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FSB Publishes Proposals on Cross-Border Recognition of Resolution Actions

On September 29, 2014, the Financial Stability Board (FSB) released a consultative document on a set of proposals to achieve cross-border recognition of resolution actions and to remove impediments to cross-border resolution. The document is intended to address uncertainties identified in the FSB’s 2013 report, “Progress and Next Steps: Ending Too Big To Fail,” associated with cross-border effectiveness of resolution measures as an impediment to cross-border resolution.

The consultative document proposes a set of policy measures and guidance that are intended to enhance legal certainties in cross-border resolutions and consist of:

- Elements that jurisdictions should consider, including in their statutory cross-border recognition frameworks, to facilitate effective cross-border resolution as required by the FSB Key Attributes of Effective Resolution Regimes for financial institutions, published in October 2011; and
- Contractual approaches to cross-border recognition that focus on two particular cases where achieving cross-border recognition is a critical prerequisite for orderly resolution:
  - Temporary restrictions or stays on early termination and cross-default rights in financial contracts; and
  - The “bail-in” of debt instruments that are governed by the laws of a jurisdiction other than that of the issuing entity.

Comments are requested no later than December 1, 2014.

Federal Reserve to Begin Quantitative Impact Study for Institutions Substantially Engaged in Insurance Underwriting Activity

On September 30, 2014, the Federal Reserve Board (Federal Reserve) announced that it will begin a quantitative impact study (QIS) to evaluate the potential effects of its revised regulatory capital framework on firms substantially engaged in insurance underwriting activity, including savings and loan holding companies (SLHCs) and nonbank financial companies supervised by the Federal Reserve (Insurance Holding Companies). The Federal Reserve has invited Insurance Holding Companies to participate in the QIS; Participation is voluntary though data provided is requested to be as of December 31, 2013 and submitted by December 31, 2014.

The Federal Reserve states that it is conducting the QIS to better understand how to design a capital framework for Insurance Holding Companies that is compliant with Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the Collins Amendment. The Collins Amendment, in part, requires the establishment of minimum risk-based and leverage requirements for firms regulated by the Federal Reserve that are no less stringent that the requirements generally applicable to insured depository institutions.
In July 2013, the Federal Reserve finalized its revised regulatory capital framework to implement the Basel III capital rules for bank holding companies, certain SLHCs, and state member banks. SLHCs substantially engaged in insurance underwriting activity were excluded from the framework to provide the Federal Reserve with more time to appropriately tailor the capital rules for those firms. The Federal Reserve stated that information collected through the QIS would allow for further exploration of areas of concern raised by commenters during the proposal stage of the revised regulatory capital framework rulemaking.

OCC Bulletin Addresses OTS Integration and Applicable Guidance

As part of its ongoing integration of federal savings associations (FSAs), the Office of the Comptroller of the Currency (OCC) issued OCC Bulletin 2014-49 on October 1, 2014 to:

- Apply to FSAs certain OCC guidance issued prior to the Office of Thrift Supervision (OTS) integration date;
- Detail interagency guidance issued prior to the OTS integration date that continues to apply to FSAs; and
- List rescinded OTS documents and any guidance that replaces the rescinded documents.

The Bulletin states that the OCC aims “to produce a consistent supervisory approach and integrated policy platform for national banks and FSAs, while recognizing differences anchored in statute.”

FSB Enhanced Disclosure Task Force Publishes Second Progress Report

On September 30, 2014, the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board (FSB) published its second progress report assessing major banks’ implementation of the EDTF’s 2012 recommendations for “Enhancing the Risk Disclosures of Banks.” The principles and recommendations for improved bank risk disclosures and leading disclosure practices as outlined in that 2012 report are intended to provide relevant and timely information to investors and other users, which the FSB states can contribute, over time, to improved market confidence in financial institutions.

The second progress report is based on a survey of major banks’ 2013 annual reports. It confirms that “significant progress” has been made towards implementing the EDTF recommendations in 2013 disclosures, with particular improvement in quantitative disclosures. A second assessment of the disclosures was conducted by investors and analysts (the User Group) within the EDTF and it also confirmed that banks have made “substantial progress” in implementing the EDTF recommendations. The User Group, however, noted there is a gap between the users’ assessment and the banks’ own self-assessment of the level of implementation. They also noted that levels of implementation were highest in countries where regulators have been most active in promoting adoption.

