Agenda

1. Changing Regulatory and Enforcement Climate
2. Effective Regulatory Change Management
3. Beyond the Basics: Advanced Regulatory Change Management
4. Implementation Strategies and Considerations
   - HMDA Amendments
   - FinCEN Beneficial Ownership Rule
   - Incentive Compensation
5. Key Takeaways
The Changing Regulatory and Enforcement Climate
President Trump – Financial Services Positions

Dodd-Frank Act

“Dodd-Frank has made it impossible for bankers to function. It makes it very hard for bankers to loan money for people to create jobs, for people with businesses to create jobs. And that has to stop.”

- President Trump (Reuters)

“We’re going to be doing a big number on Dodd-Frank.”

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Priorities

<table>
<thead>
<tr>
<th>Immigration</th>
<th>Tax Reform</th>
<th>Healthcare</th>
<th>Financial Reform</th>
</tr>
</thead>
</table>

President Trump – Financial Services Positions
Dodd-Frank Act (continued)
Options available to the Trump Administration to address federal rulemaking under the Dodd-Frank Act

| • Amendments                          | • Guidance      |
| • Clarifications                     | • Moratoria     |
| • Compliance Materials               | • Policy Statements |
| • Enforcement Actions                | • Reports       |
| • Extension or postponement of effective dates | • Rulemaking |
| • Executive Orders                   | • Speeches      |
| • Presidential Memoranda             | • Technical Assistance |
| • Frequently Asked Questions         | • Testimonies   |
Core Principles

- Empower Americans to make independent financial decisions and informed choices in the market place, save for retirement, and build individual wealth
- Prevent taxpayer-funded bailouts
- Foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry
- Enable American companies to be competitive with foreign firms in domestic and foreign markets
- Advance American interests in financial regulatory negotiations and meetings
- Make regulation efficient, effective, and appropriately tailored
- Restore public accountability within Federal financial regulatory agencies and rationalize the Federal regulatory frameworks
Presidential Memorandum on DOL Fiduciary Rule

- Directs the Department of Labor (DOL) to examine the fiduciary rule to determine whether if adversely affects the ability of Americans to gain access to retirement information and financial advice

- Prepare economic and legal analysis considering whether the fiduciary rule:
  - will harm or is likely to harm investors due to a cutback to products and services
  - will result in dislocations or disruptions within the retirement services industry
  - will likely cause an increase in litigation in the prices that investors and retirees must pay to gain access to retirement services

- If an affirmative determination is made for any of the three considerations above, or for any other reason after appropriate review, the DOL should publish for notice and comment a proposed rule rescinding or revising the rule

- DOL has announced a 60-day delay following the memorandum to June 9
Financial CHOICE Act Overview

CHOICE Act 2.0

01. Eliminate the CAMELS requirement from the capital election

02. Reduce the CCAR stress-test cycle to every two-years and eliminate the company-run stress test

03. Restructure the Consumer Financial Protection Bureau (CFPB), UDAAP authority repealed, and change what functions the agency is authorized to perform

04. Raise the Sarbanes-Oxley 404(b) threshold from $250 million to $500 million
“Change management processes are posing a challenge as banks allocate resources to implement processes and controls for multiple new or amended regulations…”

~ Office of the Comptroller of the Currency, Semiannual Risk Perspective, Fall 2016
Key Exam Topics

Risk
- Enterprise Risk
- Third Party (Vendor) Risk Management
- Incentive Compensation
- Loans to Insiders/Regulation O
- Business Continuity Planning

Information Security
- Cybersecurity/Information Security
- GLBA/Privacy of Consumer Financial Information
- AML/BSA/OFAC
- Anti-Bribery

Compliance
- Compliance Management System (CMS)
- Know Before You Owe (KBYO)
- Fair Lending
- Fair Servicing
- Unfair, Deceptive or Abusive Acts or Practices (UDAAP)
- Complaint Management
Soaring Legislative Complexity

Financial Insights – Too Small to Succeed? Community Banks in a New Regulatory Environment
From 2001–2010, 10 major banking acts became law, totaling 1,858 pages

Chart 4
Over the Past Century, Legislative Complexity Soared

Number of new banking acts

SOURCE: Federal Deposit Insurance Corporation, Important Banking Legislations.
2016-2017 Regulatory Road Map

June 2, 2016
CFPB's Proposed Rule on Short-term Small-dollar Lending
Comments due Oct. 7

