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OCC Asset Management Update

FIRMA Annual Risk Management Training Conference

April 29, 2014

Key OCC Initiatives

- Integration of OTS and OCC regulations.
  - Consolidated regulations are still in development
  - There will be opportunities for industry comment.
- Comptroller's Handbooks
  - All have either recently been, or will be updated
- Risk Management Guidance: Third-Party Relationships
  - OCC Bulletin 2013-29
- OCC Proposed Guidelines for Heightened Expectations
  - Proposed January 2014 - comments under review
  - (Applies to banks with assets greater than $50 Billion)

All OCC Handbooks – Asset Management

- Retirement Plan Products and Services Issued February 2014
- Currently Under Revision
  - Collective Investment Funds
  - Conflicts of Interest
  - Retail Sales of Non-Deposit Investment Products
  - Asset Management
  - Personal Fiduciary Services
  - Investment Management Services
- Other AM Handbooks
  - Unique and Hard to Value Assets
  - AM Operations and Internal Controls
  - Custody

Retirement Plan Products and Services Handbook Highlights

- Provides updated references to, and discussion of, significant DoL issues.
- Expands discussion of compensation issues.
- Adds discussion of Bank Secrecy Act/anti-money laundering and Regulation R.
- Adds a discussion of board and senior management responsibilities for oversight of risk management.
- Updates expanded examination procedures and groups them by risk.
- Updates references.
- Applies OCC Bulletins 2006-24 (ERISA Referrals), 2007-7 (Soft Dollars) and 2008-10 (Annual Reviews) to FSAs

Reasons for Updated Third-Party Guidance

- Increasing risk and complexity of bank's use of service providers
- More outsourcing of critical bank activities
- Greater reliance by third-parties on subcontractors (often to foreign locations)
- Greater concentration for services provided by a single provider
- More interaction involving critical bank information and between third parties and customers
- Greater use of foreign service providers

OCC Bulletin 2013-29 - Highlights

- OCC Bulletin 2013-29 – “Third-Party Relationships: Risk Management Guidance” Issued October 2013
- Provides OCC Expectations for
  - Risk management practices for third-party relationships involving critical activities.
  - Risk management practices throughout the lifecycle of a third-party relationship.
  - Board and senior management oversight.
- Applies to relationships with affiliates and subsidiaries
- Sets minimum standard for fiduciary activities delegated to third parties

Oversight of Critical Activities

- OCC expects more rigorous and comprehensive oversight of critical activities
- Applies to oversight of service providers that support significant bank functions, significant shared services, or other activities that
  - Could cause a bank to face significant risk if the third party fails to meet expectations
  - Could have significant customer impact
  - Require significant investment in resources to implement the third-party arrangement and manage the risk
  - Could have major impact on bank operations if the bank has to find an alternate third party or if the outsourced activity has to be brought in-house

Key Takeaways

- Banks should practice effective risk management regardless of whether the bank performs the activity internally or through a third party. Management must be knowledgeable of the outsourced activity.
- Bank must:
  - Adopt risk management practices that are commensurate with the level of risk and complexity of the third-party relationship.
  - Ensure robust oversight and risk management of relationships involving critical activities.
  - Adopt an effective risk management process that follows the third-party relationship through its lifecycle.
  - Ensure periodic independent review of bank's third-party risk management process.

"Heightened Expectations"

- Proposed Addition of Appendix D of 12 CFR Part 30 – comments currently under review
- Formalizes OCC's post-crisis supervisory program for large banks (assets > $50 Billion)
- Sets standards for the design and implementation of a bank's risk governance framework
- Provides minimum standards for the board of director's oversight of the framework

"Heightened Expectations"

- Revised standard would, in general, only apply to banks with assets greater than $50 Billion

> *I also can assure you that the OCC will continue to supervise community banks in the manner that these banks have come to expect—as institutions with supervisory needs, both individually and as a group, that generally are very different from institutions many times their size.*

Thomas J. Curry

Comptroller of the Currency

April 10, 2014

ABA Risk Management Forum

OCC Supervisory Focus
Asset Management

Investment Issues/concerns

- Anxiety for income/improved investment performance – increased risk taking
- Ineffective due diligence processes in selecting, retaining, and monitoring investment managers and funds
- Lack of independent risk management function over investment area
- Inadequate model risk management
- Improper oversight and controls over delegation of trust assets to affiliated broker's financial advisors
- Performance related litigation risk
- Program/algorithmic trading activities

Investment Issues/concerns – Unique Assets

- Stale valuations/valuation practices
- Stale reviews of unique assets
- Lack of financial transparency
- Lack of product knowledge and expertise
- Client suitability

Operational Risk Concerns

- Impact of earnings pressure on
  - Internal controls
  - Staffing
  - Compliance/Risk Management functions
  - Audit Coverage
- Third-party service provider oversight
- Asset controls
  - On-premises/off-premises/all locations/all assets
- Accurate reporting of losses and settlements
  - Fee rebates and concessions
  - Oversight Committees/Schedule RC-T of Call Report

