

Quote of the Week

“There is a great deal of excitement in the market about the crowdfunding exemption. And I am pleased that we are in a position to adopt a rule proposal that would, upon adoption, permit crowdfunding to begin. We want this market to thrive, in a safe manner.”

-[SEC Chairman, Mary Jo White](#)



Photos by Denise Jones Adler

Articles in This Issue

US Banking: Agency liquidity coverage for larger US banks, super-equivalence to Basel liquidity coverage ratio (LCR); Agency stress test template for mid-sized banks; Agency troubled debt real estate loans restructuring guidance—[page 2](#).

US Consumer: Qualified mortgage fair lending risks; CFPB remittance-transfer exam procedures; Private student loan repayment guide; Agency policy on diversity standards of regulated entities; OCC role of housing counselors – [page 3](#).

US Investment: SEC crowdfunding, funding portal registration, investment limits and financial wealth test, disclosures, and platforms; FINRA funding portal rules, related forms; SEC Chairman on new hedge fund transparency era— [page 4](#).

International: IAIS policyholder protection; IAIS systemic risk and group supervision; Canada auditor remediation and oversight; IOSCO hedge fund survey on systemic risk HKMA on new notifications required by Basel principles –[page 5](#).

EU: ECB assessment of banks prior to supervisory role; ESMA FAQ on use of LEIs; EBA forbearance, non-performing assets, reporting; Council adopts transparency directive; Parliament on investment key information disclosure – [page 6](#).

UK: Bank of England expanded liquidity insurance; PRA applying EIOPA solvency II guidelines; FCA crowdfunding and peer-to-peer lending; PRA to limit UK deposits of non-EEA banks; FCA: Wheatley on fairness and remediation— [page 7](#).

AML & Enforcement: IAIS AML in insurance sector; FinCEN first AML MoU, with Mexico; FATF combatting corruption; FHFA \$5.1bn JPMorgan re MBS; Jury finds BofA liable; CFTC JPMorgan \$100mn re swap; SEC Knight \$12mn—[page 8](#).

Regulatory Watch List

↑ **Short Sales** Banks [sell](#) short-dated US Treasury bills, pushing up [yield](#), as date of potential default gets [closer](#)..

↓ **FleXing** Authorities in [US](#), join [UK](#), [EU](#) and [Switzerland](#) in opening investigations into potential FX [manipulation](#)..

↑ **Wind-up** US and [UK](#) regulators claim new [authorities](#) would now allow them to resolve large international bank.

↓ **Equity** US seeks [market](#) restructure [after](#) glitches, may remove exchange [powers](#), impose rules on [dark](#) pools..

US Banking

Fed Liquidity Coverage for Large US Banks

Oct. 24, [Fed](#), [FDIC](#), [OCC](#) proposed [rules](#) to [require](#) strengthened [liquidity](#) positions at large [US](#) banks.

- Follows [Basel](#) Dec. 2010 final text of Basel III [liquidity](#) ratio and [capital](#) adequacy standards.
- First time US will have a quantitative liquidity requirement that covers a range of institutions.

Scope

- Applies to large international banks and FSOC-designated *systemically-important* non-banks.
- Banks covered if have \$250bn total assets, or on-balance sheet *foreign exposures* of \$10bn.
- Also to a bank subsidiary of an internationally active bank with \$10bn or more in total assets.
- Lower LCR for bank holding companies if not internationally active, with \$10-\$50bn assets.
- Omits BHCs over \$50bn assets with insurance subsidiaries or non-bank SIFI doing insurance.

Liquidity Requirement

- Banks' liquidity must exceed *net cash outflow* minus its inflows in a short-term stress period.
- Hold high-quality liquid assets against largest cash outflow as at the end of a 30-day period.
- Ratio of bank liquid asset to projected net cash outflow is "liquidity coverage ratio," or LCR.
- Hold, on a consolidated basis, a LCR equal to or greater than 100%, except for brief periods.
- Defines *High-Quality Liquid Assets* that banks will be allowed to hold to protect against runs.
- Requires holding minimum high-quality liquid assets such as cash, reserves at a central bank.
- Also quality governments, corporate debt that can be converted easily and quickly into cash.
- Specifies how to project net cash outflows for liabilities, assets, off-balance-sheet exposures.

