Supervisory Update News Summary

As of August 15, 2017

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Assessment Reduction	Press Release Aug. 1, 2017	Texas Banking Commissioner Charles G. Cooper announced today that the 2017 quarterly assessment for the period of June – August is being reduced 56% for all Texas state-chartered institutions and foreign bank agencies and branches. Commissioner Cooper cited the overall healthy condition and sustained growth of state chartered banks in Texas along with improving examination operating efficiencies as the primary factors driving the reduction. The successful retention of experienced examiners has been crucial to advancing examination work programs and risk focusing examination reviews.	TDB
FDIC Revises Supervisory Appeals Guidelines	PR-54-2017 July 18, 2017	The FDIC revised its guidelines for appeals of certain material supervisory determinations to expand the circumstances under which banks may appeal a material supervisory determination and enhance consistency with the appeals processes of other federal banking agencies. The guidelines are effective immediately.	FDIC

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Banking Agencies Issue Notice of Proposed Rulemaking to Exempt Commercial Real Estate Transactions of $400,000 or Less from Appraisal Requirements	PR-55-2017 July 19, 2017	Responding to concerns about the time and cost associated with completing real estate transactions, the FRB, the FDIC, and the OCC issued a notice of **proposed** rulemaking to raise the threshold for commercial real estate transactions requiring an appraisal to $400,000. The agencies believe raising this threshold for commercial real estate transactions from the current level of $250,000 will significantly reduce the number of transactions that require an appraisal and will not pose a threat to the safety and soundness of financial institutions. Instead of an appraisal, the proposal would require that commercial real estate transactions at or below the threshold receive an evaluation. As defined by agency guidance, evaluations are less detailed than appraisals, do not require completion by a state licensed or certified appraiser, and provide a market value estimate of the real estate pledged as collateral.	FDIC FRB OCC

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Regulatory Agencies Announce Coordination of Reviews for Certain Foreign Funds under "Volcker Rule"	PR-56-2017 July 21, 2017	Five federal financial regulatory agencies announced that they are coordinating their respective reviews of the treatment of certain foreign funds under section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, and the agencies' implementing regulations. These foreign funds are investment funds organized and offered outside of the United States that are excluded from the definition of "covered fund" under the agencies' implementing regulations ("foreign excluded funds"). Section 619, and the implementing regulations, generally do not apply to investments in, or sponsorship of, these foreign excluded funds by a foreign banking entity. However, complexities in the statute and the implementing regulations may result in certain foreign excluded funds becoming subject to regulation under section 619 because of governance arrangements with or investments by a foreign bank. As a result, a number of foreign banking entities, foreign government officials, and other market participants have expressed concern about possible unintended consequences and extraterritorial impact. The staff of the agencies are considering ways in which the implementing regulations may be amended, or other appropriate action may be taken. It may also be the case that congressional action is necessary to fully address the issue. To aid full consideration, the federal banking regulators, which generally oversee foreign banks, announced that they would not take action under section 619 for qualifying foreign excluded funds, subject to certain conditions, for a period of one year.	FDIC FRB OCC

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Reviews of Shared National Credit Portfolio Find Risk Remains High - Underwriting and Risk Management Practices Continue to Improve	PR-58-2017 Aug. 2, 2017	Risk in the portfolio of large syndicated bank loans declined slightly but remains elevated, according to the Shared National Credit (SNC) Program Review released by the FRB, the FDIC, and the OCC. The high level of credit risk in the SNC portfolio stems primarily from distressed borrowers in the oil and gas (O&G) sector and other industry sector borrowers exhibiting excessive leverage. The review also found that credit risk management practices at most large agent banks continued to improve, consistent with the 2013 Interagency Guidance on Leveraged Lending. The 2017 SNC portfolio included 11,350 credit facilities to 6,902 borrowers, totaling $4.3 trillion, up from $4.1 trillion in 2016. U.S. banks held the greatest volume of SNC commitments at 45.3 percent of the portfolio, followed by foreign banking organizations and non-bank entities. The review relied on the results of examinations conducted in the third quarter of 2016 and the first quarter of 2017.	FDIC FRB OCC
FDIC Issues List of Banks Examined for CRA Compliance	PR-59-2017 Aug. 4, 2017	The FDIC issued its list of state nonmember banks recently evaluated for compliance with the CRA. The list covers evaluation ratings that the FDIC assigned to institutions May 2017. One state-chartered bank in Texas was evaluated during this period and received a Satisfactory rating.	FDIC

