


Hot Topics in Banking Regulation




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FEDERAL RESERVE BANK OF KANSAS CITY
SUPERVISION AND RISK MANAGEMENT 

Agenda


- Regulatory Relief Act of 2006
- Interagency Policy Statement on the ALLL
- Proposed Capital Guidelines
- Consumer Compliance Hot Topics
- Bank Secrecy Act (BSA) Updates
- Information Security
- Fiduciary Operations: Proposed Regulation R
- Split Dollar Life Insurance Postretirement Benefits
- Reserve Bank Handling of Sensitive Bank Data

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Regulatory Relief Act of 2006

■ Highlights

- 18-month exam cycle for more banks
- Insider lending reporting reduced
- Interagency reviews for bank mergers no longer required
- Additional factors may be considered in evaluating notices filed under the Change in Bank Control Act
- Federal Reserve allowed to pay interest on reserves (implementation delayed until 2011)

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Interagency Policy Statement on the ALLL


■ Highlights

- Incorporates language specific to FAS 114, which was issued after the 1993 policy statement
- Recognizes that the ALLL involves judgment
- Expects “directional consistency”
- Eliminates the “reasonableness test”
- Emphasizes need for support and documentation

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Proposed Capital Guidelines

- Basel IA highlights for community banks
 - May allow banks to continue under current rules
 - More granularity in risk-weighting residential mortgages and small loans to businesses
- Larger organizations more likely affected by both Basel IA and Basel II

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Consumer Compliance Hot Topics

- Regulation Z reimbursements
- Flood violations
- Fair lending
- HMDA data
- Servicemembers Civil Relief Act
(HUD mortgagee letter 2006-28)
- Talent Amendment

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Bank Secrecy Act (BSA) Updates

- Updated examination manual
 - New section - evaluating risk and developing a formal risk assessment
- New Suspicious Activity Report (SAR) form
 - Designed to reduce duplicative filings
 - OK to use beginning June 30, 2007
 - Mandatory use after December 31, 2007

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Bank Secrecy Act Updates (Cont'd)

- Independent test for BSA Compliance
 - Minimum standards are included in the core overview section on the BSA/AML Compliance Program
 - Key points
 - Emphasis on suspicious activity monitoring, identification and reporting
 - Test must include transaction testing
 - Requires evaluation of management's efforts to resolve violations and deficiencies

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Information Security

- Interagency Guidelines Establishing Information Security Standards (Regulation H, Appendix D-2)
 - Annual board reporting
 - Information security response programs
- Core system access levels and span of control
- Multi-factor authentication for internet banking

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Fiduciary Operations: Proposed Regulation R Broker "Push-Out" Rules

- Will permit bank securities transactions under specific exceptions
 - Trust and fiduciary exception
 - Custody and safekeeping exception
 - Networking exception
 - Others
- Comment period expired March 26, 2007
- If adopted, compliance date is January 1, 2009

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Split-Dollar Life Insurance Postretirement Benefits

- FASB's Emerging Issues Task Force 06-04
 - Applies to endorsement split-dollar insurance policies
 - Employer owns and controls policy
 - Portion of death benefit endorsed to employee's beneficiary
 - Employer recognizes a liability for the postretirement benefit
 - Cumulative adjustment to retained earnings or apply the guidance retrospectively to all prior periods
 - Effective for fiscal years beginning after December 15, 2007

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Reserve Bank Handling of Sensitive Bank Data

- Stronger procedures adopted
 - Secure transmission of bank generated electronic files for exam purposes
 - Secure e-mail solution or encrypted CD/DVD
 - Encrypted CD/DVDs to be sent via FedEx or similar courier service with tracking capability
 - Handling requirements – during exam
 - Files copied to a restricted access network drive
 - Original source of the files is destroyed

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Reserve Bank Handling of Sensitive Bank Data (Cont'd)

- Storage and destruction – post exam
 - Copied from network to CD and stored with hardcopy work paper file for applicable retention period
 - All other copies deleted/destroyed – network and examiner laptops
- Stricter requirements for imaged loan files

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Contact Information

- Applications related questions
 - Call David Johnson at (800) 333-1010 ext. 2907
- Discount Window questions
 - Call Lisa Klose at (800) 333-2987
- Fiduciary questions
 - Call Matt Rowland at (800) 333-1010 ext. 2841
- Regulatory Reports questions
 - Call Bob Kovar at (800) 333-1010 ext. 2435

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Contact Information (Cont'd)

- Consumer Affairs questions
 - Kansas City/Oklahoma City/Omaha – call Christi May-Oder at (800) 333-1010 ext. 2893
 - Denver – call Trina Parsley at (800) 333-1020 ext. 22508
- Safety and Soundness questions call your local CPC
 - Kansas City – (800) 333-1010
 - Denver – (800) 333-1020
 - Oklahoma City – (800) 333-1030
 - Omaha – (800) 333-1040

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Conclusion

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Questions?