Fiduciary Audit Committee Oversight

- Fiduciary Audit Committee must ensure proper oversight of fiduciary audit function, whether performed by internal or external auditors.
- Committee membership must meet independence requirements of 12 CFR 9.9 (nationals banks) or 12 CFR 150.470 (FSAs)
- When fiduciary audit is outsourced to a third-party auditor:
  - Bank must not be overly reliant on third-party auditor to develop audit scope
  - Committee should consider internal risk assessment to assess the proposed scope - should ensure that it includes all significant fiduciary activities and an assessment of all key controls as appropriate intervals
- Committee should have processes to ensure that third-party auditor completes procedures as outlined in the engagement letter or that internal audit program is completed as planned.

Conflicts of Interest

- Need comprehensive policies and procedures to identify, mitigate, and report conflicts of interest
- Board and management should periodically review all activities to determine if conflicts exist in current practices due to changes in the bank's activities, legal environment, or regulatory environment
- Trust Audit Committee should ensure the audit scope includes an evaluation of the bank's conflict of interest risk management systems, including testing of transactions
- Board may need to engage third party providers (e.g., outside legal counsel) to conduct a review of existing or proposed activities.

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Appendix I: Recent Examination Issues and Findings

Examination Issues and Findings

- Review of fiduciary accounts – failure to comply with 12 CFR 9.6/150 - pre-acceptance, initial post-acceptance, annual review
  - Inadequate account acceptance
  - Not including all assets in review
  - Adequacy of assets in meeting investment objective
  - Not meeting requirements of OCC Bulletin 2008-10
- Audit requirements – failure to comply with 12 CFR 9.9/150
  - Inadequate scope of audit – failure to include all significant fiduciary activities at appropriate intervals
  - Ineffective audit program
  - Failure to adhere to requirements for Fiduciary Audit Committee independence

Examination Issues and Findings

- Account Administration
  - Adequacy of administrative review process

    (failure to detect issues and coding errors)
  - Discretionary distribution process

    (inadequate documentation to support decision-making)
  - Self-directed IRAs

    (inadequate documentation for directed investments, including prohibited transactions)
- Internal Controls - Asset/Money Movement
  - Free deliveries
  - Disbursement controls

    (lack of dual controls noted – some banks have experienced fraud)
- Vendor Management
  - Inadequate monitoring of third-party service providers

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Appendix II – Bank Asset Management Statistics

Source: Bank asset management data was compiled from Schedule RC-T of the Combined Statements of Income and Condition filed by national banks, FSAs, and insured state banks. Uninsured state-chartered trust companies are not required to file Combined Statements of Income and Condition, therefore they are not included in this data.

Asset Management Statistics

OCC – National Bank and Federal Savings Association AM Supervision

- OCC regulates 1,207 national banks & 493 Federal savings associations.
  - They range from large complex banks with global footprints to local community banks.
  - They include 69 limited purpose national trust banks and 15 trust only thrifts.
- Approximately 43% of all national banks and 27% of Federal savings associations have Asset Management (AM) activities, which include Fiduciary and Custody services & Retail brokerage services.

Asset Management Statistics

Approximately 43% of National Banks reported income from fiduciary and retail brokerage activities

- All Large and Midsize Banking organizations
- Community Banks – 41% (462/1,126)
  - Central District 51% (165/326)
  - Northeastern District 59% (105/177)
  - Western District 35% (75/212)
  - Southern District 28% (117/411)

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Asset Management Statistics

Approximately 27% of all Federal savings associations (FSA) reported income from fiduciary and retail brokerage activities

- Large FSA – 25% (1/4)
- Midsize FSA – 47% (7/15)
- Community FSA – 27% (130/474)
  - Central District 31% (50/162)
  - Northeastern District 26% (41/158)
  - Western District 26% (20/77)
  - Southern District 25% (19/77)

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Asset Management Statistics

National Banks & FSAs – 12/31/2013

($000s)	Total Fiduciary Assets	Total Custody Assets	Total Fiduciary & Custody Assets
LB	$5,395,824,908	$32,731,650,724	$38,127,475,632
MB	$1,018,290,104	$563,851,260	$1,582,141,364
NE	$999,586,858	$923,363,550	$1,922,950,408
CE	$82,761,712	$41,311,751	$124,073,463
SO	$78,653,762	$45,268,331	$123,922,093
WE	$28,165,115	$12,554,149	$40,719,264
Total	$7,603,282,459	$34,317,999,765	$41,921,282,224