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Agencies Extend Resolution Plan Filing Deadline for Certain Foreign and Domestic Banks	PR-60-2017 Aug. 8, 2017	The FRB and the FDIC extended the resolution plan filing deadline for 19 foreign banking organizations and two large domestic bank holding companies to December 31, 2018, to give the firms an additional year to address any supervisory guidance in their next plan submissions. Resolution plans, required by the Dodd-Frank Act and commonly known as living wills, must describe the company's strategy for rapid and orderly resolution under bankruptcy in the event of material financial distress or failure of the company. For foreign banking organizations, resolution plans are focused on their U.S. operations. The foreign banks are: Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Bank of China Limited, Bank of Montreal, BNP Paribas, BPCE, Coöperatieve Rabobank U.A., Crédit Agricole S.A., HSBC Holdings plc, Industrial and Commercial Bank of China Ltd., Mitsubishi UFJ Financial Group, Inc., Mizuho Financial Group, Inc., Royal Bank of Canada, Société Générale, Standard Chartered PLC, Sumitomo Mitsui Financial Group, Inc., The Bank of Nova Scotia, The Norinchukin Bank, and The Toronto-Dominion Bank. The two domestic firms are: CIT Group, Inc. and Citizens Financial Group, Inc.	FDIC FRB
FDIC Updates Affordable Mortgage Lending Guide Information on State Housing Finance Agencies	FIL-30-2017 July 26, 2017	The FDIC has updated the *Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies* to reflect the most up-to-date information available about the mortgage programs offered through state housing finance agencies (HFAs). The *Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies* is designed as a resource for community banks to gain an overview of a variety of products, compare different products, and identify next steps to expand or initiate a mortgage lending program. The publication describes state HFA products and programs that provide home purchase support, including down payment closing cost assistance, mortgage tax credit certificates, and homeownership education and counseling. This FIL applies to all FDIC-insured institutions.	FDIC

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Update to the Risk Management Manual of Examination Policies	FIL-31-2017 July 26, 2017	The FDIC Risk Management Manual of Examination Policies (Examination Manual) has been updated. The ROE Instructions were updated primarily to incorporate guidance from the FDIC Board of Directors to examiners regarding supervisory recommendations, including matters requiring board attention (MRBA) and deviations from safety and soundness principles underlying statements of policy, among others. Instructions also were added for new ROE schedules or updated for existing schedules as needed. A new Bank of Anytown reflects these instructions. The updated Manual is available on the FDIC's website as a resource for all FDIC-supervised institutions. This FIL applies to all FDIC-supervised financial institutions.	FDIC

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Securities and Exchange Commission Rule Amended to Shorten the Securities Transaction Settlement Cycle	FIL-32-2017 July 26, 2017	The FDIC issued this announcement to highlight actions that banks should take to prepare for the change in the SEC rule governing the securities settlement cycle for securities transactions conducted by most broker-dealers. The effective date for the change is September 5, 2017. • Following an amendment to the SEC's Securities Transaction Settlement Cycle Rule 15c6-1, effective September 5, 2017, the industry settlement cycle for transactions involving many U.S. securities, including equities, corporate and municipal bonds, unit investment trusts, and financial instruments composed of these products, will be shortened from the third business day after the trade date (T+3) to the second business day after the trade date (T+2). • FDIC-supervised institutions should prepare to meet the new T+2 settlement time period for trades related to banks' securities activities that include banks' investment and trading portfolios and securities settlement and servicing provided to banks' custody and fiduciary accounts. • For many FDIC-supervised institutions, the majority of the changes needed to implement T+2 will be completed by third party industry custodians, systems and service providers, broker-dealers, through which institutions trade for themselves or on behalf of their fiduciary and custody accounts, and broker-dealers providing retail securities brokerage services to institution customers. For guidance on assessing and managing risks associated with third-party relationships, institutions should refer to FDIC FIL-44-2008, "Guidance for Managing Third Party Risk." This FIL applies to all FDIC-supervised financial institutions.	FDIC

