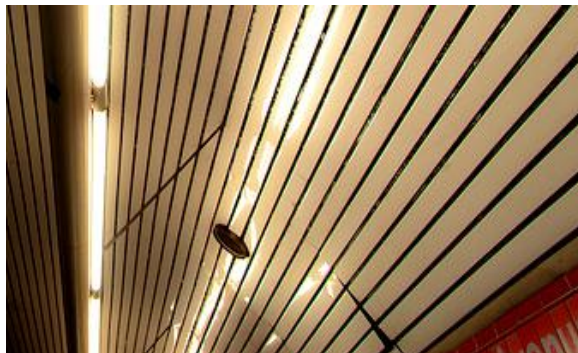


## Quote of the Week

“SEC staff should look hard to see whether a case against individuals can be brought. I want to be sure we are looking first at the individual conduct and working out to the entity, rather than starting with the entity.”

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



Photos by Denise Jones Adler

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## Regulatory Watch List

↑ **SEF-less** industry and [Commissioners](#) want [delay](#) from October 2 SEF start date, as [further](#) products in [scope](#). CFTC approves 16 SEFs at end of September without compliance review, [last-minute relief](#) is limited to reporting.

↓ **Caps-Lock** [Basel](#) and [EU](#) report progress strengthening bank capital, now [closer](#) to meeting Basel III standard. Industry [claims](#) new Basel [leverage](#), margin and central counterparty rules will require \$200bn [additional](#) increase.

↑ **Re-enforcement** SEC, DoJ ready to go to [trial](#), seek greater [penalties](#) and admission of [guilt](#) in public [interest](#). JPM negotiating \$11bn [settlement](#) with DoJ, would be a record, for resolving [range](#) of charges made against bank.

↓ **Un-Common** UK brings legal [action](#) against bonus [caps](#) in EU's Capital Directive as beyond [scope](#) of treaties. Follows challenges to ESMA [short](#) selling rule, Financial Transactions Tax, and location of Euro clearing houses.

## US Banking

### Fed Uses Basel III Rules in Next Stress Test

On Sep. 24, [Fed](#) issued [rules](#) that [incorporate](#) Basel III reforms into the next capital plan and stress test.

- Follows [Fed](#) Jul. 2013 [rule](#) to implement Basel III from 2014 for large banks, 2015 for others.
- Next capital plan and stress test plan period is fourth quarter of 2013, to fourth quarter 2015.
- Thus next capital plan cycle, beginning in Oct, overlaps with US implementation of Basel III.
- Bank holding [company](#) over \$50bn assets use Basel III rules in next capital plan, stress tests.
- Using transition periods in Basel, bank to meet 5% tier 1 common ratio as per prior year tests.
- Second [rule](#) gives one-year transition period to banks with \$10bn-\$50bn assets in using Basel.
- Such firms to conduct first company-run stress test in 2013 per existing rule, so time to adjust.

### Fed Governor Tarullo on Macro-Regulation

On Sep. 20, [Fed](#) Governor Daniel Tarullo spoke on recommendations for macro-prudential regulation.

- Macro perspective should dominate regulation and supervision of larger financial institutions.
- Building greater resiliency is central to macro-risks, by viewing financial system as a whole.
- Apply stricter regulations for systemic firms, whose failure may endanger the entire system.
- High priority on measures to control structural risks from short term wholesale funding, repo.
- Activities moving outside regulatory perimeter need strict monitoring, market wide measures.

### Agency Reporting Elder Abuse and Privacy

On Sep. 24, [Fed](#), [CFPB](#), [FDIC](#), [FTC](#), [NCUA](#), [OCC](#) [SEC](#) issued [guidance](#) on reporting of elderly abuse.

- Clarifies privacy provisions of *Gramm-Leach-Bliley* do allow reporting elder financial abuse.
- *GLB Act* requires firms to notify consumers on opt out, before releasing personal information.
- New guidance clarifies GLB allows for firm to report suspected elder abuse to the authorities.
- Financial exploitation is frequent form of elder abuse, and only fraction of incidents reported.
- Financial institutions' employees may be able to spot irregular transactions, account activity.
- If behavior signals financial abuse firm should report activity to authorities e.g by filing [SAR](#).
- Lists signals of elder financial exploitation that were included in [FinCEN](#) Feb. 2011 [advisory](#).