Fiduciary & Related Assets

All Banks and Federal Savings Associations 12/31/2013

FIDUCIARY AND RELATED ASSETS ($000s)	Managed	Non-Managed	Total Assets	% of Fid Assets
Personal trust and agency accounts	$741,637,957	$318,907,139	$1,060,545,096	5%
Employee benefit & retirement related trust &				
Employee benefit - Defined contribution	$926,478,697	$3,206,826,264	$4,133,304,961	19%
Employee benefit - Defined benefit	$1,035,250,012	$4,201,259,570	$5,236,509,582	24%
Other employee benefit and retirement related	$309,810,467	$2,670,776,821	$2,980,587,288	14%
Corporate trust and agency accounts	$27,947,751	$2,525,189,040	$2,553,136,791	12%
Investment management and investment advisory	$1,375,057,492	$67,911,712	$1,442,969,204	7%
Foundation and endowment	$228,990,723	$119,346,115	$348,336,838	2%
Other fiduciary accounts	$480,509,135	$3,224,093,857	$3,704,602,992	17%
Total Fiduciary Accounts	$5,125,682,234	$16,334,310,518	$21,459,992,752	100%
Custody and Safekeeping Accounts		$80,332,322,547	**$80,332,322,547**	
Total Fiduciary & Custody/Safekeeping Accounts			**$101,792,315,299**	

Fiduciary & Related Assets

National Banks – 12/31/2013

FIDUCIARY AND RELATED ASSETS ($000s)	Managed	Non-Managed	Total Assets	% of Fid Assets
Personal trust and agency accounts	$494,295,979	$184,662,651	$678,958,630	9%
Employee benefit & retirement related trust &				
Employee benefit - Defined contribution	$556,036,652	$681,337,060	$1,237,373,712	17%
Employee benefit - Defined benefit	$510,857,758	$754,169,352	$1,265,027,110	18%
Other employee benefit and retirement related	$103,467,773	$209,579,844	$313,047,617	4%
Corporate trust and agency accounts	$19,199,851	$1,584,663,975	$1,603,863,826	22%
Investment management and investment advisory	$845,413,441	$23,689,305	$869,102,746	12%
Foundation and endowment	$158,807,675	$23,498,882	$182,306,557	3%
Other fiduciary accounts	$178,125,776	$832,811,284	$1,010,937,060	14%
Total Fiduciary Accounts	$2,866,204,905	$4,294,412,353	$7,160,617,258	100%
Custody and Safekeeping Accounts		$33,517,429,448	**$33,517,429,448**	
Total Fiduciary & Custody/Safekeeping Accounts			**$40,678,046,706**	

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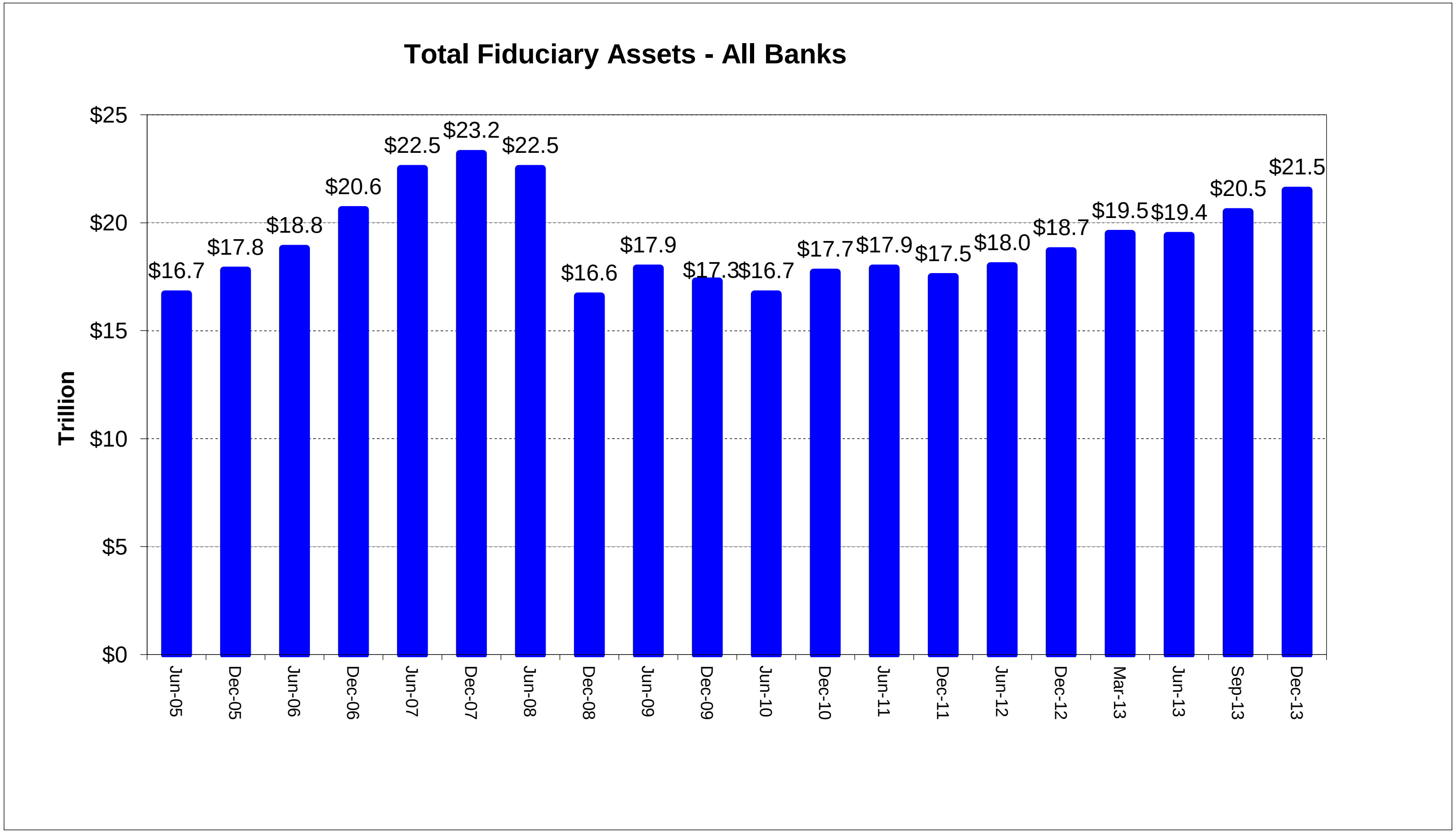
Fiduciary & Related Assets