Super-equivalence to Basel

- Fed proposal based on Basel rules with stricter treatment of under 30-day maturity mismatch.
- Narrower range of assets qualifies as HQLA, assumes higher outflow rate on stated funding.
- Shorter transition starting at 80% in Jan. 2015, to 90% in 2016, fully compliant by Jan. 2017.
- Basel *phase-in* begins at 60% from Jan. 2015, then rises 10% annually to 100% in Jan. 2019.
- Fed is working on *Net Stable Funding Ratio* as LCR only meets 30-day liquidity requirement.
- NSFR is a complementary measure that would cover one year structural funding requirement.

FDIC Stress Test Template Mid-Sized Banks

On Oct. 21, [FDIC](#), [OCC](#) issued report [template](#) for annual stress test of bank with \$10bn-\$50bn assets.

- Applies to banks with total consolidated assets of \$10bn-\$50bn, average of four last quarters.
- Base projections on exposures at Sep. 30, over a nine-quarter planning horizon from Dec. 31.
- Report capital, risk-assets for all nine-quarters using the rules in force as at initial filing date.
- For each quarter project loss, resource to meet, balance sheet position, components of capital.
- In three economic scenarios, baseline, adverse and severely adverse, FDIC to issue Nov. 15.
- Initial reporting as at Sep. 2013, required from banks above asset threshold at Dec. 31, 2012.
- Banks to report stress test results to their main supervisor and to Fed, by Mar. 31 of the year.
- Qualitatively describe risk, methodology used, causes for changes in regulatory capital ratios.



Agency Troubled Debt Restructurings

Oct. 24, [FDIC](#), [Fed](#), [OCC](#), [NCUA](#) issued [guidance](#) on troubled debt restructurings of real estate loans.

- If commercial and residential real estate loans undergone *troubled debt restructuring* (TDR).
- Contains definition *collateral-dependent loan*, classification and charge-off on impaired loan.
- Work constructively with borrowers and view prudent loan modifications as positive actions.
- Will not criticize banks for prudent workouts, even when the modified loans result in TDRs.
- In reporting, an impaired collateral-dependent loan is measured using fair value of collateral.
- Use fair value, less an estimate of costs to sell, regardless of whether foreclosure is probable.
- If loan is not collateral dependent, impairment measure is present value of future cash flows.

US Consumer

Bank Qualified Mortgage Fair Lending Risks

On Oct. 22, [Fed](#), [FDIC](#), [OCC](#), [CFPB](#) [NCUA](#) issued [guidance](#) re fair lending risk of qualified mortgage.

- Clarifies impact of *Disparate Impact Doctrine* under *Equal Credit Opportunity Act* (ECOA).
- Agencies do not expect that bank offering only *qualified mortgages* raises its fair lending risk.
- ECOA makes illegal for lender to discriminate based on characteristics such as race, religion.
- Banks should continue to evaluate fair lending risk as they would for other types of products.
- By carefully monitoring policies and practices, and implement effective compliance systems.
- Even where facially neutral practice results in disproportionately negative impact on a class.
- Creditor not liable if practice meets legitimate business need that cannot be met another way.

CFPB Remittance Transfer Exam Procedure

On Oct. 22, [CFPB](#) issued exam [procedure](#) for firms that provide consumer foreign [remittance](#) transfers.

- Follows [CFPB](#) Jan. 2012 [rules](#) for foreign wire [remittances](#) per Dodd-Frank, effective Oct. 28.
- All types of company making foreign transfers e.g. banks, credit unions, money transmitters.
- Does not apply to companies providing 100 or fewer transfers each year, or trades under \$15.
- Examiners to check firm is making disclosure, proper error resolution, right to cancel, refund.
- Also issued [eRegulations](#), online tool designed to make transfer regulation easy to understand.

CFPB Private Student Loan Repayments

On Oct. 16, [CFPB](#) issued [report](#) and an [advisory](#) on private student loan [payment](#)-processing problems.