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Regulatory Capital Treatment of Certain Centrally-Cleared Derivative Contracts Under the FDIC's Capital Rule	FIL-33-2017 Aug. 14, 2017	The FDIC is issuing guidance on the regulatory capital treatment of certain centrally-cleared, settled-to-market derivative contracts. Certain central counterparties have revised their rulebooks such that variation margin is considered a settlement payment and not collateral. If an FDIC-supervised institution determines the transfer of variation margin on a centrally-cleared, settled-to-market contract settles any outstanding exposure on the contract and resets the fair value of the contract to zero, the contract's remaining maturity is the time until the next exchange of variation margin. This guidance may affect a derivative contract's calculation of potential future exposure, which uses a conversion factor based, in part, on the contract's remaining maturity For regulatory capital purposes, an FDIC-supervised institution may apply this guidance to centrally-cleared, settled-to-market derivative contracts beginning as of the date of its issuance. This FIL applies to all FDIC-supervised institutions.	FDIC
Federal Reserve Board Announces $246 Million Fine Against BNP Paribas S.A. and Certain of its U.S. Subsidiaries for Unsafe and Unsound Practices	Press Release July 17, 2017	The FRB announced that it will fine BNP Paribas S.A. and certain of its U.S. subsidiaries $246 million for the firm's unsafe and unsound practices in the foreign exchange (FX) markets. The Board levied the fine after finding deficiencies in BNP Paribas's oversight of, and internal controls over, FX traders who buy and sell U.S. dollars and foreign currencies for the firm's own accounts and for customers. The firm failed to detect and address that its traders used electronic chatrooms to communicate with competitors about their trading positions. The Board's order requires BNP Paribas to improve its senior management oversight and controls relating to the firm's FX trading.	FRB

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Reserve Board Prohibits Former Foreign Exchange (FX) Trader from Participating in Banking Industry for Practices Regarding FX Pricing Benchmarks	Press Release July 24, 2017	The FRB announced it is prohibiting a former foreign exchange (FX) trader from participating in the banking industry for practices regarding FX pricing benchmarks. Michael Weston, a former FX trader at Barclays Bank PLC, engaged in unsafe and unsound practices by using electronic chat rooms to discuss the coordination of trading around FX benchmark fixes and to disclose confidential information of Barclays and its customers to traders at other organizations. Weston agreed to the enforcement action with the FRB. The action follows the Board's May 2015 enforcement action against Barclays for unsafe and unsound practices related to compliance and control failures concerning practices in the FX markets. That action required Barclays to pay a $342 million civil money penalty and to engage in extensive remediation.	FRB

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Reserve Board Announces Guidelines for Banking Entities Seeking an Extension to Conform Certain "Seeding" Investments in Hedge Funds or Private Equity Funds to Requirements of Volcker Rule	Press Release July 24, 2017	The FRB announced guidelines for banking entities seeking an extension to conform certain "seeding" investments in hedge funds or private equity funds ("covered funds") to the requirements of section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule. Seeding refers to the period during which a banking entity provides a new fund with initial equity to permit the fund to attract investors. The Dodd-Frank Act permits the Board, upon an application by a banking entity, to provide up to an additional two years to conform seeding investments in covered funds to the requirements of the statute if the Board finds the extension would be consistent with safety and soundness and in the public interest. According to the guidelines adopted by the Board, firms seeking a seeding period extension should submit information including the reasons for the extension and an explanation of the entity's plan to conform the investment to the requirements of section 619. Section 619 generally prohibits insured depository institutions and any company affiliated with an insured depository institution from engaging in proprietary trading and from acquiring or retaining ownership interests in, sponsoring, or having certain relationships with a covered fund. These prohibitions are subject to a number of statutory exemptions, restrictions, and definitions. The FRB's action related only to the extension requests for seeding investments and does not otherwise modify the rules implementing section 619.	FRB

