

OCC Asset Management Update FIRMA Annual Risk Management Conference

April 21, 2015

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- The views and opinions expressed in this presentation are my own, and do not necessarily represent those of the Office of the Comptroller of the Currency, the Chief National Bank Examiner, or the Credit and Market Risk Division.
- I'll refer frequently to national bank and federal savings association regulations and guidance. While Regulation 9 and 150 are virtually identical, there are some differences. You should refer to the regulations and guidance issued by your primary federal/state regulator.

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- Key OCC Initiatives Relating to Asset Management (AM) Activities
- Key Risks and OCC Supervisory Focus
- Appendix I – Summary Statistics
- Appendix II - OCC Asset Management Guidance

Key OCC initiatives Affecting Asset Management

Key OCC Initiatives Affecting AM

- Extensive revisions to Comptroller’s Handbooks
- EGRPRA review
 - Interagency EGRPRA review underway with objective of reducing regulatory burden, particularly on community banks
- Operational Losses - Call Report Clarifications
- Updated Guidance: Matters Requiring Attention - OCC Bulletin 2014-52
- Risk Management Guidance: Third-Party Relationships - OCC Bulletin 2013-29
- Heightened Standards for Large Banks – OCC Bulletin 2014-45, and 12 CFR 30
- OCC EXCEL Program (OCC examiner development)

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Comptroller’s Handbooks

- Handbooks provide examiners and with core information and OCC expectations for each subject area.
- Include a background on the product line and identify the risks posed by the activities discussed.
- Specific examination procedures provide guidance to OCC field examiners regarding many of the issues that warrant particular scrutiny.
- All OCC booklets being revised.
 - Safety and Soundness
 - Asset Management
 - Consumer Compliance
 - Securities Compliance
- Best practice – Gap analysis for new or updated OCC issuances.

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OCC Handbook Updates – Asset Management

- Asset Management (update projected 2015)
- Investment Management Services (update projected 2015)
- Personal Fiduciary Activities (February 2015)
- Conflicts of Interest (January 2015)
- Retail Sales of Non-Deposit Investment Products (January 2015)
- Collective Investment Funds (May 2014)
- Retirement Plan Products and Services (February 2014)
- Unique and Hard to Value Assets (August 2012)
- AM Operations and Controls (2011)
- Custody Services (2002)

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Retirement Plan Products and Services Handbook Highlights

- Incorporates updated references and discussion of significant DoL issues and issuances.
- Adds expanded discussion of compensation issues.
- Adds discussion of Bank Secrecy Act/anti-money laundering and Regulation R.
- Adds discussion of board and senior management responsibilities for oversight of risk management.
- Updates expanded examination procedures and groups them by risk.
- Applies OCC Bulletins 2006-24 (ERISA Referrals), 2007-7 (Soft Dollars) and 2008-10 (Annual Reviews) to FSAs.

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Collective Investment Funds Handbook Highlights

- Cross references Part 9 for NBs and Part 150 for FSAs.
- Requires that banks ensure that a CIF is
 - in compliance with banking law requirements and
 - is operated within the parameters of the securities laws
- Places greater emphasis on identification and mitigation of risks, particularly in the context of a fund's investment process. Enhanced focus on benchmarking and valuation issues.
- Places greater emphasis on identifying risks associated with third-party relationships and ensuring robust risk management process is in place.
- Places heightened focus on conflicts of interest, particularly where CIF invests in own-bank deposit products.
- Notes potential for enhanced pass-through of admission and withdrawal fees, subject to specific OCC authorization.

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Conflicts of Interest HB

- Details the applicable regulations for NBs and FSAs
- Clarifies longstanding guidance relating to traditional conflicts (e.g., BHC stock; purchase of fiduciary assets by related parties and interests).
- Broadens the discussion of conflicts of interest to address current business practices
 - Use of proprietary products (e.g., mutual funds, hedge funds, structured notes) in discretionary fiduciary accounts.
 - Business referral arrangements, including delegation of fiduciary activities back to referring entity.
- Rescinds BC 218 (Sweep Fees) and BC 233 (Acceptance of Financial Benefits by Bank Trust Depts.) by incorporating relevant principles into the HB.

