



FEDERAL RESERVE BANK *of* ST. LOUIS
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Overview

- Evolving Examination Posture
- Fiduciary Activities Examination Findings
- Examination Focus and Priorities
- Appendix: Selected Federal Reserve Asset & Wealth Management Supervisory Guidance

Evolving Examination Posture

Examination Posture

- Significant adjustments at the onset of the pandemic
- Returning to normal
 - Aware of and adjust for health and safety conditions
 - Hybrid environment of our banks
- Lessons learned and the future of supervision
- Some Reserve Banks offering onsite examinations, considering local conditions and bank sentiment

Fiduciary Activities Examination Findings

Examination Findings

- **Risk Management Lines of Defense**
 - Staffing, Policies and procedures, and Audit scope
- **Management**
 - Staffing, Lack of formal monitoring procedures for internally-identified high-risk activity
- **Recordkeeping and Internal Control Weaknesses**
 - Conversion difficulties, Inaccurate regulatory data
- **Compliance**
 - Account review enhancements, Exception reporting

Prevailing Themes

- Risk management practices should correspond to *rising* complexity.
- Extended duration of vacancies associated with specialized business units and lack of appropriate succession planning.
- Exception reporting should provide *wholistic* measurement of risk, with clear profile of trends and weaknesses.
- Planning and quality assurance post system conversion are *essential*.
- Comprehensive account reviews and documented support for remediation can be significant *mitigation* tools.

Examination Focus and Priorities

Focus and Priorities

- Cybersecurity
- Department of Labor (DOL) Fiduciary Rule
- Environmental, Social, (Corporate) Governance/Socially Responsible Investing (ESG/SRI) Measurement and Investment Risk
- Cryptoasset Risk Management Practices
- Trending Topics

Cybersecurity

- Advanced Persistent Threats (APTs) targeting businesses that hold large quantities of personally identifiable information (PII).
- DOL guidance (April 2021) minimum expectations for plan sponsors, fiduciaries, recordkeepers, and service providers.
- SR 22-4 *Computer-Security Incident Notification* requires notice within 36 hours to the Federal Reserve of materially disruptive incidents.
- Insurance industry changing perspectives on cyber-related claims.

DOL Fiduciary Rule – PTE 2020-02

- DOL issued technical amendment reinstating five part-test to help determine when someone provides fiduciary investment advice and issued an interpretation of the definition of “investment advice” under ERISA restoring 1975 definition of investment advice fiduciary (effective 12/20/21)
- Requirements under PTE 2020-02 include:
 - Compliance with Impartial Conduct Standards
 - Policies and procedures to mitigate conflicts of interest and establish compliance with Impartial Conduct Standards
 - Document and disclose rollover recommendations demonstrating the recommendations are in the best interest of the client
 - Retrospective compliance review annually in writing to senior executives to make certification of report contents.

ESG/SRI Measurement and Investment Risk

- ESG/SRI investments has risen sharply in the past five years, creating rush to provide investment products and investment strategies.
- No uniform standards for non-financial factors
 - Race to define materiality.
 - Uncertainty on these factors raises complexity and risk.
- Consistency with fiduciary duties
 - Competitive market returns and desired social outcomes may not always be aligned.
 - Increased mutual fund expenses.
- SEC proposed climate disclosure rules and DOL issued 2021 statement noting non-enforcement of earlier ESG/SRI guidance.

Cryptoasset Risk Management Practices

- **Risk Assessment:** Identifying, measuring, monitoring, and managing risk (SR 95-51 & SR 16-11)
- **New Product or New Service Due Diligence Program:** Understand risks and make informed decisions
- **Appropriate Controls**
- **Vendor Risk Management Program:** Outsourcing risk (SR 13-19)
- **New Business/Account Acceptance and Approval:** Within established tolerances
- **Staffing:** Experienced or appropriately-trained personnel
- **Plan Ahead:** Identification of responsibilities for future relationships – even if you are avoiding cryptoassets now

Trending Topics

- Investment Risk
 - Market Volatility and Inflationary Pressure
- Operational Risk
 - System conversions
 - Outsourcing
- Conflicts of Interest
 - Share class litigation
 - Cash sweep product monitoring

Appendix: Selected Federal Reserve System Asset & Wealth Management Guidance

Federal Reserve System Guidance

- [SR 94-11](#): Interagency Statement on the Retail Sales of Non-deposit Investment Products
- [SR 95-51](#): Rating the Adequacy of Risk Management Processes and Internal Controls State Member Banks and Bank Holding Companies (\$50 Billion and Larger)
- [SR 96-10](#): Risk-Focused Fiduciary Examinations
- [SR 98-37](#): Uniform Interagency Trust Rating System
- [SR 99-07](#): Supervisory Guidance Regarding the Investment of Fiduciary Assets in Mutual Funds and Potential Conflicts of Interest
- [SR 00-17](#): Guidance on the Risk Management of Outsourced Technology Services
- [SR 01-05](#): Examination of Fiduciary Activities

Federal Reserve System Guidance

- [SR 03-05](#): Amended Interagency Guidance on the Internal Audit Function and its Outsourcing
- [SR 08-08](#): Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles
- [SR 12-17](#): Consolidated Supervision Framework for Large Financial Institutions
- [SR 13-01](#): Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing
- [SR 13-19](#): Guidance on Managing Outsourcing Risk (Vendor Risk Management)
- [SR 16-11](#): Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion

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