### CFPB Payday Lending for Servicemembers

On Sep. 17, [CFPB](#) issued [guidelines](#) for protecting [servicemembers](#) during exams of payday lenders.

- How to identify harm or violations of *Military Lending Act* (MLA) in exam of payday lender.
- Act provides protections for military families, and caps loan *annual percentage rate* at 36%.
- For active military personnel, National Guard or Reserve personnel and for their dependents.
- Lenders must follow law for closed-end loans of \$2,000 or less with terms of 91 days or less.
- Hundred dollars loans can have finance charge of \$15-20 in two weeks, APR is 391%- 521%.
- Ban on rolling-over loans for servicemembers, unless the new loan has more favorable terms.
- Prohibits lender making servicemember waive rights under *Servicemembers Civil Relief Act*.
- Bans repayment by *allotment*, deductions from paycheck before salary deposited into account.



### FDIC Payment Processing High-risk Clients

On Sep. 27, [FDIC](#) issued guidance on [relationships](#) when payment processing for high-risk merchants.

- Perform proper risk assessments, conduct due diligence that merchant customers are lawful.
- Maintain systems to monitor relationship over time and assess whether customer is high-risk.
- Ensure not facilitating fraud or illegal activity, bank could be exposed to financial, legal risks.
- Risk if high returns rates, unauthorized trades, complaints, or evidence of action against firm.
- Payments may be in form of remotely created check that is deducted from depositor account.
- FDIC exam focus to assess if bank overseeing activities they process and managing the risks.
- Banks having appropriate systems and control, will not be criticized for providing processing.

## US Investment

### SEC Municipal Advisors Registration Final

On Sep. 18, [SEC](#) issued [rules](#) for the registration of municipal advisors, become effective July 1, 2014.

- If provides advice on issue of muni securities, investment strategy for proceeds, derivatives.
- New exemptions based on activity rather than status of entity, limit duplication of regulation.
- Wider exclusion for employees and appointed officials of muni entities doing such activities.
- Exemption for banks allow traditional activity without registering e.g. deposits, loans, trustee.
- Advisors to report on advisory business, firms, any persons who solicit clients on its behalf.
- Their associated persons, employment history, other business activities, disciplinary histories.

### CFTC Relief on SEF Reporting, Compliance

On Sep. 27, [CFTC](#) issued [relief](#) for *Swap execution facilities* (SEFs) from reporting on Oct 2 rule date.

- Requires SEF to report, real-time on trade data and key terms to *Swap data repository* (SDR).
- Relief allows SEF to report backloaded data to SDR after it is able to report, if keeps records.
- [Relieves](#) counterparty report *continuation data* on uncleared swaps traded under rules of SEF.
- Relief expires on Oct. 30 for FX swaps and on Dec. 2, for equity and commodity asset swaps.
- Also [relief](#) on SEF [enforcement](#) responsibility for market participants trading on those SEFs.
- Allows for firms to review SEF rulebooks and IT, before legally consent to their jurisdiction.

### SEC Median CEO Pay Disclosure Proposal

On Sep. 18, [SEC](#) proposed [requiring](#) companies to disclose [ratio](#) of pay for median staff and the CEO.

- Rules would not require specific methodology, so provides flexibility to perform calculation.
- Base median on pay of all staff, use statistical sampling, or using another reasonable method.
- E.g. annual total compensation as per existing disclosure, or another measure such as payroll.
- For all company employees, full and part time, at subsidiaries, and employees outside the US.
- Report in annual, proxy, registration statement which has executive compensation disclosure.
- Disclosure does not apply to emerging growth, smaller companies, or foreign private issuers.
- Requires compliance on registrant's first fiscal year, on or after the effective date of the rule.

### FINRA Suitability Findings, Best Practices

On Sep. 25, [FINRA](#) issued [guidance](#) on its findings and best practices to comply with suitability rules.