- Follows [CFPB](#) March 2013 proposed [rules](#) for supervision of nonbank student [loan](#) servicers.
- Finds student borrowers face payment-process issues that can raise costs, prolong repayment.
- Aims to help borrowers convey their payment preferences to servicers, take control of loans.
- Advisory has a [sample](#) instruction to servicers telling them where to direct surplus payments.
- Most complaints when borrowers try to repay loans early, or pay them off in a certain order.
- Partial payment applied to all loans maximizes late fees, worsens credit impact of paying late.
- Loans transferred between servicers, seen lost paperwork, processing errors causing late fee.

Diversity Standards for Regulated Entities

On Oct. 23, [Fed](#), [FDIC](#), [OCC](#), [CFPB](#), [NCUA](#), [SEC](#) proposed diversity [standards](#) for regulated entities.

- Required by Dodd-Frank to raise transparency and awareness of diversity across the industry.
- Assess if entity uses diversity and inclusion in its strategic plan, employment and contracting.
- Has a diversity and inclusion policy, reports to board, trains staff, overseen by senior official.
- Actively promotes diverse candidates, women and minorities, in hiring, retention, promotion.
- Reports metrics on the workforce, employment practices, and holds management accountable.
- Use in procurement practice, supplier diversity metrics, review subcontractors, use outreach.
- Transparency if firms issue diversity practices on website, or in annual report to shareholders.
- Agencies will not use an exam or supervision process in connection with proposed standard.
- Entity to conduct self-assessment, voluntarily disclose to agency, report information on web.
- Seeks comment on whether a self-assessment approach is sufficient, or should be [mandatory](#).



OCC Recognizes Housing Counselors' Role

On Oct. 18, [OCC](#) head [Curry](#) spoke to role housing counselors play to help borrowers make decisions.

- New HAMP guidelines require servicers offer borrower counseling to manage budget, debts.
- Over \$30mn now committed to HUD-certified counselors for housing, foreclosure, education.
- Paid by OCC, Fed 2012 enforcement action on largest banks for deficient mortgage servicing.
- Bank aid to counselors is positively considered for purposes of *Community Reinvestment Act*.
- New rules require lenders to give list of HUD-approved counselors to assist mortgage seeker.

US Investment

SEC Crowdfunding Funding Portal Proposal

On Oct. 23, [SEC](#) proposed [rule](#) to allow companies to offer and sell securities using *crowdfunding* site.

- [JOBS Act](#) structure to permit small companies to use crowdfunding site to raise new capital.
- Funding portal is web-based platform for offer or sale of securities without issuer registration.
- On Oct. 21 bipartisan group of [Senators](#) called on SEC to quickly [release](#) crowdfunding rules.
- Unanimous support from Commissioner [Stein](#), [Aguilar](#), [Gallagher](#), [Piwowar](#), chairman [White](#).

Investment Limits

- Allows issuer to raise up to \$1mn in aggregate to all investors, over the preceding 12 months.
- Single investor limit is \$2k, or 5% of income or net worth if higher, when both under \$100k.
- Limit is higher of 10% of income or net worth, cap \$100k, if income *or* net worth over \$100k.
- Buyer may not sell securities for 1-year except to the issuer, an accredited investor, or in IPO.

Disclosure by Companies

- Companies conducting crowdfunding must file certain information with SEC and to investors.
- Also provide to intermediary facilitating offer, and make available to any potential investors.
- File information re business of startup, officers and directors, as well as owners of over 20%.
- The price to public of securities being offered, target amount, deadline, if would accept more.
- Related-party transactions, financial condition, financial statements, audit, tax for larger issue.
- Amend offering documents to reflect updates, file annual report with SEC and with investors.

Crowdfunding Platforms

- Prohibit portal to advise, recommend or solicit trades, pay staff to solicit, or hold client funds.
- Portals to give investors educational materials, information on issuer, use anti-fraud measures.
- To reduce fraud, obtain background checks on each officer and person holding 20% of issuer.
- Ensure all investors positively affirm that they are risking a full loss and they could bear loss.
- Answers questions showing understanding of risks in startup investments and illiquidity risk.