The EDTF stated that the proposed changes to the Bank for International Settlements’ Basel Committee on Banking Supervision’s (Basel Committee) Pillar 3 and the implementation of the new International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) financial instrument standards are steps that will lead to further changes in disclosures. The EDTF suggested that a review and updating of its recommendations may be necessary in the future. The FSB stated that it has asked the EDTF in 2015 to survey the level and quality of 2014 annual report disclosures.
CFPB Releases Report on Manufactured Housing

On September 30, 2014, the Consumer Financial Protection Bureau (CFPB or Bureau) released a report that provides background on manufactured housing and the consumers that live in them, highlighting differences between manufactured housing and site-built homes.

The report states that one of the important differences between manufactured housing and site-built home is their legal treatment. “Site-built homes are nearly always titled as real estate property, whereas many manufactured homes may be titled as either real estate property or personal property (chattel), even if the manufactured-home owner owns the land the home is sited on. Chattel loans may close more quickly than, or have lower upfront costs than, loans secured by real property, but chattel loans tend to have higher interest rates and provide borrowers with lesser consumer protections than mortgages secured by real property.”

The Bureau stated that data on manufactured housing is scarce compared with data available on site-built housing and mortgage finance. To obtain more data, the Bureau is considering adding a field to the Home Mortgage Disclosure Act (HMDA) data that would indicate whether a manufactured-housing loan is secured by real or personal property. The Bureau also expects that additional sets of five-year estimates from the U.S. Census Bureau’s American Community Survey will provide larger sample sizes that may support in-depth analyses.

Comptroller Curry Discusses Strategic Planning and the Advantages of CDFI Certification

Speaking before the National Bankers Association on October 1, 2014, Comptroller of the Currency Thomas J. Curry encouraged members of this trade group for minority and women-owned banks to conduct strategic planning as a means to determine who they “are,” their strengths and weaknesses, their “realistic” accomplishments, and what success should look like for their institution. He said that “one of the most important strategic assessments each MDI [Minority Depository Institution] has to make” is whether it should remain focused on the historical mandate to address the financial needs of the underserved, and whether to do so exclusively, directly, or indirectly. He suggested they consider becoming a certified Community Development Financial Institution (CDFI) to attract sources of capital to help fulfill their mission.

The U.S. Department of the Treasury, through its CDFI Fund, provides CDFI certification to recognize specialized financial institutions that serve low-income communities. Comptroller Curry said CDFI certification:
• Opens up access to financial and technical assistance from the CDFI Fund through programs such as the Bank Enterprise Award and Financial Assistance.

• Increases some institutions’ ability to raise capital from other sources, such as majority-owned banks, foundations, and government agencies at all levels. For example, “The Bank Enterprise Award program incentivizes majority-owned institutions to provide equity investments, equity-like loans, loans, deposits, or technical assistance to MDIs that have CDFI certification. A majority-owned institution may also invest in an MDI with CDFI certification through the Public Welfare Investment Authority and may receive consideration for that investment under the Community Reinvestment Act.”

• Helps some MDIs get into new lines of business. “For example, a CDFI-certified institution is automatically qualified as a community development entity, which is a prerequisite to access the New Markets Tax Credit Program. This can pave the way to solid partnerships with larger banks that are tax credit equity investors.”

• Allows, under certain conditions, mortgages originated by a CDFI, to be exempted from the civil liability provisions of the ability-to-repay rule issued by the Consumer Financial Protection Bureau—“even if the CDFI’s mortgage program does not comply with the specified underwriting requirements of the qualified mortgage regulation.”

CFPB Fines Bank for Default Servicing Practices

On September 29, 2014, the Consumer Financial Protection Bureau (CFPB or Bureau) fined a Michigan-based federal savings bank and mortgage loan servicer for its default servicing practices. The Bureau found that the bank’s practices violated the prohibitions on unfair, deceptive, or abusive acts or practices under the Consumer Financial Protection Act (CFPA) as well as the loss mitigation provisions of the 2013 Real Estate Settlement Procedures Act (RESPA) Mortgage Servicing Rule. The Bureau alleges, among other things, the bank:

• Impeded borrowers’ access to loss mitigation;

• Failed to review loss mitigation applications in a reasonable amount of time;

• Withheld information that borrowers needed to complete their loss mitigation applications;

• Improperly denied borrower requests for loan modifications;

• Improperly prolonged trial periods for loan modifications; and

• Misrepresented borrowers’ right to appeal the denial of a loan modification.