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Conflicts of Interest HB

- Cross-references Retirement Plan HB for accounts subject to ERISA.
- Reflects updated SEC regulations and guidance regarding conflicts including –
 - Soft dollars
 - Late trading
 - Market timing
 - Affiliates of mutual funds
- Rescinds TBC-19 (Fiduciary Purchases of Banks when Bank Participates in Underwriting Syndicate)
 - Updated guidance covers underwritings by bank, bank subsidiaries or bank affiliates being sold to customer accounts

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Conflicts of Interest HB

- Handbook includes series of appendices that drill down into specific scenarios where conflicts are likely to crop up.
 - Use of Material Nonpublic Information
 - Transactions between Fiduciary Accounts and Related Parties and Interests
 - Brokerage Allocation and Securities Trading
 - Soft Dollars and Brokerage Commission Arrangements
 - Use of Mutual Funds as Fiduciary Investments
 - Mutual Funds and Collective Funds – Late Trading and Market Timing
 - Unique Situations Posing Potential Conflicts of Interest
 - Reasonable Compensation

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Retail Non-Deposit Investments HB

- Guidance on current RNDIP business practices. Delivery channels include:
 - Fully dedicated sales reps (licensed by an affiliated or non-affiliated 3rd party B/D, RIA, or insurance agency)
 - Part-time sales reps (dual-hatted, offering bank and non-bank products)
 - Bank direct activity – GLBA limited exceptions
 - Discount brokerage – customer self-directs trades; provides trade execution
 - Trust Department – used by some community banks
 - Electronic media – online brokerage; call centers; remote banking
 - Combination of delivery channels

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Retail Non-Deposit Investments HB

- Highlights risks associated with RNDIP sales programs.
 - Reputation; strategic; compliance; operational; credit; and market
- Emphasizes OCC's expectation that the bank implements effective program management over the sales activities.
 - Unacceptable for a bank to rely on or delegate program management responsibilities to the broker dealer.
- Identifies major exam goals and objectives as assessing:
 - Risks to the bank and to investors/bank customers from these activities
 - Effectiveness of the bank's risk management over these activities
 - Bank's compliance with applicable legal requirements and policy guidance

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Retail Non-Deposit Investments HB

- RNDIP Exam Focus
 - Financial Significance & Strategic Direction
 - Program Management
 - Product Offerings & Selection Process
 - Setting & Circumstances
 - Disclosures & Advertising; Suitability
 - Compensation; Qualifications & Training
 - Risk Control Functions
 - Compliance with Applicable Regulatory Requirements

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Personal Fiduciary Activities HB

- Details the applicable regulatory structure for NBs and FSAs acting as fiduciaries.
- Describes a variety of fiduciary accounts (trusts), roles a bank typically acts in, and responsibilities imposed upon a bank fiduciary.
- Recognizes evolving state trust laws.
 - Directed trustees/excluded fiduciaries
 - Trust decanting
 - Trust protectors/trust advisors
 - Virtual representation
- Reinforces core fiduciary obligations under Parts 9 and 150 even when responsibilities are bifurcated between a bank trustee and an investment manager.

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Personal Fiduciary Activities HB

- Regardless of state trust law, the trust instrument, or a court order, the following requirements apply to all NB and FSA fiduciaries:
 - Grant of fiduciary powers from OCC
 - Fiduciary powers managed by, or under direction of Board of Directors
 - Self-dealing and conflicts of interest policies and procedures
 - Annual or continuous fiduciary audit
 - Pre-acceptance reviews of all accounts – includes consideration of bank’s ability to administer fiduciary relationship under the terms of the fiduciary arrangement which includes physical custody or adequate safeguards and controls over all fiduciary assets (12 CFR 9.13(a))
 - Dual control over all fiduciary assets
 - Physical separation of all fiduciary assets from those of the bank

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Personal Fiduciary Activities HB