Entities Ineligible for Crowdfunding

- Companies ineligible if non-US, already report to SEC, and for certain investment companies.
- Company ineligible if has no specific business plan or plan M&A with unidentified company.

FINRA Funding Portal Rules, Related Forms

On Oct. 23, [FINRA](#) proposed [funding](#) portal [rules](#), for SEC portals that that become FINRA members.

- Reflects [SEC](#) proposed [rules](#), implements the provisions of the [JOBS Act](#) into FINRA rules.
- Based on FINRA rules, but streamlined where possible due to limited scope of portal activity.
- [Membership](#) application process, and forms. to assess if portal capable of complying with rule.
- [Conduct](#) and communication with public rules, prohibit false statements, manipulative device.
- [Compliance](#) system to supervise staff, written AML program, report discipline, contact data.
- [Investigation](#) and sanctions, BrokerCheck-type disclosure, if subject statutory disqualification.
- Procedures for a person to be associated with a portal, procedure on arbitration and mediation.
- New forms on continuing member application, contact information, statutory disqualification.



SEC New Era of Hedge Fund Transparency

On Oct. 18, [SEC](#) Chair White spoke on new era of transparency and openness for hedge fund sector.

- Results from two recent and significant pieces of legislation, Dodd-Frank Act and JOBS Act.
- DF required funds to register with SEC, public reporting on business operations and conflicts.
- JOBS lifted ban of general solicitation used by funds to make private offerings, can advertise.
- Funds now responsible to share complete and accurate information to investors, regulators.
- Through registration forms, regulatory reports, solicitation material and in examination visits.
- SEC must ensure rules, exams, enforcement is tuned to sector, not unnecessarily impeding it.
- Conducted focused ‘presence exams’ of newly registered private fund advisers and compliant.

International

IAIS on Policyholder Protection Schemes

On Oct. 17, [IAIS](#) issued report on insurance sector *policyholder protections scheme* (PPS) guarantors.

- When insurer is in difficulty, solvency regimes trigger intervention of policyholder protection.
- Usually collective, industry-funded, scheme is last-resort or basic protection to policyholders.
- PPS also contributes to objective of resolution, by facilitating continuing insurance provision.
- By financing troubled firm or potential buyers, aids portfolio transfer, act as bridge institution.
- PPS effectiveness is enhanced by cooperation between the PPS and the insurance supervisor.
- Describes features of PPSs, functions they can perform, conditions and challenges to operate.
- Describes factors to determine design of PPS, organization, establishment and governance.
- Clear on funding, contributions and coverage, financial bridge support given, claim triggers.
- Assess cross-border, home or host cooperation responsibilities, conglomerates and contagion.

IAIS Systemic Risk and Group Supervision

On Oct. 18, [IAIS](#) annual meeting agreed measures for financial stability, insurance group supervision.

- Work to identify global systemically important insurers and develop policy measures on them.
- ComFrame allow supervisors to cooperate and coordinate by comparing processes for groups.
- Report on self-assessment and peer [review](#) of *insurance core principles*, adopted with G-20.
- Review impact of ageing populace on insurers, and of the impact from global climate change.
- Increase insurance access, protect consumers, supervisory education of insurance supervisor.

Canada Auditor Remediation and Oversight

On Oct. 17, [CSA](#) proposed [auditor oversight rules](#) to assess information on quality of audit functions.

- Seeks information when a professional audit body takes remedial actions on an audit firm.
- *Canadian Public Accountability Board*-CPAB, responsible for imposing such remedial action.
- Amends trigger when an audit firm is to notify securities regulators of CPAB remedial action.
- Information is for regulator to assess systemic issues, or whether regulatory action is needed.
- Recommends CPAB and audit firms agree on protocol on information for audit committees.

IOSCO on Hedge Fund Systemic Risks

On Oct. 21, [IOSCO](#) issued hedge fund [survey](#) as at Sep. 2012 to identify sectoral and systemic risks.

