The Washington Report

Americas FS Regulatory Center of Excellence

The week ended February 10, 2017

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Contents

1. Safety and soundness

1.1 Federal agencies release revised stress test scenarios for 2017

On February 6, 2017, the Federal Deposit Insurance Corporation (FDIC) released the 2017 stress testing scenarios to be used by FDIC-covered institutions with more than $10 billion in total consolidated assets when conducting the stress tests required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The three scenarios—baseline, adverse, and severely adverse—include key variables that reflect economic activity. While the baseline scenario represents economic forecasts, the adverse and severely adverse scenarios are hypothetical and designed to assess the strength and resilience of financial institutions under stressed economic conditions. The FDIC developed the scenarios in coordination with the Federal Reserve Board (Federal Reserve) and the Office of the Comptroller of the Currency (OCC). These agencies each released stress test scenarios on February 3, 2017.

[Press Statement]

On February 10, 2017, all of the agencies (the Federal Reserve, the OCC, and the FDIC) released revised 2017 stress testing scenarios to correct an error in the historical values of the BBB corporate yield in 2016. With the correction, BBB corporate yields peak at lower levels in the severely adverse and adverse scenarios and yields are slightly lower in the baseline scenario.

[Federal Reserve Press Statement] [OCC Press Statement] [FDIC Press Statement]

1.2 OFR publishes research on capital buffers and stress tests

On February 7, 2017, the Office of Financial Research (OFR) published a brief that analyzes efforts to reconcile capital buffers—described as "extra cushions of capital held by banks to absorb potential losses under stress"—with stress tests. The report, titled "Capital Buffers and the Future of Bank Stress Tests," also discusses how these buffer requirements might affect the Federal Reserve Board's Comprehensive Capital Analysis Review (CCAR) results. The brief states that a Federal Reserve proposal to integrate two capital buffers, the G-SIB capital surcharge (a capital buffer for global systemically important banks – G-SIBs) and the capital conservation buffer, into CCAR would be a positive step and help to reduce potential unintended consequences during a future economic downturn. However, the paper further suggests that a proposal to allow banks' balance sheets to be static under CCAR may reduce the efficacy of the stress tests. The brief concludes by stating that including buffers in stress tests would make banks more resilient in a real crisis but would result in higher capital requirements in less-stressed times.

[Press Statement] [Research Brief]

2. Enterprise and consumer compliance

2.1 CFPB monthly complaint report highlights mortgages

The Consumer Financial Protection Bureau (CFPB or Bureau) released its monthly complaint snapshot on February 8, 2017 highlighting consumer complaints with respect to mortgages and mortgage servicers. Some of the key mortgage complaints included:

— Mortgage servicing continues to be a problem: More than 80 percent of mortgage-related complaints submitted to the Bureau involved issues consumers faced when they were making payments (loan servicing, payments, escrows) or when they were unable to pay their mortgage (loan modifications, collection, foreclosure)'.

— Consumers complained that escrow funds were misapplied: Consumers complained that, among other things, servicers: failed to submit escrow payments on a timely basis; would not explain escrow shortages when there had been no increases to insurance premiums or tax payments; and would not accept or acknowledge receipt of proof of hazard insurance and established secondary escrow accounts.

— Most complaints involved issues in trying to negotiate foreclosure-relief: Most of the mortgage-related complaints pertained to problems dealing with their servicer when trying to negotiate foreclosure-relief assistance on their loans. Complaints were that servicers were slow to respond, made repeated requests for already submitted documents, and failed to provide adequate reasons for denying foreclosure relief.

Debt collection, credit reporting and mortgages accounted for about 64 percent of consumer complaints submitted in December 2016. Mortgage-related complaints were the third most common type of complaints during that month.