Without admitting or denying the charges, the bank agreed to:

• Pay $27.5 million to approximately 6,500 consumer harmed by the bank’s practices and pay a $10 million fine;

• Stop acquiring servicing rights for default loan portfolios from third parties until it demonstrates the ability to comply with laws that protect consumers during the loss mitigation process;

• Contact affected borrowers whose homes were not foreclosed and offer them loss mitigation options;

• Halt foreclosures for affected borrowers during this outreach and qualification process for these borrowers; and

• Perform an independent review to determine whether borrowers who were previously denied a loss mitigation option were offered all loss mitigation options for which they qualified, and if not, offer the additional options to those borrowers.
FDIC Fines Bank for Unfair and Deceptive Practices Related to Credit Card Add-on Products

On September 30, 2014, the Federal Deposit Insurance Corporation (FDIC) announced a settlement with a Utah-based insured state nonmember bank for unfair and deceptive practices related to the marketing, promotion, and sale of certain add-on products associated with its credit cards products, in violation of Section 5 of the Federal Trade Commission Act. It fined the bank a civil money penalty of $1.1 million and ordered it to pay restitution of approximately $15 million to harmed consumers.

The FDIC alleges that the bank marketed a payment-protection credit card add-on product that was to provide a benefit payment towards a consumer’s monthly credit card payment following certain life events, such as involuntary unemployment, disability, and hospitalization. The FDIC determined that the bank violated federal law prohibiting unfair and deceptive practices by, among other things:
- Misrepresenting that the “monthly benefit” would equal the consumer’s “minimum payment due;”
- Misrepresenting that the plan would protect the consumer’s credit rating;
- Misrepresenting that plan payments would be made automatically;
- Failing to adequately disclose material conditions and restrictions related to the plan;
- Failing to adequately disclose the terms and conditions for accessing the plan’s hospitalization benefit; and
- Requiring permanently disabled consumers to recertify their disabled status each month.

The FDIC Consent Order requires the bank’s board to fully participate in the oversight of the bank’s Compliance Management System (CMS), to be responsible for the implementation of an adequate compliance program that addresses all consumer compliance risks associated with the bank’s operations, and to effectively supervise all the bank’s compliance-related activities.

CFPB Fines Title Insurance Agency for Entering into Quid Pro Quo Referral Agreements

On September 30, 2014, the Consumer Financial Protection Bureau (CFPB or Bureau) announced that it imposed a civil money penalty against a Michigan-based title insurance agency for entering into marketing services agreements (MSAs) with various companies, such as real estate brokers, with the understanding that the companies would refer mortgage closings and title insurance business to the agency. Such quid pro quo referral agreements violate the Real Estate Settlement Procedures Act (RESPA).

The Bureau alleges the agency set the fees it would pay under the MSAs, in part, by considering the number of referrals it received or expected to receive from each counterparty. The CFPB’s investigation found that, on average, counterparties that had MSAs referred significantly more business to the agency than companies that did not have MSAs.

Without admitting or denying the charges, the title insurance agency agreed to pay a $200,000 civil money penalty and to terminate immediately any existing MSAs with companies in a position to refer business to the agency or enter into new MSAs with any such companies.
FINRA Requests Comment on a Rule Proposal to Implement the Comprehensive Automated Risk Data System

On September 30, 2014, the Financial Industry Regulatory Authority (FINRA) issued Regulatory Notice 14-37 to announce the release of a proposed rule that would implement the Comprehensive Automated Risk Data System (CARDS). The proposed rule builds on FINRA’s concept proposal, which was released in 2013 (Regulatory Notice 13-42). Comments on the proposed rule will be accepted through December 1, 2014, and FINRA is requesting data and quantified comments where possible.

As proposed, the CARDS rule would be implemented in phases. The first phase would require carrying or clearing firms to periodically submit in an automated, standardized format specific information that is part of the firms’ books and records relating to their securities accounts and the securities accounts for which they clear. The second phase would require fully-disclosed introducing firms to submit specified account profile-related data elements either directly to FINRA or through a third party. The collection of personally identifiable information (PII) for customers, including account name, account address, and Social Security number, would be excluded.

Notice 14-37 contains an Interim Economic Impact Assessment, which discusses both the anticipated benefits as well as the anticipated costs of the proposed rule for the approximately 200 firms impacted by phase 1 of CARDS. Introducing firms would not have any additional reporting obligations in phase 1 and would not incur direct costs associated with those accounts they clear through other firms. FINRA staff is continuing to collect and assess information about the costs, benefits, and other economic impacts of CARDS. As it gathers more information, FINRA intends to develop its economic impact analysis regarding the anticipated benefits and costs of phase 2 for impacted entities, including introducing firms.

