



The Washington Report

Americas FS Regulatory Center of Excellence

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1. Safety and soundness

1.1 Enforcement Actions

The Federal Reserve Board announced the following enforcement action in the past week:

- The Federal Reserve issued a Final Decision and an Order of Prohibition against an individual that was formerly an employee and an institution-affiliated party of a foreign bank. The actions address the Federal Reserve's findings the

individual used electronic chat rooms to coordinate foreign exchange (FX) trading, manipulated FX pricing benchmarks, disclosed confidential customer information to traders at other organizations, and failed to appropriately supervise other traders. The Final Decision imposes a \$1.2 million fine and the Order imposes a permanent ban on employment in the banking industry.

2. Enterprise and consumer compliance

2.1 CFPB issues report on student loans and affordable repayment plans

On May 16, 2017, the Consumer Financial Protection Bureau (CFPB or the Bureau) released a report on the student loan industry that focused on how previously defaulted borrowers perform over time. The CFPB specifically looked at the more than 600,000 highest risk borrowers – borrowers who had previously defaulted on a federal student loan, exited default, and were then transferred to a student loan servicer. These borrowers may be eligible for a number of federal affordable repayment plan / income driven repayment (IDR) programs designed to make the payments more affordable over time. Key findings of the report highlight that:

- More than 90 percent of borrowers who rehabilitated one or more defaulted loans were not enrolled in an affordable repayment plan within the first nine months after curing a

default. Administrative, policy, and procedural hurdles limit access to or enrollment in IDR plans for borrowers who previously defaulted on student loans.

- Nearly half of borrowers who did not enroll in an IDR program will default within three years. Less than 10 percent of borrowers enrolled in an IDR re-defaulted in a three year period.
- Borrowers who used consolidation to resolve their student loan defaults were more likely to immediately begin to repay their debts successfully. Of previously defaulted borrowers who recently consolidated their defaulted loans, 20 percent defaulted for a second time after two years.

This report provides additional support to the Bureau's October 2016 report on student loans defaults.

[\[Press Release\]](#) [\[Report\]](#) [\[Blog Post\]](#)

3. Capital markets and investment management

3.1 FINRA President and CEO announces FINRA360

Robert Cook, President and CEO of the Financial Industry Regulatory Authority (FINRA), provided remarks before the FINRA Annual Conference on May 17, 2017. Under the title, "A Changing Industry – A Changing FINRA," he announced

that FINRA is initiating a multi-year program called FINRA360, that will focus on identifying improvements that will enhance efficiency and effectiveness across FINRA's operations, including its use of data and technology, and the tools and metrics it employs in regulatory assessments. The effort

includes reviewing sets of regulatory rules and how they are implemented, launching a FINRA Innovation Outreach Initiative to collaborate with financial technology innovators, and providing tools to assist firms achieve compliance (including calendar tools, directories, conferences, and surveillance reports), as well as promoting investor protection through enhanced communications with member firms and investors and enhanced oversight of high-risk brokers.

[\[Cook Speech\]](#)

3.2 FINRA reviews rules on outside business activities and private securities transactions

On May 15, 2017, the Financial Industry Regulatory Authority (FINRA) requested comment on its rules governing outside business activities (Rules 3270) and private securities transactions (Rule 3280). FINRA is conducting a retrospective review to assess the effectiveness and efficiency of these rules as part of the FINRA360 initiative, a comprehensive review of the organization's operations and programs. FINRA seeks comment in part on whether the rules have effectively addressed the problems they were intended to mitigate, experiences with implementation of the rules, the economic impact of the rules, and how they can be made for efficient and effective. Comments will be accepted through June 29, 2017.

[\[Press Statement\]](#) [\[Regulatory Notice 17-20\]](#)

3.3 FINRA proposes amendment to Rule 7730

On May 18, 2017, the Financial Industry Regulatory Authority (FINRA) filed a proposal with the Securities and Exchange Commission (SEC) that would amend FINRA Rule 7730 (Trade Reporting and Compliance Engine – TRACE) to make available a new end-of-day TRACE transaction file that would facilitate receiving the transaction information disseminated each trading day as part of Real-Time TRACE transaction data. If the SEC approves the proposed rule change, FINRA will announce

the effective date of the proposed rule change in a Regulatory Notice, though FINRA states the effective date will be no later than 365 days following SEC approval.