- Includes data from hedge fund managers on markets, trading, leverage, funding, credit risk.
- Supports G20 to mitigate shadow banking risk as hedge fund trading previously been opaque.
- Covers 1,044 funds, US (823) and UK (97) are two main regions where fund managers based.
- Assets under management of \$1.94tn in total, 76% based in America, 20% EU and 3% Asia.
- Funds often domicile offshore to benefit from lighter tax and regulation e.g. Cayman Islands.
- Equity oriented investment strategy seen most, macro-oriented, multi-strategy also significant.
- Use leverage to increase market exposures, do an analysis to understand systemic risk impact.
- Liquidity review in event of distress sees most funds do need to restrict investor redemptions.
- Seeks exchange of consistent and comparable data among the key regulators via cooperation.



HK Notification Required re Basel Principles

On Oct. 22, [HKMA](#) informed banks of notification requirements under recent Basel Core [Principles](#).

- Resulted from IMF current assessment of HK financial sector, including regulations applied.
- Identified two notifications required for banks to comply with certain Basel Core Principles.
- Principle 6 *Transfer of significant ownership*, Principle 9 *Supervisory techniques and tools*.
- Banks to notify supervisor as soon as aware of information affecting shareholder's suitability.
- Also notify ahead of any substantive change in bank activities, structure and overall condition.
- Or when aware of adverse developments, such as breaching legal or prudential requirements.

ECB Bank Assessment re Supervisory Role

On Oct. 23, [ECB](#) issued [details](#) on risk [assessment](#), asset quality review and stress tests of large banks.

- Will begin Nov. 2013 for 12 months, to foster transparency, to repair and rebuild confidence.
- Issued list of 130 banks subject to assessment, covering 85% of euro system across 18 States.
- Publish outcome in Oct. 2014, before the ECB assumes its SSM supervisory role Nov. 2014.
- Quantitative and qualitative *supervisor review*, of key risks, e.g., liquidity, leverage, funding.
- *Asset quality review*-AQR, on transparency of exposures by reviewing quality of bank assets.
- For level 3 assets, off-balance sheet positions, non-performing, restructures, sovereign loans.
- AQR will include the adequacy of *valuations* of assets and collateral, and related provisions.
- *Stress test* examines resilience of bank balance sheet to baseline and adverse stress scenarios.
- Measured against 8% ratio on *Common Equity Tier 1* per CRD IV/Basel III with transitionals.
- On Oct. 15, EU [Council](#) adopted regulation on *single supervisory mechanism* for bank sector.
- On Oct. 17, [EU](#) Parliament recommended EU System of Financial Supervision ESFS review.

SMA Revised EMIR FAQ on Use of LEIs

On Oct. 22, [ESMA](#) amended EMIR [Q&A](#) on using LEI identifiers for reporting swap trades to SDRs.

- Clarified code used can be any pre-LEI issued by endorsed pre-LOU (Local Operating Unit).
- [List](#) of Global LEI units of BaFin in Germany, French Finance Ministry and US CFTC CICI's.

EBA Forbearance, Non-performing Loans

On Oct. 21, [EBA](#) issued [standards](#) for [reporting](#) of banks' non-[performing](#) exposures and forbearance.

- Definition and reporting templates allow level of forbearance to be assessed on similar basis.
- Definition of non performing exposures uses a 90-day past-due threshold, when it is material.
- Forbearance definition: if concession extended to debtors who face difficulty repaying a loan.
- Apply to all loans, debt securities on balance sheet, except where held for trading purposes.
- ECB will use definitions in bank balance sheet assessment for *single supervisory mechanism*.
- EBA [recommendation](#) on asset quality review also supports ECB plans to review EU banks.

Council Adopts Transparency Directive

On Oct. 17, [Council](#) adopted revised *transparency directive* on requirements for issuers of securities.

- Now requires issuers of securities to publish periodic information on performance in year.
- Also requires on-going information for *major holdings* of voting rights above set thresholds.
- If issuers exercises *right* to acquire shares and holdings exceed a threshold, file a new notice.
- Reduces obligations on listed small, medium-sized issuers, facilitates cross-border access.
- Provides dissuasive sanctions in the event that EU transparency requirements were breached.
- Up to €10mn or 5% of total annual turnover, or to twice the amount of profits if it is higher.
- Requires listed companies in oil, gas, mineral extraction, forestry, disclose pay governments.
- States to transpose directive, and ESMA issue technical standards to implement in two years.