July 11, 2016
FinCEN's Customer Due Diligence Rule
Compliance date May 11, 2018

August 1, 2016
European Commission’s EU-US Privacy Shield

Oct. 5, 2016
CFPB Final Rule on Prepaid Accounts
Eff. date October 1, 2017

August 2, 2016
CFPB’s Mortgage Servicing Amendments & Interpretive Rule on FCPCA and Mortgage Servicing
Eff. dates October 2017 and later

October 3, 2016
Eff. Date of Dept. of Defense Military Lending Act Regulations

December 24, 2016
Final Eff. Date of Agency Risk Retention Rule

January 1, 2017
Amendments to NCUA Member Business Loan Requirements

January 1, 2017
Institutional Coverage for Depository Institutions (HMDA)

January 1, 2017
Agencies' Liquidity Coverage Final Rule

Comments Due: December 27, 2016
HUD's Proposal on Elevation Standards

Comments Due: January 6, 2017
Agencies' Private Flood Insurance Rule

Comments Due: January 17, 2017
Agencies' ANPR on Cybersecurity Standards

April 10, 2017
Eff. Date of Department of Labor Conflicts of Interest Rule (Fiduciary Rule)

Legend:
- Federal
- Proposed
- Other
<table>
<thead>
<tr>
<th>Topic</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Various Safety and Soundness Issues</td>
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<tr>
<td>UDAAP</td>
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<td>BSA/AML/OFAC</td>
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<td>Flood Disaster Protection</td>
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<td>Truth in Lending</td>
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<tr>
<td>Fair Lending/ECOA/Fair Housing Act</td>
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<tr>
<td>Debt Collection/FDCPA</td>
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<td>Fair Credit Reporting</td>
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<td>RESPA</td>
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<tr>
<td>Miscellaneous/Other</td>
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**Source:** FIS Center of Regulatory Intelligence
Effective Regulatory Change Management
<table>
<thead>
<tr>
<th>Challenges</th>
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</thead>
<tbody>
<tr>
<td>Information overload</td>
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<tr>
<td>Regulatory monitoring gaps</td>
</tr>
<tr>
<td>Unclear roles and authority</td>
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<tr>
<td>Inadequate stakeholder involvement</td>
</tr>
<tr>
<td>Lack of clear change management policy and processes</td>
</tr>
<tr>
<td>Insufficient planning and timetables</td>
</tr>
<tr>
<td>Lack of follow up and testing</td>
</tr>
<tr>
<td>Lack of evidence of tracking and/or analyses of laws and regulation</td>
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<tr>
<td>Reactive vs. proactive regulatory change management modes</td>
</tr>
<tr>
<td>Disjointed data</td>
</tr>
</tbody>
</table>
Effective Regulatory Change Management

Overview

01 Plan

02 Identify

03 Monitor and Track

04 Analyze

05 Prioritize and Allocate

06 Execute

07 Report

08 Repeat
Effective Regulatory Change Management

**PLAN**

**Governance structure**
- Policies and procedures
- Lines of reporting and points of contact
- Sign off and escalation
- Document management
- Board approval, if needed

**Involve all stakeholders**
- Internal
- Third parties
- Vendors

**Ample timeline for implementation and testing**

**Develop lines of communication and reporting**
Effective Regulatory Change Management

IDENTIFY

Regulatory Applicability Matrix
- Policies and procedures
- Products, services, customers, and business lines
- Geographic locations
- Enforcement actions, fines, and penalties
- High-risk areas, operating environments, and risk tolerances

Applicable laws and regulations
- Governing bodies
- Regulating authorities
- Legislators
- Law enforcement
- Self regulatory organization(s)
Effective Regulatory Change Management

MONITOR AND TRACK

Monitoring Cockpit
- Official and unofficial sources
- Analyst monitoring
- Subject matter expert reviewing and testing
- Recordkeeping
- Assign frequency for each source
- Controls

Tracking
- Control documents
- Data feed(s)
- Manual tracking
Effective Regulatory Change Management

**ANALYZE**

**Analyses**
- Subject matter experts
- General Counsel
- Outside Counsel
- Consultants
- Associations
- Government(s) and Regulator(s)

**Impact statements**
- Vendor, SME, Counsel
- Regulator summary or rule-to-rule

**Timelines**
- Deliverables
- Deadlines
Effective Regulatory Change Management

PRIORITIZE AND ALLOCATE

Priority level
- Effective dates
- Implementation timelines
- Extent of impact
- Risks

Resource allocation
- Financial
- Staff
- Third parties
Effective Regulatory Change Management