FSB Publishes Final Report on Foreign Exchange Benchmarks

The Financial Stability Board (FSB) published the final version of its report entitled “Foreign Exchange Benchmarks” on September 30, 2014. The report sets out 15 recommendations for benchmark reform in foreign exchange (FX) markets and in the benchmark rates the FSB says have been identified as pre-eminent by market participants - in particular, the WM/Reuters (WMR) 4pm London fix produced by the WM Company. These recommendations fall into the following broad categories:

- The calculation methodology of the WMR benchmark rates;
- Recommendations from a review by the International Organization of Securities Commissions (IOSCO) of the WMR fixes;
- The publication of reference rates by central banks;
- Market infrastructure in relation to the execution of fix trades; and
• The behavior of market participants around the time of the major FX benchmarks (primarily the WMR 4pm London fix).

Based on discussions with the relevant market sectors, the FSB expects that all of the recommendations will be accepted and implemented by the market groups concerned, which will deliver “a substantial improvement” in market structure and conduct. The FSB also stated that “investigations into alleged misconduct are ongoing across a range of markets, and it is possible that the authorities will ultimately conclude that regulatory change is needed to promote or ensure appropriate behaviors and/or to implement the recommendations of this report.”

CFTC Signs Memorandum of Understanding with Australian Securities and Investments Commission

On September 29, 2014, Tim Massad, Chairman of the U.S. Commodity Futures Trading Commission (CFTC), and Greg Medcraft, Chairman of the Australian Securities and Investments Commission (ASIC), signed a Memorandum of Understanding (MOU) regarding cooperation and the exchange of information in the supervision and oversight of regulated entities that operate on a cross-border basis in the United States and in Australia.

Through the MOU, the CFTC and ASIC express their willingness to cooperate in the interest of fulfilling their respective regulatory mandates, particularly in the areas of protecting customers; fostering the integrity of and maintaining confidence in financial markets; and reducing systemic risk. The scope of the MOU includes markets and organized trading platforms, trade repositories, and intermediaries, dealers, and other market participants.

SEC Chair White Discusses International Cooperation at IOSCO Conference

On October 1, 2014, Securities and Exchange Commission (SEC) Chair Mary Jo White addressed the annual conference of the International Organization of Securities Commissions (IOSCO) in Brazil regarding the importance of international cooperation in investigations and enforcement actions. “Rarely is there a week when one or more of the cases recommended by the [SEC] enforcement staff does not involve critical international assistance,” she said. “In fact, in the last fiscal year, the SEC made more than 900 requests for international assistance and, as a result, we were able to obtain critical evidence that helped us prosecute wrongdoers for a vast array of serious offenses.”

Chair White said that in fiscal year 2014, the SEC received “positive feedback” from its international partners to their more than 500 requests for assistance, most made under the IOSCO Multilateral Memorandum of Understanding.

In concluding, Chair White said, “As we survey the global enforcement landscape today, there is no doubt that our collective efforts have been highly successful. Our investors and our markets have never been as well protected as they are today. But the challenge to achieve greater coverage, accountability, and deterrence is significant and real.”
SEC Commissioner Piwowar Discusses Adoption of a Uniform Fiduciary Duty for Broker-Dealers and Investment Advisors

At a National Association of Plan Advisors forum on September 30, 2014, Securities and Exchange Commissioner Michael S. Piwowar discussed the adoption of a uniform fiduciary duty that would apply to broker-dealers and investment advisors. Speaking for himself and not the Securities and Exchange Commission (SEC), he said studies show retail investors are confused and do not understand the differences between the duties of broker-dealers and investment advisers, but it is not clear that changes in the regulations applicable to broker-dealers and investment advisers are necessary, including the adoption of a uniform fiduciary duty. He suggested the SEC must consider the marginal benefits and costs before adopting new rules or rule amendments in this regard.

Commissioner Piwowar said in the ongoing debate about the need to create a uniform fiduciary duty for broker-dealers and investment advisers it is sometimes asserted that a broker-dealer’s duties have less “teeth” than an investment adviser’s. He added that sometimes the debate “overlooks the robust regulatory scrutiny to which broker-dealers are subject,” citing that the Financial Industry Regulatory Authority (FINRA) brought 96 actions between January 1, 2013 and June 30, 2014, against broker-dealers and associated persons including suitability rules.

He said the SEC should consider a “fix” that could “achieve the goal of improving investor knowledge of what can and should be expected of their broker-dealer and investment adviser without introducing significant costs” to the industry. Commissioner Piwowar suggested that a concise disclosure document for broker-dealers and investment advisers should be considered and then tested by the SEC to determine what information investors find important and useful in selecting a financial adviser. The SEC could then test formats in which the information could be presented and comprehended by investors. In devising its investor testing, Commissioner Piwowar suggested that the SEC could use:

- A summary disclosure document similar to the mutual fund summary prospectus;
- A disclosure statement for retail investors at or before commencing a business relationship, as described in FINRA’s 2010 concept proposal; and
- The table of information included in the Truth in Lending Act disclosure requirements for credit card applications and solicitations.