[\[SR-FINRA-2017-015\]](#) [\[Proposed Rule Change\]](#)

3.4 FINRA proposes rule change to extend tier size pilot of rule 6433

On May 16, 2017, the Financial Industry Regulatory Authority (FINRA) filed a proposal with the Securities and Exchange Commission (SEC) that would amend Rule 6433 covering minimum quotation size requirements for OTC equity securities. The proposal would extend the Tier Size Pilot from the scheduled termination date of June 9, 2017 to December 8, 2017. The FINRA has filed the proposed rule change for immediate effectiveness and the operative date of the change would be June 9, 2017 pending SEC approval.

[\[SR-FINRA-2017-014\]](#) [\[Proposed Rule Change\]](#)

3.5 Enforcement Actions

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

- The SEC filed a complaint against two former head traders of a registered broker-dealer and investment adviser alleging they fraudulently misrepresented pricing information while acting as intermediaries on trades with the firm's customers who sought to buy and sell commercial mortgage-backed securities (CMBS) on the secondary market. Without admitting or denying the allegations, one of the traders agreed to settle the charges by paying nearly \$64,000 in disgorgement and interest as well as a \$150,000 penalty and submitting to a three-year ban from the securities industry. The settlement is subject to court approval. The case against the other trader is ongoing.

4. Alternative Finance

4.1 CFTC launches LabCFTC as major FinTech initiative

On May 17, 2017, the Commodity Futures Trading Commission (CFTC) launched LabCFTC, an initiative aimed at promoting financial technology (FinTech) innovation for the express purpose of improving the quality, resiliency, and competitiveness of CFTC-regulated markets and identifying and utilizing emerging technologies that can enable the CFTC to carry out its mission more effectively and efficiently.

LabCFTC is expected to facilitate:

- A better understanding in the CFTC of how new innovations interact with the regulatory and supervisory framework;
- Collaboration among the FinTech industry and CFTC market participants;
- Cooperation with financial regulators at home and overseas;
- CFTC participation in studies and research that facilitate responsible innovation in the markets and promote the use of technology within the agency;

- Monitoring of trends and developments to ensure the CFTC's regulatory framework supports responsible technological innovation;
- Information sharing about applications of FinTech, including potential use cases, benefits, risks, and solutions;
- Engagement with academia, students and professionals on relevant FinTech applications.

[\[Press Statement\]](#)

Contact us

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

Amy Matsuo, Principal, National Leader, Financial Services Regulatory Risk Practice

amatsuo@kpmg.com

Ken Albertazzi, Partner and National Lead, Financial Services Safety & Soundness

kalbertazzi@kpmg.com

Kari Greathouse, Principal and National Lead, Enterprise and Consumer Compliance

cgreathouse@kpmg.com

Tracy Whille, Principal and National Lead, Capital Markets and Investment Management

twhille@kpmg.com

Deborah Bailey, Managing Director, Americas FS Regulatory Center of Excellence

dpbailey@kpmg.com

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regulationfs@kpmg.com

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Additional Contacts

Asset Management, Trust, and Fiduciary

Bill Canellis wcanellis@kpmg.com

Bank Regulatory Reporting

Brett Wright bawright@kpmg.com

Capital Markets Regulation

Stefan Cooper stefancooper@kpmg.com

Capital/Basel II and III

Paul Cardon pcardon@kpmg.com

Commodities and Futures Regulation

Dan McIsaac dmcisaac@kpmg.com

Consumer & Enterprise Compliance

Stacey Guardino sguardino@kpmg.com

Cross-Border Regulation & Foreign Banking Organizations

Paul Cardon pcardon@kpmg.com

Financial Crimes

Terry Pesce tpesce@kpmg.com

Insurance Regulation

Matthew McCorry memccorry@kpmg.com

Investment Management

Larry Godin lgodin@kpmg.com

Safety & Soundness, Corporate Licensing & Governance, and ERM Regulation

Greg Matthews gmatthews1@kpmg.com

FS Regulatory Center of Excellence

Karen Staines kstaines@kpmg.com

kpmg.com/socialmedia



kpmg.com/app



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