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The Washington Report

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Safety & Soundness

FDIC Issues the *Quarterly Banking Profile* for the Second Quarter of 2015

The Federal Deposit Insurance Corporation (FDIC) released the *Quarterly Banking Profile* for the second quarter of 2015 on September 2, 2015. The year-over-year quarterly findings highlight that:

- More than half (58.7 percent) of insured institutions report an increase in earnings;
- Net operating revenues were up approximately 2 percent;
- Net loan losses declined, noncurrent loan balances declined, and net charge-offs declined;
- Total loan and lease balances increased approximately 2 percent; and
- The "problem list" of banks declined.

In a press statement, FDIC Chairman Martin Gruenberg stated, "the industry experienced a continuation of positive trends observed over recent quarters. Revenue and income growth was broad-based, asset quality improved, loan balances increased, there were fewer problem banks, and only one bank failed during the quarter. However, the banking industry continues to face challenges. Revenue growth has lagged behind asset growth, as exceptionally low interest rates put downward pressure on net interest margins. Many institutions have responded by reaching for yield, which is a matter of ongoing supervisory attention." [Press Statement] [Gruenberg Remarks]

BIS Working Paper Looks at Countercyclical Capital Buffer

The Bank for International Settlements (BIS) released Working Paper 511 on September 2, 2015, entitled "Higher Bank Capital Requirements and Mortgage Pricing: Evidence from the Countercyclical Capital Buffer." The authors state the paper looks at how the countercyclical capital buffer (CCB) "has affected mortgage pricing after Switzerland became the first county to activate" this Basel III requirement. Further, they summarize their findings by stating, "…changes in the supply composition suggest that the CCB has achieved its intended effect in shifting mortgages from less resilient to more resilient banks, but stricter capital requirements do not appear to have discouraged less resilient banks from risky mortgage lending." [Press Statement] [BIS Working Paper 511]

Enterprise & Consumer Compliance

OCC Deputy Comptroller Highlights Compliance Issues for Servicemembers

Grovetta Gardineer, Deputy Comptroller for Compliance Operations and Policy at the Office of the Comptroller of the Currency (OCC), spoke before the Association of Military Banks of America on August 31, 2015. She focused her remarks on compliance issues related to the *Servicemembers Civil Relief Act* (SCRA) and the *Military Lending Act* (MLA). She specifically noted the need for change management with regard to updating "policies, procedures, practices, forms, software and other applicable resources" associated with recent amendments to the MLA that significantly expand the law and go into effect in October of next year. In addition, Ms. Gardineer highlighted the cybersecurity assessment tool released in June 2015 by the Federal Financial Institution Examination Council (FFIEC) (which is intended to help banks and examiners assess the maturity of cybersecurity programs) as well as the OCC's initiative to "encourage and support responsible innovation" (which includes development of a framework to evaluate new financial products and services). [Gardineer Remarks]

CFPB and FHFA Release Technical Reports for National Mortgage Database

The Consumer Financial Protection Bureau (CFPB or Bureau) announced the release of two technical reports prepared jointly with the Federal Housing Finance Agency (FHFA) about the development of the National Mortgage Database (NMBD) and the National Survey of Mortgage Borrowers (NSMB). Combined, the NMBD and NSMB represent a multi-year project being jointly undertaken by the CFPB and the FHFA to provide a source of information about the mortgage market based on a sample of residential mortgages. The CFPB states that it expects the project to support policymaking and research efforts as well as help identify and understand emerging mortgage and housing market trends. [Mortgage Database Report] [Survey Report]

Capital Markets and Investment Management

CPMI and IOSCO Issue Proposal for Key Data Elements of OTC Derivatives

The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published a consultative report on September 2, 2015 entitled, "Harmonization of key OTC derivatives data elements (other than UTI and UPI) – first batch." Comments are requested no later than October 9, 2015. The "first batch" data elements are considered common to multiple jurisdictions, applicable across asset classes, and as forming the basic economic terms of an over-the-counter (OTC) derivative transaction. They include, among others, "effective date," "end date," "cleared," "settlement date," "ID of the primary obligor," "notional amount," "notional currency," and "valuation." A "second batch" of data elements is also expected to be released for consultation.

The current report follows a consultative paper released in August 2015 on "Harmonization of the Unique Transaction Identifier (UTI)" for which the comment period closes September 30, 2015. A consultative paper on the Unique Product Identifier (UPI) is expected to be released in November 2015. [Press Statement] [Consultation Paper]

IOSCO Releases Two Final Peer Review Reports:
Money Market Funds and Implementation of Incentive Alignment Recommendations

The Board of the International Organization of Securities Commissions (IOSCO) released its final report on a peer review of the regulation of money market funds. The report describes the implementation progress of 31 jurisdictions through March 31, 2015, in adopting legislation, regulation, and other policies related to certain money market fund reforms recommended by the IOSCO in 2012. Of the five largest jurisdictions, only one reported having final implementation measures in all reform areas. Four of the smaller jurisdictions reported having final implementation measures in all reform areas. [Press Statement] [Peer Review Report MMF]

On September 3, 2015, the IOSCO Board released its final report on a peer review of the implementation of the IOSCO's 2012 recommendations for incentive alignment on securitizations. The report describes the implementation progress made by 25 jurisdictions through April 30, 2015, in adopting legislation, regulation, and other policies related to incentive alignment in securitization as recommended by the IOSCO. The review found that participating jurisdictions had made significant but mixed progress in implementing the recommendations. Five of the 25 jurisdictions reported having completed all measures in the recommendations. [Press Statement] [Peer Review Report]

Enforcement Actions

The Securities and Exchange Commission (SEC) announced the following enforcement actions in the past week:

- The SEC announced that an investment advisory firm agreed to pay more than $21 million, including $6.5 million in penalties, to settle charges that it fraudulently retained fees belonging to collateralized debt obligation (CDO) clients. The SEC states the fees were not permitted by the CDO governing documents nor disclosed to the clients. The agreement also requires the investment adviser to not act as an investment adviser for a period of three years.
- The SEC charged an investment adviser and its CEO with fraudulently inflating the values of investments in the portfolio of a private fund that it advised in order to obtain unearned management fees. The SEC also charged the adviser's outside auditor for a deficient audit that permitted the adviser to distribute misleading financial statements. The adviser and its CEO agreed to pay a total of more than $1.3 million in disgorgement, interest, and penalties, and the CEO agreed to a securities industry bar. The auditor agreed to be suspended for three years from practicing as an accountant on behalf of any publicly-traded company or other entity regulated by the SEC.

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