EXECUTE

Execution
- Tone at the top – Board-to-basement
- Communication key
- Follow project plan
- Adequate accountability and oversight
- Adapt and document
- Test, test, and retest

Education
- Training and testing
- Document
Effective Regulatory Change Management

REPORT

Reporting
- Milestones
- Setbacks
- Lessons learned
- Regular intervals
- Regulatory reporting library
- Archive

01 Plan
02 Identify
03 Monitor and Track
04 Analyze
05 Prioritize and Allocate
06 Execute
07 Report
08 Repeat
Effective Regulatory Change Management

**REPEAT**

Best in class
- Evolutionary and dynamic
- Reevaluate as needed, but no less than annually
- Learn from past successes and mistakes

01 Plan
02 Identify
03 Monitor and Track
04 Analyze
05 Prioritize and Allocate
06 Execute
07 Report
08 Repeat
Beyond the Basics: Advanced Regulatory Change Management
Advanced Regulatory Change Management

Congressional Sources

• Committee Members and State/Congressional District
• Committee Jurisdiction – Authorization and Appropriations
• Political Action Committee (PAC)
• Legislation – Analyses from Introduction-to-Law
  – Committee Action – Hearings, Statements, Congressional Record, Votes
  – Floor Debate – Statements, Votes, and Congressional Record
  – Legislation – Legislation, Reports, and Appropriations

Private and Public Sector Sources

• Trade, Business, and Consumer Associations – Statements, Lobbying, and Campaigns
• News and Industry Publications
• Banks and Financial Institutions – Lobbying Registrations and Reports
<table>
<thead>
<tr>
<th>Federal Government Sources</th>
<th>Public and Private Sector Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Primary Regulator – U.S. Federal Reserve; CFPB; FDIC; OCC</td>
<td></td>
</tr>
<tr>
<td>• Secondary Department and Agencies – U.S. Department of Defense; U.S. Department of Agriculture</td>
<td></td>
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<tr>
<td>• U.S. Congress – Members of Congress and Committees</td>
<td></td>
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<tr>
<td>• Councils – National Economic Council (NEC); National Security Council (NSC)</td>
<td></td>
</tr>
<tr>
<td>• Office of Management and Budget (OMB)</td>
<td></td>
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<tr>
<td>• Trade, Business, and Consumers Associations</td>
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<tr>
<td>• Lobbying Firms – Private Sector and Public Sector</td>
<td></td>
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<tr>
<td>• Law Firms</td>
<td></td>
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<tr>
<td>• Consultants</td>
<td></td>
</tr>
<tr>
<td>• Vendors</td>
<td></td>
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<tr>
<td>• U.S. Courts</td>
<td></td>
</tr>
</tbody>
</table>
Advanced Regulatory Change Management
CFPB’s Consumer Complaint Database and Consumer Response Annual Report

**FIGURE 4: CONSUMER COMPLAINTS BY PRODUCT**

- Debt collection: 30%
- Credit reporting: 19%
- Mortgage: 18%
- Bank account or service: 10%
- Credit card: 9%
- Consumer loan: 6%
- Student loan: 4%
- Payday loan: 2%
- Prepaid: 0.9%
- Money transfer: 0.8%
- Other financial service: 0.7%

Implementation Strategies and Considerations:
- HMDA Amendments
- FinCEN Beneficial Ownership Rule
- Incentive Compensation
HMDA Amendments

Timeline

**January 1, 2017**
FIs that do not originate 25 or more home purchase loans (or refinancings) in each of the preceding calendar years, are excluded from HMDA reporting.

**January 1, 2018**
Provisions for institutional coverage, transactional coverage, data collection, reporting, and disclosure go into effect.

**March 1, 2018**
FIs will report HMDA data for the year 2017 under the current rules.

**March 1, 2019**
Institutions will report HMDA Data for the year 2018 under the new rules.

**March 1, 2020**
Larger-volume reporters must begin reporting HMDA data quarterly.
HMDA Amendments
Data Fields NOT Changing

