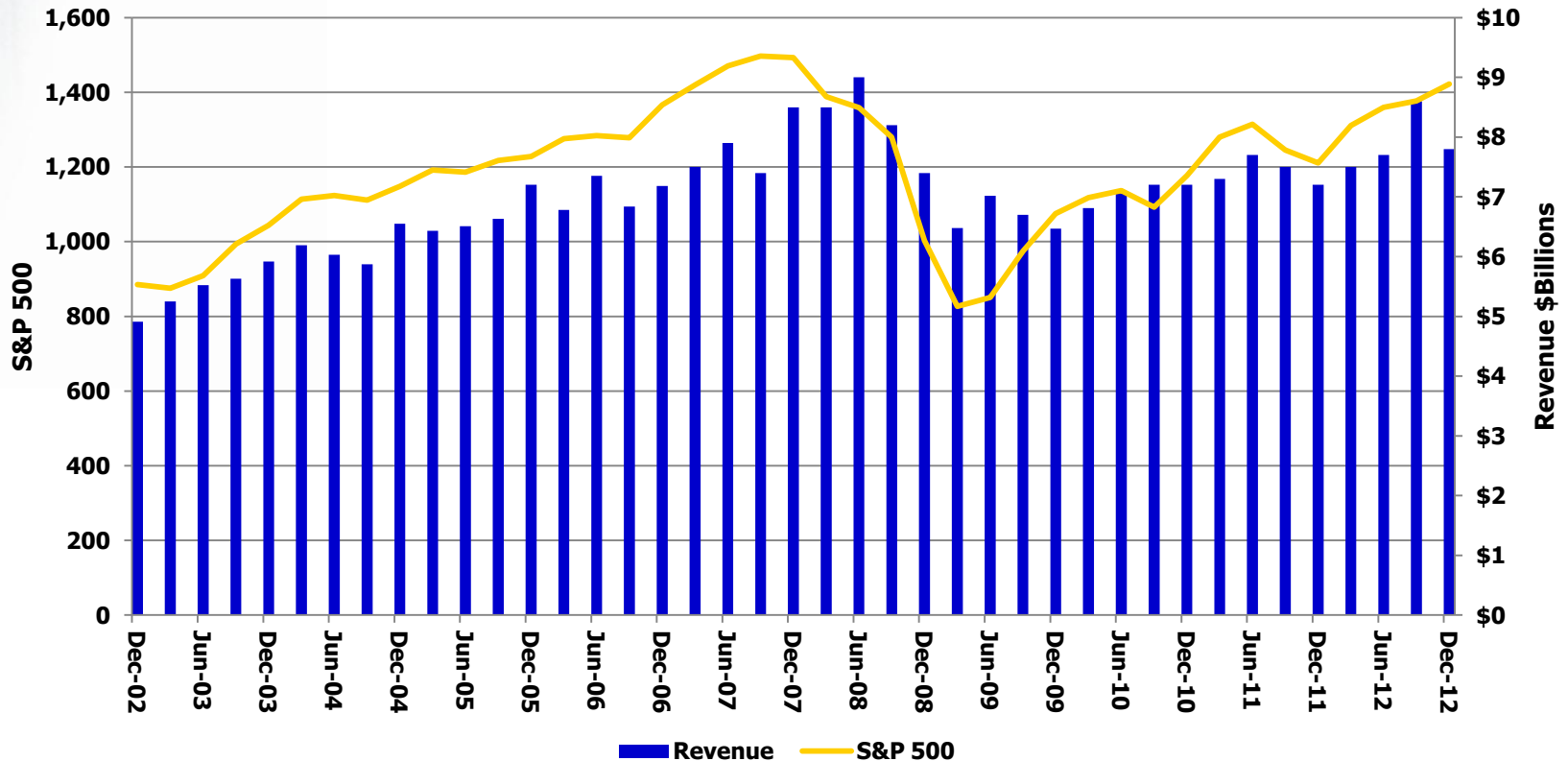
	Domestic Equity	International Equity	Stock/Bond Blend	Taxable Bond	Municipal Bond	STIF/Money Market	Specialty Other	Total
All FDIC-insured State Banks (48)	\$239,462,434	\$109,605,198	\$86,687,952	\$36,934,801	\$1,682,485	\$168,284,562	\$43,389,037	\$686,046,469
All National Banks (57)	\$430,704,299	\$362,048,074	\$66,153,193	\$386,968,517	\$4,714,422	\$111,534,622	\$58,863,573	\$1,420,986,700
All Federal Savings Banks (4)	\$1,562,627	\$715,588	\$1,854,124	\$1,077,871	\$35,750	\$0	\$8,206,552	\$13,452,512
<b>Total (109)</b>	<b>\$671,729,360</b>	<b>\$472,368,860</b>	<b>\$154,695,269</b>	<b>\$424,981,189</b>	<b>\$6,432,657</b>	<b>\$279,819,184</b>	<b>\$110,459,162</b>	<b>\$2,120,485,681</b>

2012  
\$000s

	Domestic Equity	International Equity	Stock/Bond Blend	Taxable Bond	Municipal Bond	STIF/Money Market	Specialty Other	Total
All FDIC-insured State Banks (45)	\$263,069,561	\$130,155,181	\$93,982,967	\$43,340,389	\$1,580,261	\$133,404,171	\$43,114,677	\$708,647,207
All National Banks (54)	\$482,981,199	\$474,856,500	\$99,457,464	\$388,109,729	\$4,388,992	\$106,088,897	\$65,630,065	\$1,621,512,846
All Federal Savings Banks (4)	\$1,832,047	\$993,000	\$2,917,202	\$986,951	\$32,209	\$0	\$0	\$6,761,409
<b>Total (103)</b>	<b>\$747,882,807</b>	<b>\$606,004,681</b>	<b>\$196,357,633</b>	<b>\$432,437,069</b>	<b>\$6,001,462</b>	<b>\$239,493,068</b>	<b>\$108,744,742</b>	<b>\$2,336,921,462</b>

# Fiduciary & Related Services Revenue

All Banks and FSAs: 2002 – 2012



## Contact information:

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