- Risks associated with Personal Fiduciary Activities include:
 - Operational
 - Compliance
 - Strategic
 - Reputation
- Issues associated with the P&I Act and discretionary distributions
- Conflicts of Interest
- Periodic Account Reviews – both investment and administrative

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Reasons for Review

- EGRPRA review conducted by OCC, Fed and FDIC.
- While agencies may consider changes to many regulations, others are mandated by statutes that would require Congressional action to modify or rescind.
- OCC Senior Managers have identified the following areas that may warrant particular consideration:
 - Extend minimum exam cycle frequency for certain healthy, well-managed community banks (e.g., up to \$750 million in assets).
 - Exempt banks under \$10 billion from the Volcker Rule.
 - Allow FSAs to modify their business model without converting to a bank charter.

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Clarification – Schedule RC-T and RI Reporting

- The banking agencies recently clarified the reporting rules for “fee reduction” or “fee waiver” arrangements that compensate a fiduciary and related services client for a loss due to a bank error.
 - Fee waivers or concessions should be reported on Line 24, “Net losses from fiduciary and related services” and in the appropriate categories in Memoranda Item 4, “Fiduciary settlements, surcharges and other losses”. They should also be reflected in line 5.d “non-interest expense –other” on schedule RI.
 - Fee reductions or waivers should not be reported as a reduction in income on Schedule RC-T lines 14 – 22, “Fiduciary and related services income” or Schedule RI line 5a, “Income from fiduciary activities.”

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Updated Guidance: OCC Bulletin 2014-52

- Revised guidance based on OCC-initiated International Peer Review and that supports the following OCC goals:
 - Provide consistent MRA terminology, format, follow-up, analysis and reporting across the agency.
 - Focus on tracking, monitoring and resolving specific concerns documented within the MRAs .
 - Communicate deficiencies to boards and management.
 - Enable the OCC to track and quantify concerns.
 - Timely and effective communication with bank management and boards.
 - Timely and proactive detection and correction of deficient bank practices before they affect a bank's condition.

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Updated Guidance: OCC Bulletin 2014-52

- Defines key terminology
 - The “Five C’s” (Concern/Cause/Consequence/Corrective Action/Commitment)
 - Open MRAs can be categorized in several ways (New, Repeat, Self-identified, Past due, Pending, Escalated)
- Sets forth OCC expectations for board and management
- Sets forth OCC expectations for examiners
- Defines MRAs in multiple ways on OCC systems to enhance data analysis capabilities (examination area, risk category, product line, status)

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OCC Bulletin 2013-29 - Highlights

- OCC Bulletin 2013-29 – “Third-Party Relationships: Risk Management Guidance” Issued October 2013.
- Provides OCC Expectations for
 - Risk management practices for third-party relationships involving critical activities.
 - Risk management practices throughout the lifecycle of a third-party relationship.
 - Board and senior management oversight.
- Applies to relationships with affiliates and subsidiaries

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12 CFR Part 30 – Appendix D

- Objective - to strengthen the governance and risk management practices of large financial institutions.
- Finalized September 2, 2014.
- Generally applies to insured banks over \$50 Billion or banks whose parent company controls at least one other bank subject to the guidelines.
- Guidelines establish provide minimum standards for
 - bank’s risk governance framework.
 - bank board of director’s oversight of the risk governance framework.

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EXCEL Examiner Development Program – AM

- OCC program that accelerates the development of examiners into specialists in one of seven areas, including Asset Management.
- Objective is to address specialty area training needs and succession planning in Large Banks Supervision (LBS).
- Designed to be a sustainable, repeatable process.
- Participants are assigned to specialty area teams within LBS and perform targeted exams based on risk and heightened standards for 12-24 months.
- The second AM EXCEL team will complete its training at the end of June. Graduates will be assigned full-time AM positions on our large bank resident teams.