Application Date
Loan Type
Action Taken
Action Taken Date

Property Location
State, county, and census tract

Income
HOEPA Status

Untouched Data Fields
<table>
<thead>
<tr>
<th>Modified Data Fields</th>
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<tbody>
<tr>
<td>- Legal Entity Identifier (LEI)</td>
</tr>
<tr>
<td>- Universal Loan Identifier (ULI)</td>
</tr>
<tr>
<td>- Loan purpose</td>
</tr>
<tr>
<td>- Preapproval request</td>
</tr>
<tr>
<td>- Construction method</td>
</tr>
<tr>
<td>- Occupancy type</td>
</tr>
<tr>
<td>- Loan amount</td>
</tr>
<tr>
<td>- Ethnicity, race and sex</td>
</tr>
<tr>
<td>- Income</td>
</tr>
<tr>
<td>- Type of purchaser</td>
</tr>
<tr>
<td>- Rate spread</td>
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<tr>
<td>- Loan status</td>
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<tr>
<td>- Denial reason</td>
</tr>
<tr>
<td>- Property address</td>
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<tr>
<td>- Age</td>
</tr>
<tr>
<td>- Credit score</td>
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<tr>
<td>- Total loan costs or total points and fees</td>
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<tr>
<td>- Origination charges</td>
</tr>
<tr>
<td>- Discount points</td>
</tr>
<tr>
<td>- Lender credits</td>
</tr>
<tr>
<td>- Interest rates</td>
</tr>
</tbody>
</table>
### HMDA Amendments

#### New Data Fields

| • Prepayment penalty term                                      |
| • Debt to Income Ratio (DTI)                                   |
| • Combined Loan to Value Ratio (CLTV)                          |
| • Loan terms                                                  |
| • Introductory rate period                                    |
| • Non-amortizing features                                     |
| • Property value                                              |
| • Manufactured home secured property type                     |
| • Manufactured home land interest property                    |
| • Total units                                                 |
| • Multifamily affordable units                                |
| • Mortgage Loan Originator NMLSR Identifier                  |
Financial institutions **MUST** submit the HMDA LAR **electronically**.

All HMDA reportable institutions will use a new internet-based submission tool in 2018.
FinCEN Beneficial Ownership Rule
Customer Due Diligence Requirements

**EFFECTIVE DATE**
July 11, 2016

**COMPLIANCE DEADLINE**
May 11, 2018

**COVERED INSTITUTIONS**
Covered Institutions are required to identify the beneficial owners of new legal entity customers

**KEY DEFINITIONS**
- Covered Institution
- Legal Entity Customer
- Beneficial Owner
Covered institutions required to gain an understanding of the nature and purpose of relationships in order to:

• Develop a customer risk profile

• Conduct ongoing monitoring for reporting suspicious transactions, and

• Maintain and update customer information using a risk-based approach
• Maintain written procedures as part of AML compliance program to identify a natural person owner for each legal entity customer opening new accounts who meet the following criteria:

- **Reliance**
  - Covered institutions may relay on other financial institutions to perform the requirements to identify beneficial ownership provided that the covered institution has no knowledge of facts that would reasonably call into question the reliability of the information.

- **Maintenance**
  - Information must be updated on an event-driven basis not an ongoing basis.
Once a non-exempt beneficial owner is identified, what must a covered financial institution do with regard to beneficial owners in order to comply with the rule?

- Obtain the following information for every beneficial owner
  - Name
  - Address
  - Date of birth
  - Social Security number

- Verify the above information according to the financial institution’s customer identification program (CIP)

- Understand the nature and purpose of the customer relationships

- Create a customer risk profile using information gathered at account opening and include in enhanced due diligence reviews of the entity

- Conduct ongoing monitoring

- Update beneficial ownership information whenever monitoring reveals that a change in ownership has taken place

- Retain identification records for five years after the account is closed and verification records for five years after the record is made
Incentive Compensation

Key Requirements

- Dodd-Frank Act Section 956
- FDIC Guidance on Sound Incentive Compensation Policies
- Federal Reserve Incentive Compensation Practices Study
- CFPB Compliance Bulletin 2016-03
- Dodd-Frank Act Section 953(b)
- Dodd-Frank Act Section 951
- Enforcement
Key Takeaways
INFORMATION
Cover final state and federal laws and news as secondary sources

BUSINESS STRATEGY
Include Compliance in strategy and product and service development

EXPERTISE
Ensure appropriate knowledge and proficiency for internal and external staffing and vendors

EXISTING RESOURCES
Integrate government affairs, general counsel, and communications

COMMUNICATIONS
Articulate clear expectations and behavioral guidelines for internal and external stakeholders, customers, and governments

VISION
Compliance adds vision enterprise-wide and improves overall business strategy and revenue

ENFORCEMENT ACTIONS
Review to identify trends and emerging risks
Questions?

Sign up for free, monthly Regulatory Intelligence Briefings:
www.fisglobal.com/Insights/RISC

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Visit us in the expo hall to learn more