Federal Savings Banks –12/31/2013

FIDUCIARY AND RELATED ASSETS ($000s)	Managed	Non-Managed	Total Assets	% of Fid Assets
Personal trust and agency accounts	$11,912,310	$18,079,147	$29,991,457	7%
Employee benefit & retirement related trust &				
Employee benefit - Defined contribution	$2,352,601	$240,782,887	$243,135,488	55%
Employee benefit - Defined benefit	$1,725,624	$40,356,764	$42,082,388	10%
Other employee benefit and retirement related	$29,720,477	$15,810,316	$45,530,793	10%
Corporate trust and agency accounts	$151,463	$6,470,499	$6,621,962	1%
Investment management and investment advisory	$70,406,667	$1,570,319	$71,976,986	16%
Foundation and endowment	$1,258,555	$947,487	$2,206,042	0%
Other fiduciary accounts	$189,366	$930,719	$1,120,085	0%
Total Fiduciary Accounts	$117,717,063	$324,948,138	$442,665,201	100%
Custody and Safekeeping Accounts		$800,570,317	**$800,570,317**	
Total Fiduciary & Custody/Safekeeping Accounts			**$1,243,235,518**	

Total Fiduciary Assets

All Banks and FSAs: 2005 - 2013



Total Custody Assets

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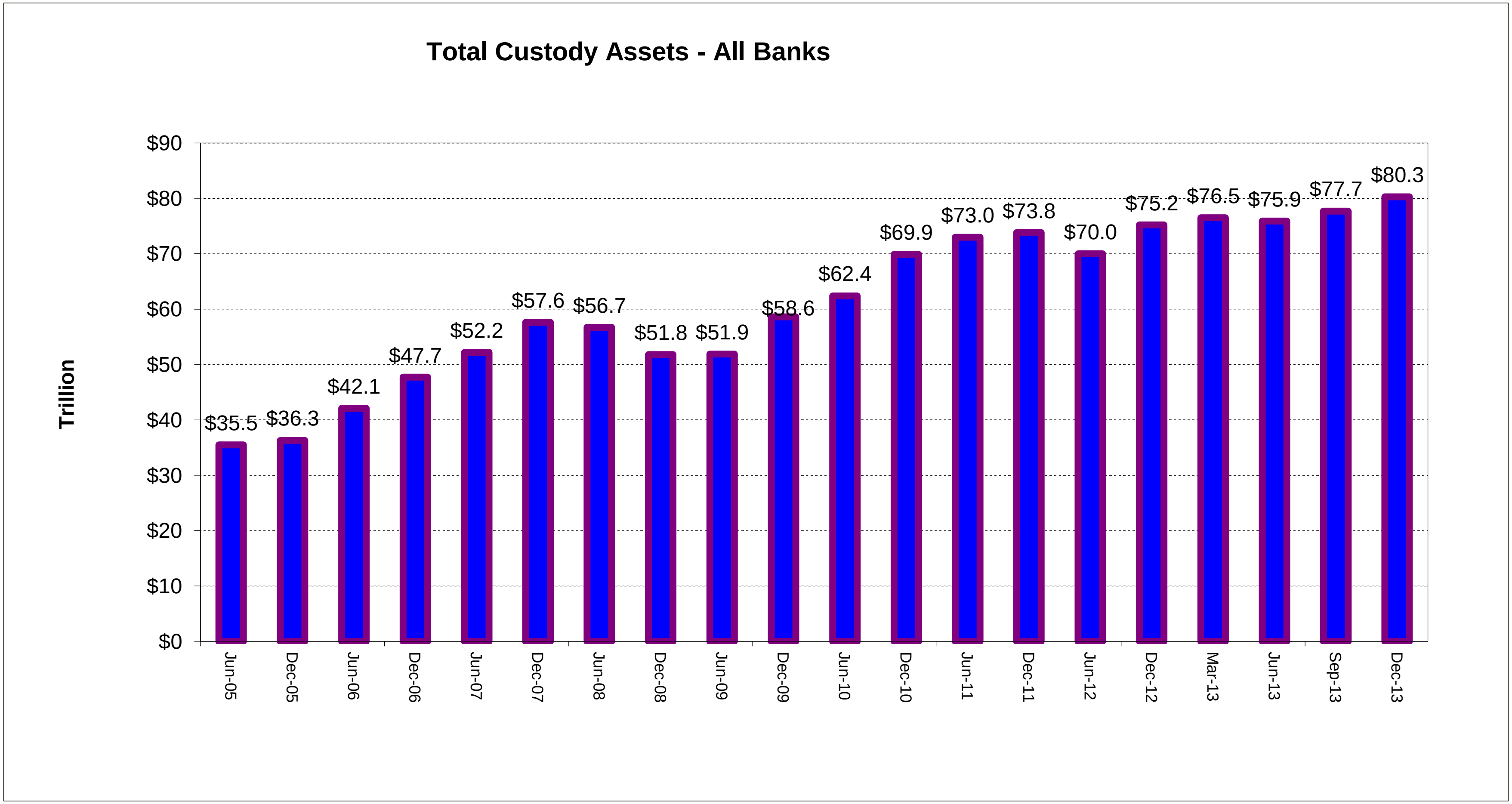
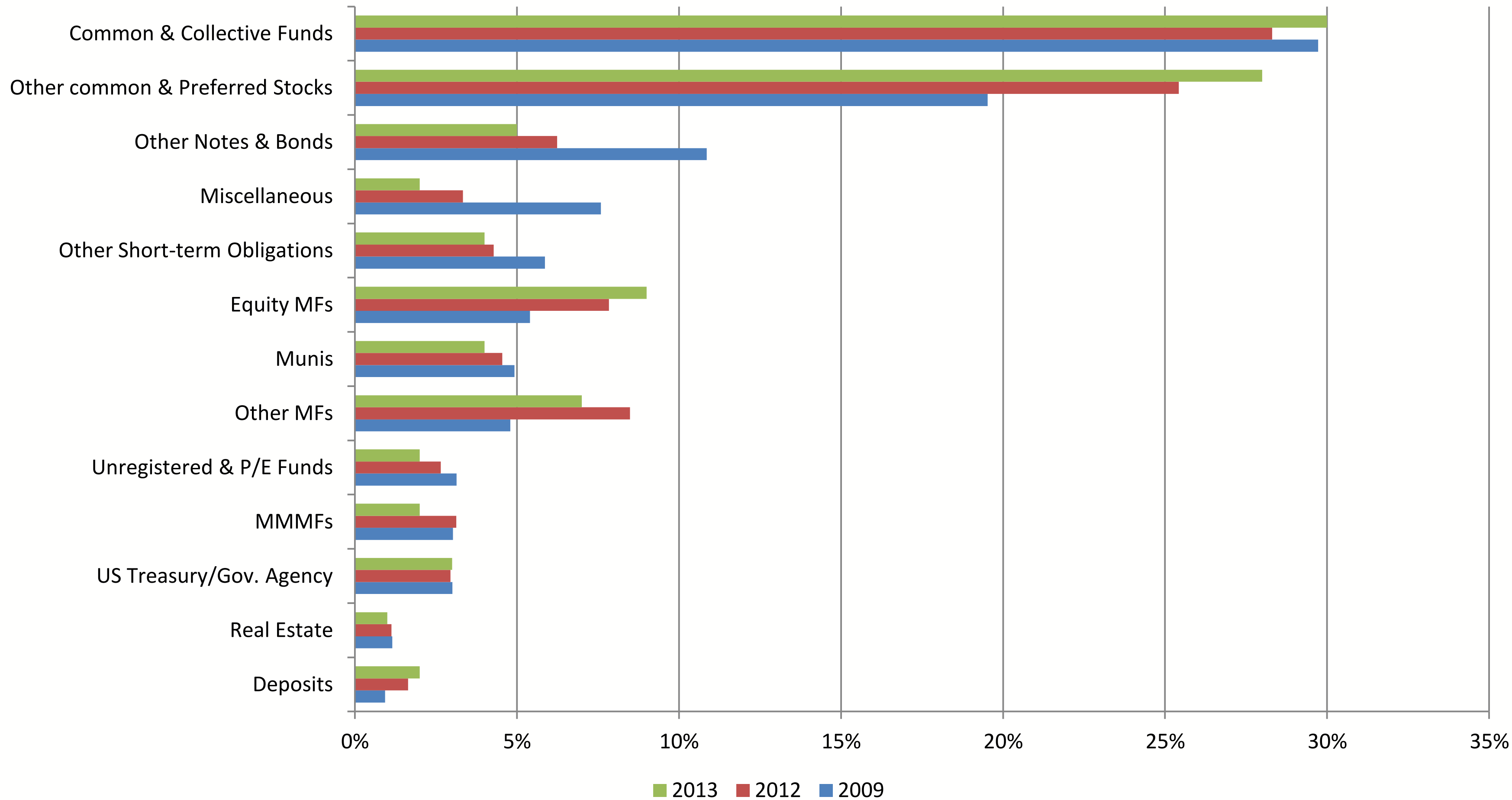
All Banks and FSAs: 2005 - 2013