[Press Statement] [Monthly Complaint Report]

2.2 Enforcement actions

The Consumer Financial Protection Bureau (CFPB or the Bureau) announced that, along with the New York Attorney General, it had filed a lawsuit against two related finance companies and their founder for allegedly deceiving consumers entitled to payouts from victim compensation funds or lawsuit settlements in violation of the Dodd-Frank Wall Street Reform and Consumer Protection Act's prohibition on deceptive and abusive acts and practices. Specifically, the CFPB and the New York Attorney General alleged that the companies entered into agreements with consumers to advance funds awarded them but not yet paid out or received and further misrepresented or interfered with the consumers' understanding of the repayment terms for the advanced funds as well as the ability and/or authority of the companies to accelerate payouts of those awarded funds. The New York Attorney General further alleges the terms of the agreements would render them void under New York State law or equivalent to a loan that violates the state's usury laws and so would require no payment.

The complaint is not a finding or ruling that the defendants have actually violated the law. The CFPB and the New York Attorney General are seeking relief for harmed consumers and civil money penalties.

3. Capital markets and investment management

3.1 SEC seeks comment regarding compliance challenges with the pay ratio rule

On February 6, 2017, Michael S. Piwowar, Acting Chair of the Securities and Exchange Commission (SEC), announced that the agency is seeking comment on any unexpected challenges that issuers may be experiencing as they prepare to comply with the SEC's pay ratio disclosure rule that becomes applicable in their first fiscal year beginning after January 1, 2017. Comments will be accepted for a period of 45 days beginning February 6, 2017. The agency will reconsider implementation of the rule based on the comments received and determine whether additional guidance may be appropriate.

The SEC adopted the pay ratio disclosure rule in August 2015 as a part of the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The rule requires a public company to disclose the ratio of the median of the annual total compensation of all employees to the annual total compensation of the chief executive officer.

[Press Statement]

3.2 SEC highlights most frequent compliance topics from OCIE investment adviser examinations

On February 7, 2017, the Securities and Exchange Commission's (SEC) Office of Compliance Inspections and Examinations (OCIE) issued a Risk Alert highlighting the five most frequent compliance topics identified in deficiency letters sent to registered investment advisers. Examples of typical deficiencies are included within each of the topics discussed to highlight the risks and issues commonly identified by the examiners and assist investment advisers during their compliance reviews. The five compliance topics include deficiencies or weaknesses involving: (1) the Compliance Rule; (2); Regulatory Filings; (3) the Custody Rule; (4) the Code of Ethics Rule; and (5) the Books and Records Rule.

The OCIE issued the Risk Alert to encourage investment advisers to examine their own compliance practices, policies and procedures in these areas and to promote improvements in investment adviser compliance programs.

[SEC Announcement] [Risk Alert]

3.3 IOSCO highlights implementation progress of Benchmark Principles

On February 7, 2017, the Board of the International Organization of Securities Commissions (IOSCO) published its Second Review of the Implementation of IOSCO's Principles for Financial Benchmarks. The IOSCO released its Principles for Financial Benchmarks, a set of 19 recommended practices for benchmark administrators and submitters, in July 2013. The first review set out a series of recommendations to assist administrators in implementing the principles, which pertain to governance, benchmark and methodology quality, and accountability. The second review assessed the extent to which the recommendations were implemented as of September 8, 2016 and found that most of the recommendations have been adopted and that the overall implementation of the principles has been significantly advanced. The second review also had comparatively few areas where the review team made additional recommendations for further work.

[Press Statement] [IOSCO's Second Review]

Contact us

This is a publication of KPMG's Financial Services Regulatory Risk Practice and KPMG's Americas FS Regulatory Center of Excellence

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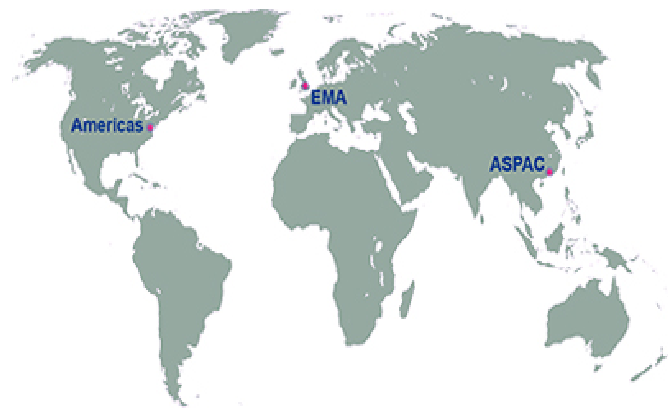

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