EP Investment Key Information Disclosure

On Oct. 22, [EU](#) Parliamentary panel approved bill to issue clearer product information to investors.

- Retail investors would receive *key information document* (KID), for all investment products.
- Provides clear, comparable, complete product information before an investor signs contract.
- Two-page standard format is given to all small investors to understand and compare products.
- Make no reference to advertising material, be clearly prepared by firm that created product.
- Applies to packaged investments products, as can mislead by focusing on immediate gains.
- Rule excludes deposits, securities, insurance products which do not offer a surrender value.
- Investment broker's fees are in annex to KID, revise if changes to product affect risk, value.

Bank of England Widens Liquidity Insurance

On Oct. 24, [BoE](#) Governor [Carney](#) announced new [approach](#) to providing [liquidity](#) insurance to banks.

- Role to support stability by acting as backstop provider of liquidity insurance to UK banking.
- Revised *Sterling monetary framework* reflects the changed regulatory and market landscape.
- Raises availability and flexibility of liquidity insurance, with provision at longer maturities.
- Against a wider range of collateral, at a lower cost, and with greater predictability of access.
- Still gives banks incentive to manage liquidity primarily via private markets in normal times.
- Charges fee based on amount and illiquidity of collateral provided, apply haircuts for valuing.
- Use *discount window* for on-demand liquidity, or indexed or collateralized *longer-term* repo.
- Review extending access to non-bank, market, or willing to act as market maker of last resort.

PRA Applying EIOPA Solvency II Guidelines

On Oct. 21, [PRA](#) proposed [application](#) of [EIOPA's](#) preparatory [guidelines](#) for Solvency II to insurers.

- Fundamental to ensure effective preparations, for Solvency II, starting from January 1 2014.
- Covers key aspects of risk, [governance](#), model [approval](#), own risk [assessment](#), and [reporting](#).
- Clarifies PRA expectation of firms, approach to implementing guidelines, and interpretation.

FCA Crowdfunding and Peer-Peer Lending

On Oct. 24, [FCA](#) proposed [regulatory](#) approach for equity [crowdfunding](#), and for peer-to-peer lending.

- Loan-based platform information clearly seen, so customers know who they are dealing with.
- Platforms must have *resolution plans* in event they collapse, so loan repayment can continue.
- If no secondary market, investors can cancel without penalty and without reason in 14 days.
- Minimum prudential requirement is percent of loans or minimum £50,000, (£20,000 to 2017).
- Only promote investment-based crowdfunding to sophisticated and high net worth investors.
- Or to retail client having regulated investment advice, management from authorized person.
- Or retail client certifying it will not invest over 10% of portfolio, excluding home or pension.
- For non-advised clients, assess if appropriate before allowing to invest through the platform.

PRA to limit UK Deposits of Non-EEA Banks

On Oct. 17, [PRA](#) CEO, BoE Deputy Gov. Andrew Bailey spoke on regulation of foreign banks in UK.

- Need better resolution planning, so confidence that bank capital can be used across countries.
- Non-EEA branch in UK should not be able to accept retail deposits beyond de minimis level.
- Unless there is some good reason, and a very high level of assurance on the bank resolution.
- Believes all new non-EEA branches should be limited to straightforward wholesale banking.
- [Chancellor](#) said BoE approved Chinese banks applying to establish UK wholesale branches.



FCA Wheatley on Fairness and Remediation

On Oct. 23, [FCA](#) head Wheatley spoke on fairness, importance of looking forward and cultural reform.

- Environment is better able to calibrate risk and manage it, but still no room for complacency.
- Poor conduct is still a daily staple of the news most recently occurring in wholesale markets.
- Until the headlines slows and change is real, it will prove difficult to get investor confidence.
- Need look ahead more effectively to prevent crisis, respond using internal cultural reform.
- Issues like interest-only mortgages tackled by the regulator early, rather than retrospectively.
- Being open and transparent after cases found, as failing to deal with the problem adequately.
- Interest rate swap misselling, initial unfairness is sale to consumers who did not understand it.
- Too often aggravated by industry response, 32 offers accepted for £2mn inadequate progress.
- Follow lead of some banks, pay compensation in stages, so fast tracking for some customers.
- Believed efforts of banks 'probably' genuine, will get fairer deal in future, shocks inevitable.