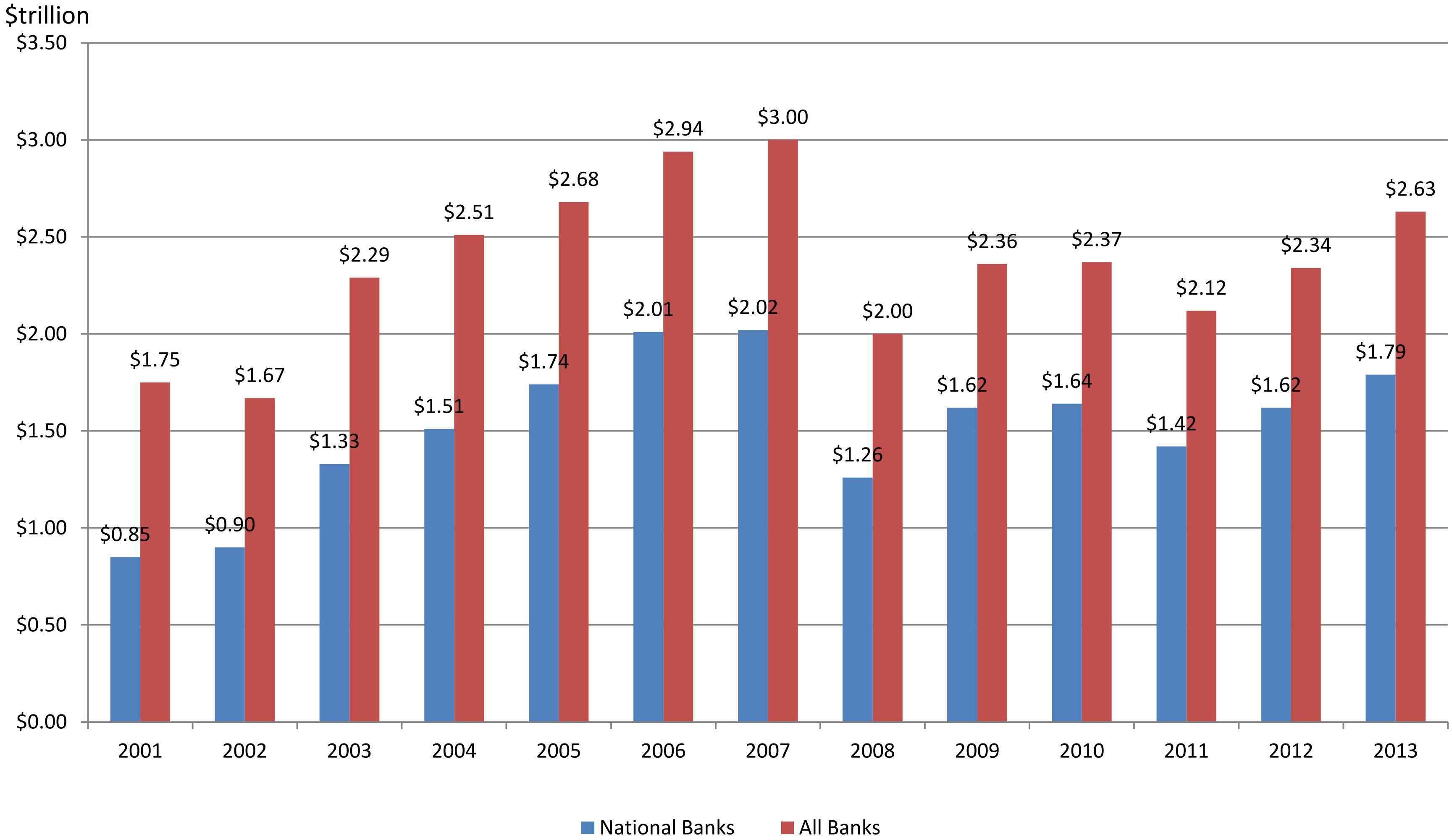
Managed Assets: Fiduciary Accts

All Banks and FSAs: 2009 - 2013



CIFs & CTFs

All Banks and FSAs: 2001 - 2013



All Banks and FSAs: 4Q 2011 – 4Q 2013

4Q2011 $ Amount of Funds	Domestic Equity	International Equity	Stock/Bond Blend	Taxable Bond	Municipal Bond	STIF/Money Market	Specialty/Other	Total
All FDIC-insured State Banks (48)	$239,462,434	$109,605,198	$86,687,952	$36,934,801	$1,682,485	$168,284,562	$43,389,037	$686,046,469
All National Banks (57)	$430,704,299	$362,048,074	$66,153,193	$386,968,517	$4,714,422	$111,534,622	$58,863,573	$1,420,986,700
All Federal Savings Banks (4)	$1,562,627	$715,588	$1,854,124	$1,077,871	$35,750	$0	$8,206,552	$13,452,512
Total (109)	$671,729,360	$472,368,860	$154,695,269	$424,981,189	$6,432,657	$279,819,184	$110,459,162	$2,120,485,681