- Review detail of training to staff on suitability, compliance procedure, exception reports used.
- Frequent findings of weak procedures for *hold recommendation*, supervision, documentation.
- In most cases only informal cautionary action, to recognize good faith efforts of the industry.
- *Reasonable-basis* by new product vetting, web materials, train representatives prior to sales.
- *Customer-specific*, collect new information on new accounts, reviews, use exception reports.
- Add customer-specific suitability profile e.g to qualify to trade options, or high-risk tolerance.
- *Quantitative suitability*, if control a customer's account need to have basis for series of trades.
- Verify institutional status by documentation in new account, verbally, monitor for exceptions.
- Identify hold trades on order ticket, discussion with clients, branch exams, new account form.



### FINRA Economic Assessment of New Rules

On Sep. 19, [FINRA](#) and [MSRB](#) issued [economic](#) impact assessment [policy](#) for proposed rulemaking.

- Aim for better designed rules to protect public while minimizing unnecessary burden of cost.
- Consistent with [SEC](#) March 2012 cost-benefit guidance considerations for final rulemakings.
- Consult with key stakeholders in development of rules such as retail or institutional investors.
- Clarify objective and impact of rule proposals, alternatives considered, evidence relied upon.
- Identify, evaluate alternative approach, assess quantitative and qualitative benefits and costs.
- Assess who a rule impacts, their requirements, costs and benefits, how behaviors will change.

## US Report 5-Year Progress

### White House Reports Reforms since Crisis

On Sep. 16, [President](#) Obama [reported](#) on [reforms](#) at five-year anniversary of start of financial crisis.

- Report describes 15 key elements of response to crisis, 9 of these relate to regulatory reform.
- Contrary to expectations, response to crisis is expected to yield a return to the US taxpayer.
- Treasury has more than recovered investments in banks and AIG from TARP-return is \$22bn.

### Consumer Protections

- Claimed taken on Wall Street, ending taxpayer bailouts, imposing tougher rules on big banks.
- Developed consumer protection to crack down worst practices in mortgages and credit cards.
- Fought in Dodd Frank, for strongest consumer financial protections in history, created CFPB.
- CFPB tasked with one job, to protect families when they make important financial decisions.
- Already issued rules so mortgages transparent and straightforward, disclosure for consumers.

### Limit Risk-Taking and Too-Big-to-Fail

- Tough standards limit interconnectedness of large firms, identify risks outside bank sector.
- Many shadow bank activities became smaller and pose less risks, as regulatory gaps closed.
- Impact of reforms shows need to finish Dodd-Frank rules to ensure practices do not reoccur.
- Put new tools in place to ensure that failure of larger firm will no longer place system at risk.
- Large banks and designated firms required to create “living wills” as roadmap for resolving.
- Via a bankruptcy, or use new tools for orderly resolution of failed firm, prohibits any bailout.

### Capital, Stress Tests and Derivatives

- Stress tests – have built confidence in banking system without risking of new taxpayer funds.
- First test 2009, within months of results banks raised over \$80bn equity from private sources.
- Stress tests been adopted into US supervision, and norm in the global regulatory community.
- Banks are better capitalized for future shocks, had too low a cushion of quality Tier 1 capital.
- As result of new capital rules and stress tests, Tier 1 capital ratio doubled from 5.6% to 11%
- Fundamental US and international reforms to derivatives market and oversight of firms in it.
- Major swap dealers supervised, and standard swaps traded on SEFs, cleared, data reported.

### SEC Chair on New Enforcement Approach

On Sep. 26, [SEC](#) chairman stated use of aggressive enforcement principles to utilize all available tools.

- Need to be certain that settlements have teeth, and will send a strong message of deterrence.
- When sue company for wrongdoing, consider whether to also require it adopt new measures.
- Use more mandatory undertakings e.g. system failures, new controls, that consultants to test.
- In some cases a penalty and better compliance is not enough, also need public accountability.
- Now require admission by firm if high number of investors harmed, egregious, risk to market.
- When identify the responsible persons, settling only with the company may not be sufficient.
- Will look first at the individual’s conduct and then work out to the entity, not the entity first.
- More cases on sophisticated trading strategies, dark pools and trading platforms, in next year.