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Key Risks & Asset Management Examination Focus

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- Market Volatility/Low Interest Rate Environment
- Investment Management
- Potential Conflicts of Interest
- AM Operations
- Regulatory Changes

Market Volatility and Low Interest Rate Environment

- AM revenue - fee based, heavily dependent on market value of assets under management.
- Majority of AM assets invested in the domestic and global equity markets.
 - Continued strong equity performance equates to higher fee income and overall earnings.
 - Any significant market correction therefore will be a direct negative impact to earnings

Market Volatility and Low Interest Rate Environment

- Market volatility
 - Experiencing greater swings in equity and fixed income markets
 - Increased volatility creates investment opportunities and increased potential for losses if not carefully managed.
- Persistent low interest rates
 - Search for yield may result in banks increasing duration, credit and complexity risk in a clients' portfolio.
 - When interest rates rise, the values of fixed income holdings, some equities and complex securities may decline resulting in underperformance and losses.
 - An interest rate spike may unsettle these markets as well, causing additional losses and liquidity concerns.

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Investment Management Risks

- Government policies heavily influence markets
 - Markets feel impact of economic and geopolitical uncertainty
- Investment Opportunities/Returns
 - Use of increasingly complex products
 - Reaching for yield
 - Potential conflicts of interest
- Need for Enhanced Investment Risk Management
 - Initial and ongoing due diligence
 - Investment selection, retention and disposition process
 - Analytical tools and systems, with an emphasis on credit and interest rate risk
 - Valuation practices

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Conflicts of Interest

- Use of bank and affiliate mutual funds, ETFs, alternative funds, structured funds and other proprietary products.
- Use of funds and products that provide incentives to a bank fiduciary.
- Contractual relationships and outsourcing arrangements with affiliates and third parties in which bank fiduciary is incented to refer business or make investments with those entities

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Operations Risks

- Core Operational Processes – Capability/Capacity of Legacy Systems
- Manual Processes/“Work-Arounds”/User Developed Tools
- Conversion risks
- Internal Controls
 - Money Movement; Asset Custody; Reconciliations
- Oversight of Internal and Third Party Vendors
 - System providers
 - Outsourced operations providers

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Operations Risks

- Cyber threats
 - Cyber attacks on asset management clientele, particularly private banking.
 - Attacks moving beyond phishing to hacking and outright takeover of accounts.
 - Robust ID and verification procedures (e.g., mandatory callbacks) needed to confirm requested transactions were customer originated.

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Regulatory Reform Risk

- Significant Regulatory Change
 - Dodd-Frank implementation continues
 - SEC, CFTC, and DOL regulations (money market reform, muni advisor registration requirements, potential SEC fiduciary standard, etc.)
 - CFPB's Involvement in AM activities remains uncertain
 - Potential impact of capital and liquidity initiatives
 - Increased use of CCPS, collateral management requirements
- Resources and Infrastructure to Analyze and Implement Change
 - Oversight
 - Project teams
 - Reporting
- Legal, Audit, Compliance, Risk Management involvement

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Appendix I – Summary Statistics

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Asset Management Statistics

OCC – National Bank and Federal Savings Association AM Supervision

- OCC regulates 1,114 national banks & 440 Federal savings associations.
 - They range from large complex banks with global footprints to local community banks.
 - Includes 62 limited purpose national trust banks and 19 trust only thrifts.
- Approximately 44% of all national banks and 27% of Federal savings associations have Asset Management (AM) activities, which include Fiduciary and Custody services & Retail brokerage services.

Source: Call Report 12/31/2014

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Asset Management Statistics

National Banks & FSAs Combined Fiduciary and Custody Assets top **\$43 trillion.**

(\$000s)	Total Fiduciary Assets	Total Custody Assets	Total Fiduciary & Custody Assets
LB	\$5,701,157,843	\$34,276,730,090	\$39,977,887,933
MB	\$914,875,784	\$631,143,492	\$1,546,019,276
NE	\$1,026,677,187	\$997,762,651	\$2,024,439,838
CE	\$84,209,997	\$45,662,692	\$129,872,689
SO	\$43,994,255	\$34,524,403	\$78,518,658
WE	\$30,066,835	\$13,876,657	\$43,943,492
Grand Total	\$7,800,981,901	\$35,999,699,985	\$43,800,681,886