4Q2013 $ Amount of Funds	Domestic Equity	International Equity	Stock/Bond Blend	Taxable Bond	Municipal Bond	STIF/Money Market	Specialty/Other	Total
All FDIC-insured State Banks (44)	$330,559,798	$158,682,362	$95,668,180	$40,547,501	$1,077,452	$146,333,126	$39,235,810	$812,104,229
All National Banks (53)	$620,956,319	$492,866,474	$133,081,192	$347,014,117	$3,344,455	$125,070,382	$71,446,822	$1,793,779,761
All Federal Savings Banks (5)	$2,681,136	$8,853,653	$5,888,548	$3,345,947	$24,532	$0	$0	$20,793,816
Total (102)	$954,197,253	$660,402,489	$234,637,920	$390,907,565	$4,446,439	$271,403,508	$110,682,632	$2,626,677,806

Corporate Trust Activity

- Banks serve as trustee for 267,086 Corporate & Municipal issues with an outstanding principal amount of $16 trillion.
- Banks are managing 5,660 issues in default with an outstanding principal amount of $274 billion.
- Banks also serve as transfer and paying agent for an additional 219,249 equity, debt, and mutual fund issues.

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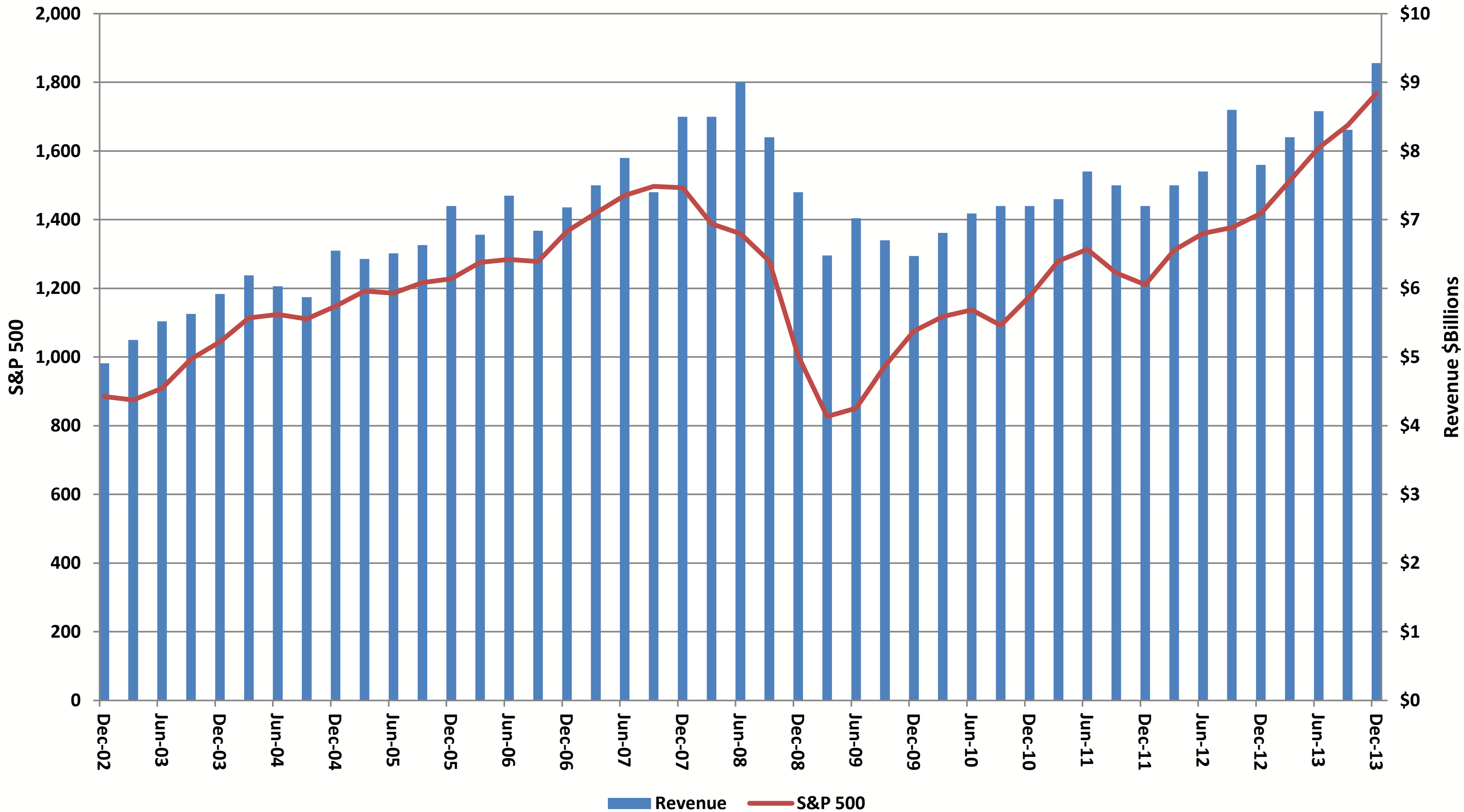
Fiduciary & Related Svcs Revenue