### FDIC's Hoenig Calls for Bolder Reforms

On Sep. 17, [FDIC](#) Vice Chairman Thomas Hoenig proposed bolder reforms given systemic weakness.

- Current financial conditions across system are not that different to those in pre-crash period.
- Too big to fail firms still have control of ever-greater proportion of total US financial assets.
- Dodd Frank made no fundamental changes to industry structure or incentive of firm actions.
- Leverage ratio of systemic banks still 25 to 1, for smaller and regional banks below 14 to 1.
- Lower ratio reflects creditors more exposed to loss in failure and thus insist on higher capital.
- Need to rationalize, not consolidate, structure of industry, and narrow the federal safety net.
- Simplifying the structure would also enhance FDIC’s ability to implement resolution power.

## International

### Basel III Monitoring Exercise for Dec. 2012

On Sep. 25, [Basel](#) III monitoring [exercise](#) showed banks €140bn below capital target, as at Dec. 2012

- Total 223 banks in study-101 of them are large internationally active, tier 1 capital over €3bn.
- Average common equity Tier 1 ratio-CET1-of large banks 9.2% vs. Basel III 4.5% minimum.
- Shortfall is €115bn versus CET1 target of 7%, including conservation buffer, SIFI surcharge.
- Gap €82bn smaller than Jun. 2012, and lower than 2012 large banks' total profits of €419bn.
- Smaller banks would require additional €25bn to reach CET1 of 7% vs. 2012 profit of €29bn.
- Weighted average LCR 119% for large banks, for smaller banks the average LCR was 126%.
- 68% of banks had LCR over 100% minimum, 90% meet LCR using 60% transitional levels.
- [EBA](#) also issued [result](#) of EU bank monitoring showing €2bn shortfall at 4.5%, €70bn at 7%.

### IOSCO Review Systemic Risk Identification

On Sep. 30, [IOSCO](#) issued thematic [review](#) on the implementation of new [principles](#) to identify risk.

- Requires regulators to have process to monitor and manage systemic risk under their mandate.
- And to have a process to review the perimeter of regulation regularly, for unregulated risks.
- Found need for more formal process to assess regulatory perimeter, responsibility, structures.
- Develop analysis of, reliable and quality data, engage with market for understanding of risks.
- Revise culture and resourcing for these areas, better cooperation intra-country and globally.

### Canada, and Two Provinces Unify Regulator

On Sep. 19, [Canada](#), British [Columbia](#) and [Ontario](#) agreed to establish a co-operative market regulator.

- Have single regulator, rulebook, independence and be self-funded through a single set of fees.
- Replaces [Ontario](#) Securities Commission-OSC and [British](#) Columbia Securities Commission.
- Head office in Toronto and national executive, keep parts of existing system that work well.
- Invites all Canadian provinces to participate in proposed system, aim is one federal regulator.
- Canada is only major country without national regulator, reforms may raise global influence.
- To enhance Canada's financial sector, support efficient capital market, manage systemic risk.

### HK Policy for Listing Overseas Companies

On Sep. 27, [HK](#) SFC and [SEHK](#) issued joint policy statement for listing of overseas companies in HK.

- Consolidates all issues regarding the listing of overseas companies within a single document.
- Guidance on acceptable overseas accounting and auditing standards for entity disclosures.
- Operational issues for foreign entity listing in HK, e.g. cross-border clearing and settlement.
- Approach to vetting suitability for companies which are applying for HK secondary listings.
- Waivers SEHK give overseas companies with a listing, automatic if seek a secondary listing.
- Expands regulatory co-operation arrangements in place with acceptable overseas jurisdictions.
- SEHK aims to publish country guide for each of the acceptable jurisdiction by end of 2013.
- Wider range of jurisdictions listing in HK, has now approved 21 [jurisdictions](#) re incorporation



### APRA Reporting for Conglomerate Groups

On Sep. 26 [APRA](#) issued [standards](#) for [reporting](#) of prudential supervision by conglomerate [groups](#).