Source: Call Report 12/31/2014

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Asset Management Statistics

National Banks, State Banks, and FSAs Combined Fiduciary and Custody Assets total over **\$103 trillion.**

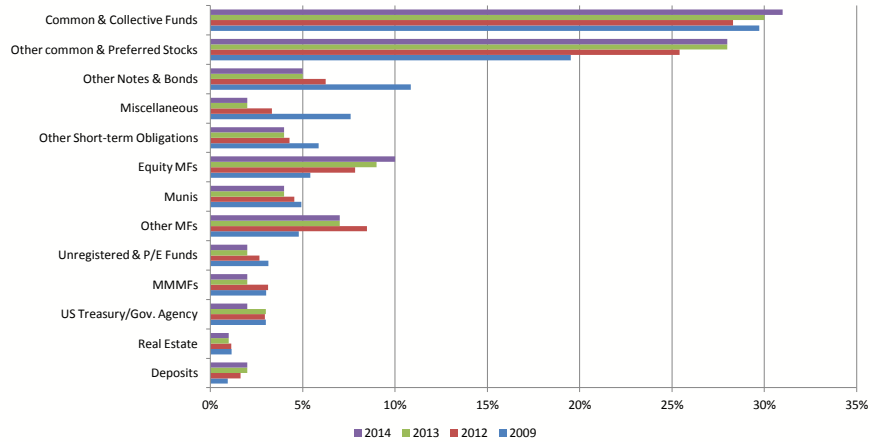
FIDUCIARY AND RELATED ASSETS (\$000s)	Managed	Non-Managed	Total Assets	% of Fid Assets
Personal trust and agency accounts	\$749,002,268	\$337,118,866	\$1,086,121,134	5%
Employee benefit & retirement related trust &				
Employee benefit - Defined contribution	\$909,242,932	\$2,214,032,888	\$3,123,275,820	16%
Employee benefit - Defined benefit	\$1,093,530,803	\$4,435,728,872	\$5,529,259,675	27%
Other employee benefit and retirement related	\$342,209,205	\$1,658,179,319	\$2,000,388,524	10%
Corporate trust and agency accounts	\$24,312,380	\$2,621,118,109	\$2,645,430,489	13%
Investment management and investment advisory	\$1,610,008,190	\$62,972,803	\$1,672,980,993	8%
Foundation and endowment	\$247,018,908	\$107,510,267	\$354,529,175	2%
Other fiduciary accounts	\$306,165,494	\$3,407,124,417	\$3,713,289,911	18%
Total Fiduciary Accounts	\$5,281,490,180	\$14,843,785,541	\$20,125,275,721	100%
Custody and Safekeeping Accounts		\$83,767,807,127	\$83,767,807,127	
Total Fiduciary & Custody/Safekeeping Accounts			\$103,893,082,848	

Note: Fidelity Management Trust Company reported \$1.1 trillion in EB Defined Contribution and \$1.0 trillion in Other Employee Benefit & Retirement related assets in in 1Q2014. In subsequent quarters, the trust company did not file a Call Report.

Source: Call Report 12/31/2014

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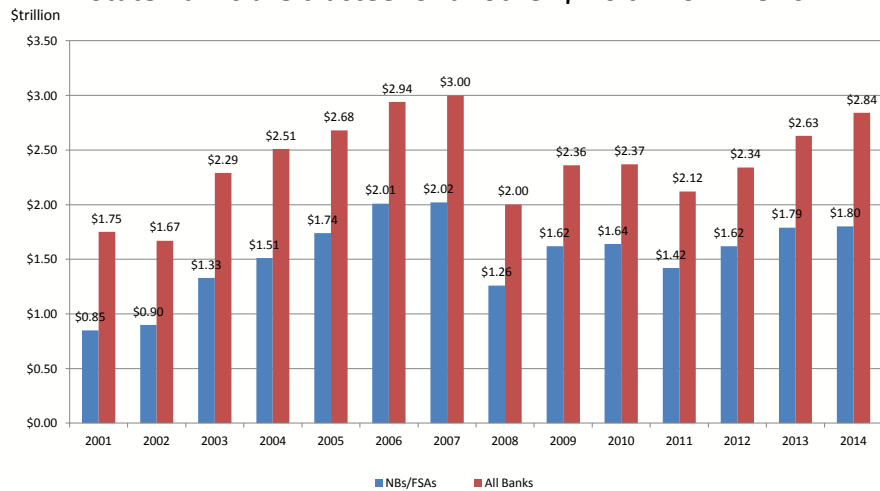
Common & Collective Funds and Equities represent the majority of Managed Fiduciary Assets.