AML & Enforcement

IAIS Countering AML in Insurance Sector

On Oct. 17, [IAIS](#) issued paper on combating AML and terrorist-financing within the insurance sector.

- Insurance products, trades provide opportunity for criminals, and require measures to prevent.
- FATF standard is on underwriting, placement of life insurance, investment-related products.
- Life insurance, annuity products may allow for customers to place funds into financial system.
- Do risk-based assessment of customer profile, due diligence, verification of persons, entities.
- High risk relationships, countries and political, foreign branches, bearer and viatical policies.
- New technology, use of third party, suspicious transaction reporting, controls, record keeping.

FinCEN First AML MoU, with Mexico CNBV

On Oct. 24, [FinCEN](#) and Mexico AML supervisor signed MOU to exchange drug [crime](#) information.

- For exchange of AML/CTF information with National Banking and Securities Commission.
- To disrupt transnational criminal organizations and illicit actors operating across the systems.
- Focus is money services businesses, casas de cambio, identify and address AML risks faced.
- May give comfort to banks looking to provide their services to money services businesses.

FATF Recommendations Combat Corruption

On Oct. 18, [FATF](#) issued best [practices](#) for [use](#) of FATF recommendations in combatting corruption.

- Recommendations create environment making it difficult for corruption to thrive, undetected.
- Builds on [guidance](#) politically exposed [persons](#) and risks of [laundering](#) of corruption [proceeds](#).
- Also issued reports on terror financing in West [Africa](#), role of [Hawala](#), and trade in [diamonds](#).
- Updated [statement](#) on countries with strategic AML deficiencies, and those with action [plan](#).

FHFA \$5.1n MBS Settlement with JPMorgan

On Oct. 25, [FHFA](#) announced \$5.1bn [settlements](#) with JPMorgan on MBS sales to Fannie, Freddie.

- Paid \$4bn for sales of *private-label* residential MBS sold to GSEs by JPM, Bear and WAMU.
- \$1.1bn for representation and warranty claims on single-family mortgage sales to the GSEs.
- Loans had different, more risky characteristics than descriptions in marketing and sales docs.
- Agreement does not constitute any admission by JPMorgan of any liability for allegations.

Jury Finds BofA, Manager, Liable for MBS

On Oct. 23, [jury](#) found Bank of America, manager [liable](#) for making bad loans without quality checks.

- Bank of [America](#) continued "Hustle" scheme after it acquired Countrywide in 2008 crisis.
- Processed loans at high speed, without quality checkpoints, thousands fraudulent, defective.
- Cut underwriters, quality control, incentivized staff to take shortcuts, and concealed defects.
- Many loans sold to Fannie, Freddie defaulted, caused \$1bn in losses, countless foreclosures.

CFTC JPMorgan \$100mn on London Swaps

On Oct. 16, [CFTC](#) fined [JPMorgan](#) \$100mn for its manipulative conduct in London whale swap trade.

- JPMorgan, admitted traders acted recklessly, first use of [manipulative](#) conduct [prohibition](#).
- Found reckless in ignoring obvious dangers to market pricing forces due to scale of trading.

SEC Fines Knight \$12mn re Market Access

On Oct. 16, [SEC](#) fined [Knight](#) Capital \$12mn for a violation of market access [rule](#) and weak systems.

- Follows [Knight](#) Aug. 2012 [NYSE](#) trade [error](#) causing \$460mn loss and disruption of market.
- Failed to stop entry of millions of erroneous orders, or review effectiveness of its controls.



© Reg-Room LLC. Reg-Room and the accompanying design are registered trademarks of Reg-Room LLC. All rights reserved. The information contained in this document should not be copied or further distributed without permission, and does not constitute legal advice.

Contact and Subscription Information

Nick Paraskeva

nick.paraskeva@reg-room.com

Reg-Room, LLC www.reg-room.com

Reg-Track system www.reg-track.com

Photo images: [Denise Jones Adler](#)