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Reserve Board Issues Enforcement Actions with Mesquite Financial Services, Inc., Federal One Holdings, LLC, and Admirals Bancorp, Inc. and Announces Termination of Enforcement Action with First St. Charles Bancshares, Inc.	Press Release Aug. 1, 2017	The FRB announced the execution of enforcement actions with three entities which included a Written Agreement dated July 6, 2017 with Mesquite Financial Services, Inc., Alice, Texas.	FRB

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Reserve Board Invites Public Comment on Two Proposals; Corporate Governance and Rating System for Large Financial Institutions	Press Release Aug. 3, 2017	The FRB requested public comment on a corporate governance proposal to enhance the effectiveness of boards of directors. The proposal would refocus the FR's supervisory expectations for the largest firms' boards of directors on their core responsibilities, which will promote the safety and soundness of the firms. The corporate governance proposal is made up of three parts. First, it identifies the attributes of effective boards of directors, such as setting a clear and consistent strategic direction for the firm as a whole, supporting independent risk management, and holding the management of the firm accountable. For the largest institutions, FR supervisors would use these attributes to inform their evaluation of a firm's governance and controls. Second, it clarifies that for all supervised firms, most supervisory findings should be communicated to the firm's senior management for corrective action, rather than to its board of directors. And third, the proposal identifies existing supervisory expectations for boards of directors that could be eliminated or revised. The Board also requested public comment on a proposal to better align the Board's rating system for large financial institutions with the post-crisis supervisory program for these firms. The proposed rating system would only apply to large financial institutions, such as domestic bank holding companies and savings and loan holding companies with $50 billion or more in total consolidated assets, as well as the intermediate holding companies of foreign banking organizations operating in the United States. Comments will be accepted for 60 days.	FRB

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Reserve Board Issues Guidelines to Evaluate Requests from Depository Institutions for Joint Accounts at Federal Reserve Banks	Press Release Aug. 9, 2017	The FRB released final guidelines that will be used to evaluate requests from depository institutions for joint accounts at FR Banks effective upon publication in the Federal Register. These joint accounts are intended to facilitate settlement between depository institutions participating in private-sector payment systems. The Reserve Banks have, in limited cases in the past, opened joint accounts where the rights and liabilities are shared among multiple depository institution account-holders. The final guidelines will provide consistency and transparency with respect to evaluation of future joint account requests from depository institutions, given continued innovation in the U.S. payment system and the likelihood that there may be broader interest in such joint account arrangements going forward. The final guidelines broadly outline considerations for evaluating joint account requests from depository institutions. Requests will be evaluated on a case-by-case basis, and more specific considerations and information necessary to evaluate a particular request will likely be required based on the complexity of the arrangement and other factors.	FRB
Procedures for a Banking Entity to Request an Extension of the One-Year Seeding Period for a Covered Fund	SR 17-5 July 24, 2017	The FRB issued this Supervision and Regulation letter to provide banking entities with information on the procedures for submitting an application for an extension of the one-year seeding period for a hedge fund or private equity fund (referred to as a "covered fund") pursuant to section 13 of the Bank Holding Company Act of 1956 (BHC Act) and the implementing rules issued by the Board of Governors of the FR (Board), the OCC, the FDIC, the SEC, and the Commodity Futures Trading Commission (CFTC) (collectively, the "agencies"). Under the statute, a banking entity must apply to the Board for an extension of the one-year seeding period for a covered fund regardless of the banking entity's primary financial regulatory agency. This guidance applies to all banking entities, including those banking entities with $10 billion or less in consolidated assets, that are subject to section 13 of the Bank Holding Company Act (also known as the Volcker Rule), regardless of the banking entities' primary financial regulatory agency.	FRB