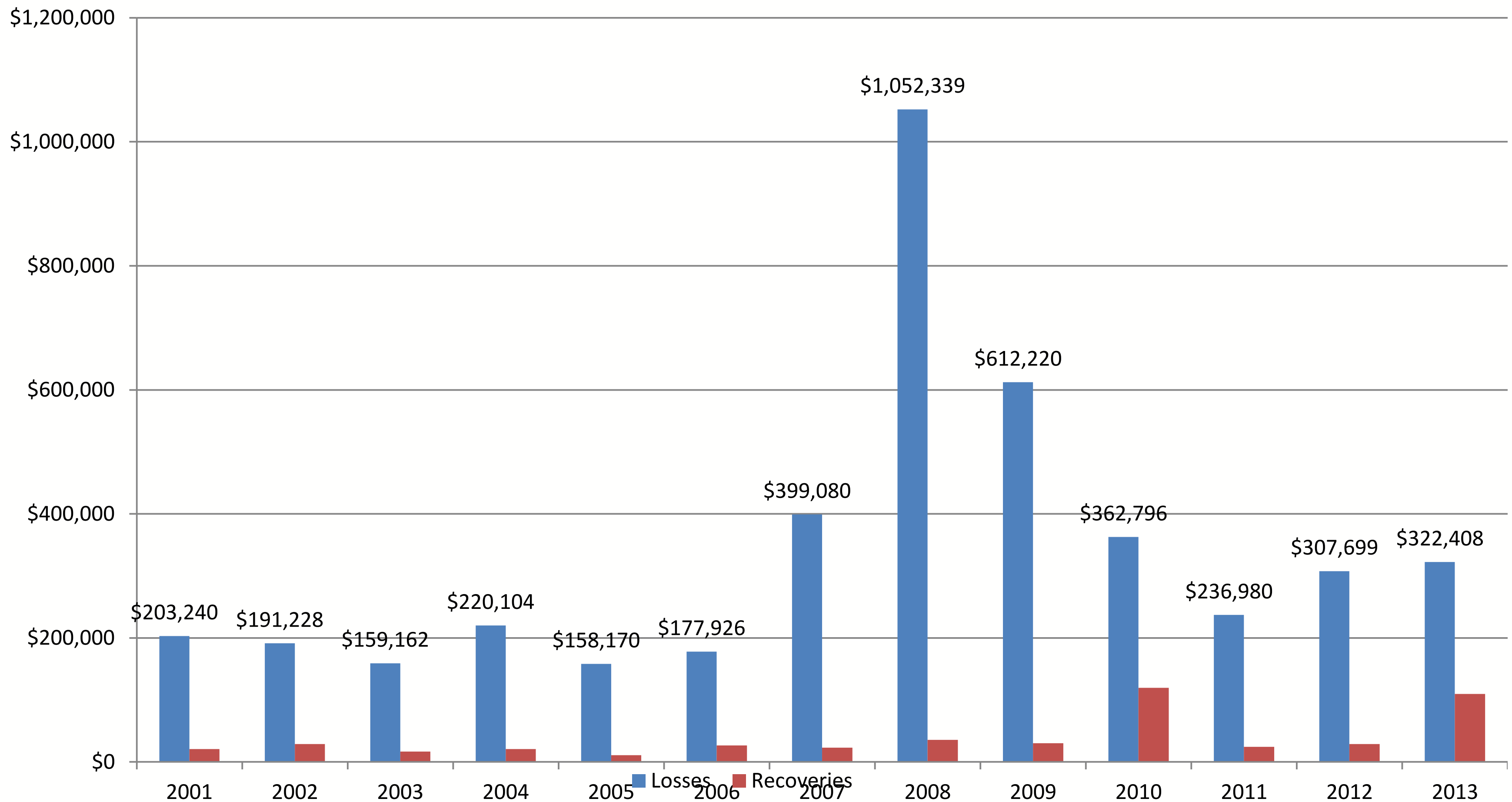
All Banks and FSAs: 2002 - 2013



Fiduciary & Related Services Losses & Settlements

($000s)

All Banks and FSAs: 2001 - 2013



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