Enforcement Actions

The Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) recently announced the following enforcement actions:

- The SEC charged two individuals in Florida for defrauding investors in a purported startup company by providing false information about its revenues and future prospects. The SEC alleges that the individuals raised at least $5.7 million in startup capital from approximately 100 investors nationwide. The SEC is seeking a permanent injunction, disgorgement, civil money penalties, and penny stock and officer and director bars. In a parallel action, the U.S. Attorney’s Office announced criminal charges against them.
- The SEC charged two former bank employees with insider trading. The SEC alleges that one of them, a research analyst, tipped the other in advance of several market-moving ratings upgrades or downgrades made in certain securities. The tips enabled the individual to generate more than $117,000 in profits. The SEC is seeking disgorgement, prejudgment interest, financial penalties, and other remedial measures.
- The SEC charged two individuals for insider trading based on comments made by a hedge fund manager regarding a $1 billion short position held in the fund. One individual,
who worked at the hedge fund, settled the charges and agreed to pay a $47,100 civil penalty. Litigation continues against the other individual, who acted on the tip his friend provided. The SEC is seeking a civil penalty.

- The CFTC charged a Florida company and its owner with engaging in illegal, off-exchange transactions with retail customers on a leveraged, margined, or financed basis for which they received fees totaling nearly $450,000. The CFTC is seeking a permanent injunction, civil monetary penalties, restitution, trading and registration bans, disgorgement, rescission, and pre- and post-judgment interest.

- The CFTC charged a Florida company and its owner with engaging in illegal, off-exchange transactions with retail customers on a leveraged, margined, or financed basis. The company accepted at least $6 million from approximately 240 retail customers; the company also received commissions and fees totaling more than $827,000, and acted as a Futures Commission Merchant without registering with the CFTC. The CFTC is seeking disgorgement, restitution, civil monetary penalties, permanent registration and trading bans, and a permanent injunction.

- The CFTC charged a New York futures trader for attempting to manipulate futures markets on numerous occasions and for entering into fictitious sales and non-competitive transactions. Without admitting or denying the charges, the trader agreed to pay a $1.56 million civil monetary penalty and to trading and registration restrictions.

- The CFTC charged the founder of a California capital management firm and his firm for operating a fraudulent off-exchange foreign currency pool scheme. He settled the charges and agreed to permanent trading and registration bans. In a parallel criminal action, the founder was sentenced to seven years in prison and ordered to pay over $8.6 million in restitution and fines.
# Recent Supervisory Actions against Financial Institutions

**Last Updated:** October 3, 2014

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<td>Consent Order</td>
<td>09/30</td>
<td>The Consumer Financial Protection Bureau announced that it had assessed financial penalties on a title insurance agency for entering into quid pro quo agreements with companies that referred business to its mortgage closings and title insurance businesses in violation of the <em>Real Estate Settlements and Procedures Act</em>.</td>
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<tr>
<td>FDIC</td>
<td>State Nonmember Bank</td>
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<td>09/29</td>
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<td>Federal Trade Commission</td>
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<td>Complaint</td>
<td>09/23</td>
<td>The Federal Trade Commission charged a nonbank debt collector that used fictitious names and threatened consumers into paying debts they may not have owed in violation of the <em>Federal Trade Commission Act (FTC Act)</em> and the <em>Fair Debt Collection Practices Act (FDCPA)</em>.</td>
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<td>Federal Reserve Board</td>
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<td>09/19</td>
<td>The Federal Reserve entered into a written agreement with a Massachusetts-based state member bank to address an unauthorized cash dividend to shareholders. The Federal Reserve objected to the capital plan the bank submitted in January 2014.</td>
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<td>The Consumer Financial Protection Bureau charged a Missouri-based payday lender with originating online payday loans without consumers’ consent and debiting fees from their checking accounts in violation of the <em>Consumer Financial Protection Act</em>, the <em>Truth in Lending Act</em>, and the <em>Electronic Fund Transfer Act (EFTA)</em>.</td>
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<tr>
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<td>In two separate instances, the Federal Reserve Board issued an Order of Assessment of Civil Money Penalty against an Ohio-based state member bank to address violations of the <em>National Flood Insurance Act</em>.</td>
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<td>State Member Bank</td>
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