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Overview of the Federal Reserve's Supervisory Education Programs	SR 17-6 Aug. 2, 2017	The Board's Divisions of Supervision and Regulation (S&R) and Consumer and Community Affairs (C&CA) are issuing this letter to outline the FR's supervisory education programs. This includes an overview of the oversight responsibilities of the Board's supervision learning function and the FR's national Supervision Learning Office. Since the financial crisis of 2008, the FR's supervision programs have evolved significantly. As a result, the examiner commissioning programs and ongoing examiner education have been updated to better fulfill the FR's responsibility as the consolidated supervisor of certain financial institutions and to provide FR examiners with topical and timely supervisory knowledge and information.	FRB
Regulatory Capital Treatment of Certain Centrally-cleared Derivative Contracts under the Board's Capital Rule	SR 17-7 Aug. 14, 2017	The FR, together with the OCC and the FDIC (the agencies), is issuing supervisory guidance in response to questions from regulated institutions about the agencies' regulatory capital rules. The Regulatory Capital Treatment of Certain Centrally-cleared Derivative Contracts under the Regulatory Capital Rules document provides regulated institutions with guidance on the regulatory capital treatment of certain centrally-cleared derivative contracts in light of some changes to the rulebooks of certain central counterparties. This guidance applies to state member banks, bank holding companies, and savings and loan holding companies (not substantially engaged in insurance underwriting or commercial activities) supervised by the Federal Reserve, including those with $10 billion or less in consolidated assets.	FRB

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Bank Accounting Advisory Series Updated	NR 2017-91 August 15, 2017	The OCC released an update to the Bank Accounting Advisory Series (BAAS). The BAAS covers a variety of topics and promotes consistent application of accounting standards among national banks and federal savings associations. This edition of the BAAS reflects accounting standards issued by the Financial Accounting Standards Board on topics such as the recognition and measurement of financial instruments, leases, and revenue recognition. Additionally, this edition includes recent answers to frequently asked questions from the industry and examiners. The BAAS does not represent official rules or regulations of the OCC. Rather, it represents the OCC's Office of the Chief Accountant's interpretations of generally accepted accounting principles and regulatory guidance based on the facts and circumstances presented. National banks and federal savings associations that deviate from these stated interpretations may be required to provide justification to the OCC.	OCC