Source: Call Report 12/31/2014

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National Banks are trustee for \$1.80 trillion CIFs and State Banks are trustee for another \$1.0 trillion in CIFs.



Source: Call Report 12/31/2014

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Appendix II

Selected OCC Asset Management Guidance

OCC Bulletins, Banking Circulars, Interpretive Letters and Booklets of the *Comptroller's Handbook for Asset Management* are available at

www.occ.gov

[OCC: Capital Markets: Asset Management](#)

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***Comptrollers Handbook for Asset Management* Booklets**

- Asset Management (2000) (*projected revision 2015*)
- Asset Management Operations & Controls (2011)
- Collective Investment Funds (**2014**)
- Conflicts of Interest (**2015**)
- Custody Services (2002)
- Investment Management Services (2001) (*projected revision 2015*)
- Personal Fiduciary Services (**2015**)
- Retirement Plan Products and Services (**2014**)
- Unique and Hard to Value Assets (2012)

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Comptrollers Handbook for Safety and Soundness – Selected Booklets

- Community Bank Supervision (2010)
- Large Bank Supervision (2010)
- Bank Supervision Process (2007)
- Internal and External Audits (2003)
- Internal Control (2001)
- Insider Activities (**2014**)
- Insurance Activities (2002)
- Retail Nondeposit Investment Sales (**2015**)

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Comptrollers Handbook for Securities Compliance Booklets

- Government Securities Act (**2015**)
- Municipal Securities Rulemaking Board Rules (**2014**)

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Selected OCC Bulletins

- OCC Bulletin 2014-55, Matters Requiring Attention
- CC Bulletin 2013-29, Third-Party Relationships: Risk Management Guidance
- OCC 2013-8, Short-term Investment Funds Reporting Requirements
- OCC 2012-31, Short-Term Investment Funds
- OCC 2011-11, Risk Management Elements: Collective Investment Funds and Outsourced Arrangements
- OCC 2011-12, Supervisory Guidance on Model Risk Management
- OCC 2010-37, Self-Deposit of Fiduciary Funds
- OCC 2009-19, New Notice Requirements for Sweep Accounts

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Selected OCC Bulletins

- OCC 2008-10, Fiduciary Activities of National Banks: Annual Reviews of Fiduciary Accounts Pursuant to 12 CFR 9.6(c)
- OCC 2008-5, Conflicts of Interest: Risk Management Guidance - Divestiture of Certain Asset Management Businesses
- OCC 2007-42, Bank Securities Activities: SEC's and Federal Reserve's Final Regulation R
- OCC 2007-21, Supervision of National Trust Banks: Revised Guidance: Capital and Liquidity
- OCC 2007-7, Soft Dollar Guidance: Use of Commission Payments by Fiduciaries

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Selected OCC Bulletins

- OCC 2007-6, Registered Transfer Agents: Transfer Agent Registration, Annual Reporting, and Withdrawal from Registration
- OCC 2006-24, Interagency Agreement on ERISA Referrals
- OCC Bulletin 2004-20, Risk Management of New, Expanded, or Modified Bank Products or Services: Risk Management Process
- OCC 2004-2, Banks/Thriffs Providing Financial Support to Funds Advised by the Banking Organization or its Affiliates
- OCC Bulletin 2002-16, Bank Use of Foreign-Based Third-Party Service Providers
- OCC Bulletin 2001-35, Examination Procedures to Evaluate Compliance with the Guidelines to Safeguard Customer Information

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