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<tr><th>TITLE</th><th>TYPE/DATE</th><th>DESCRIPTION</th><th>SOURCE</th></tr>
<tr><td>FASB Outlook</td><td>Newsletter
Q3 2017</td><td>The FASB Outlook for Q3 2017 includes the following topics:
For the Investor: Preparing for the Next Few Quarters - There are several new accounting rules which will be reflected in financial statements in the next few quarters. Three standards to get to know relate to revenue recognition, defined benefit pension plans, and hedge accounting.
Need to Know: The Upcoming Hedging Standard - During the third quarter of 2017, the FASB will issue a new standard that will improve and simplify accounting rules around hedge accounting. The standard will take effect for public companies in 2019 and private companies in 2020. Early adoption will be permitted. It will apply broadly to any institution that elects to apply hedge accounting in accordance with current GAAP (Topic 815).
On the Horizon – Explores FASB's upcoming proposals on consolidation guidance for VIEs, consolidation reorganization, and revenue recognition of grants and contracts.
Effective Dates of Major Standards - A reminder of upcoming effective dates for major financial accounting and reporting standards on revenue recognition, leases, credit losses, and not-for-profit financial reporting.</td><td>FASB</td></tr>
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TITLE	TYPE/DATE	DESCRIPTION	SOURCE
FinCEN Fines BTC-e Virtual Currency Exchange $110 Million for Facilitating Ransomware, Dark Net Drug Sales	News Release July 27, 2017	The FinCEN, working in coordination with the U.S. Attorney's Office for the Northern District of California, assessed a $110,003,314 civil money penalty against BTC-e a/k/a Canton Business Corporation (BTC-e) for willfully violating U.S. AML laws. Russian national Alexander Vinnik, one of the operators of BTC-e, was arrested in Greece this week, and FinCEN assessed a $12 million penalty against him for his role in the violations. BTC-e is an internet-based, foreign-located money transmitter that exchanges fiat currency as well as the convertible virtual currencies Bitcoin, Litecoin, Namecoin, Novacoin, Peercoin, Ethereum, and Dash. It is one of the largest virtual currency exchanges by volume in the world. BTC-e facilitated transactions involving ransomware, computer hacking, identity theft, tax refund fraud schemes, public corruption, and drug trafficking. BTC-e has conducted over $296 million in transactions of bitcoin alone and tens of thousands of transactions in other convertible virtual currencies. The transactions included funds sent from customers located within the United States to recipients who were also located within the United States. BTC-e also concealed its geographic location and its ownership. Regardless of its ownership or location, the company was required to comply with U.S. AML laws and regulations as a foreign-located MSB including AML program, MSB registration, suspicious activity reporting, and recordkeeping requirements. This is the second supervisory enforcement action FinCEN has taken against a business that operates as an exchanger of virtual currency, and the first it has taken against a foreign-located MSB doing business in the United States.	FinCEN

INDUSTRY PUBLICATIONS
FRB Dallas – U.S. Economic Update - Outlook Points to Improved Growth in Second Half - July 28, 2017
FRB Dallas - Texas Economic Update - Texas Economy Improves Further - August 2017
FRB Dallas - Economic Indicators Austin, DFW, El Paso, Houston, Permian Basin, San Antonio, and Texas
FRB Dallas - Texas Business Outlook Surveys - Monthly Manufacturing and Service Sector and Retail

OTHER RESOURCES
Bloomberg Business and Financial News
Consumer Financial Protection Bureau (CFPB)
The Financial Forecast Center - Discount Rate Information
FFIEC Information Technology Handbook InfoBase
FFIEC BSA/AML Examination Manual InfoBase
Financial Accounting Standards Board (FASB)
Financial Action Task Force (FATF)
Financial Crimes Enforcement Network (FinCEN)
FinCEN - Money Services Businesses (MSB)
Office of Foreign Assets Control, U.S. Treasury (OFAC)
Real Estate Market Reports (Texas A&M RE Center)
Temporary Liquidity Guarantee Program
Texas Constitution and Statutes
The Texas Economy – Texas Comptroller
Texas and National Economy – Federal Reserve Bank of Dallas
Troubled Asset Relief Program (TARP)
Uniform Bank Performance Reports (UBPR) and Users Guide

ACRONYMS AND ABBREVIATIONS

ACRONYM/ABBREVIATION	MEANING
AML	Anti-Money Laundering
ASU	Accounting Standards Update
BIS	Bank for International Settlements
BSA	Bank Secrecy Act
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
CSBS	Conference of State Bank Supervisors
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
DOJ	Department of Justice
FASB	Financial Accounting Standards Board
FC	Finance Commission of Texas
FCA	Farm Credit Administration
FDIC	Federal Deposit Insurance Corporation
FDIC-OIG	FDIC Office of Inspector General

ACRONYM/ABBREVIATION	MEANING
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Authority
FHFA	Federal Housing Finance Agency
FinCEN	Financial Crimes Enforcement Network
FRB (or Fed or FR)	Federal Reserve Board
FTC	Federal Trade Commission
HUD	Housing and Urban Development Department
NCUA	National Credit Union Association
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Asset Control
OIG	Office of Inspector General
SDN	Specially Designated National
SEC	Securities and Exchange Commission
TDB	Texas Department of Banking
Treasury	U.S. Department of Treasury