- Conglomerate/level 3 groups comprise APRA-regulated firms active in more than one sector.
- Data collected so APRA may ensure that level 3 groups capitalized under prudential standard.
- Capital rules proposed May 2013, for material risks to a level 3 group's APRA beneficiaries.
- Level 3 groups should comply with standards under the Level 3 framework by Jan. 1, 2015.
- Collection of data will commence on the first reporting period ending after January 1 2015.
- Publish final level 3 prudential standard in last quarter 2013, final reporting standard in 2014.
- Collect reporting forms on quarterly basis, not proposing to require their public disclosure.

## EC Measures for Benchmark Supervision

On Sep. 18, [EC](#) proposed [measures](#) for [confidence](#) in [benchmarks](#) after LIBOR, EURIBOR scandals.

- All benchmark providers to be authorized and supervised, standards consistent with IOSCO.
- Covers variety of benchmarks, not just interest rates, but commodity or references in markets.
- Improves governance, control of benchmarks, require authorization and ongoing supervision.
- Administrators must avoid conflicts of interest where possible, and manage these if can not.
- Better quality of input data and methodologies by administrator, reflect actual market reality.
- Contributors provide adequate data, subject to controls in an administrator's code of conduct.
- Protection for consumers and investors, banks to assess suitability where used, e.g. mortgage.

## Council on Central Securities Depositories

On Sep. 26, [EU](#) Council issued [position](#) on *Central securities depositories* (CSD) [rules](#) for settlement.

- Aim is safety in securities settlement systems, open market for central securities depositories.
- Presidency to negotiate with EU Parliament to seek to adopt regulations at their first reading.
- Needs to be in place for the *Target2* securities initiative to begin operating per plan in 2015.
- All transferable securities in book-entry form on CSDs, before trading on regulated venues.
- Harmonizes settlement periods and practice to address risks of CSD operations and services.
- Uniform licensing requirements for CSDs and EU passport to remove any barriers to access.

## Parliament Question ECB on Banking Union

On Sep. 23, [EU](#) Parliament questioned single bank resolution system to [ECB](#) President Mario Draghi

- Stressed need to set up single bank resolution authority with funding, single [EBA](#) rulebook.
- Draghi said resolution mechanism in place by time that bank balance sheet [check](#) completed.
- Until resolution fund fully financed, it should be able to borrow from other sources, nations.
- Priority for last quarter of 2013 is to complete Single Resolution Authority, Resolution Fund.
- ECB supports timeline for establishing Single Resolution Mechanism (SRM) by Jan. 1 2015.
- ECB will strictly separate monetary policy and banking supervision, as per SSM Regulations.

## Consumer Banking in Single Market Review

On Sep. 20, [EC](#) sought consumer [input](#) on [ideas](#) for improved confidence in [banks](#) in the single [market](#).

- To discuss banking sector with consumers on Oct 7-9 as a part of EC's *single market month*.
- Topics include mortgages, consumer access to deposit accounts, a banking union and others.
- Whether existing proposals adequate to restore consumer confidence, or need other measures.
- EC made proposals on information customers receive on price and availability of mortgages.

## EIOPA Insurance Investments in MiFID II

On Sep. 20, [EIOPA](#) wrote to the EC on consumer protection in insurance investment product market.

- Seeks EU rules on conflicts, assess suitability and on sales of insurance investment products.
- *Insurance mediation directive* (IMD), should have provisions similar to those in MiFID II.
- Concerned of impact on protection if sales of insurance investment product added to MiFID.
- Propose MiFID II have amendments to IMD1, include provisions on sale of insurance PRIPs.



## EIOPA Solvency II Preparation Guidelines

On Sep. 27, [EIOPA](#) issued final [guidelines](#) for the preparation of Solvency II by insurers, supervisors.

- Focus is key aspect of risk, [governance](#), model [approval](#), own risk [assessment](#), and [reporting](#).
- Ensure insurance companies and groups take active steps towards implementing framework.
- So that when Solvency II becomes applicable, the requirements can be fully complied with.
- Foresee a gradual application by “phasing-in” provisions, state expectations for 2014, 2015.
- Issue guideline in all EU languages on Oct. 31 2013 with the application date of Jan 1. 2014.

## Treasury CRD IV Country-Level Reporting

On Sep. 20, [Treasury](#) proposed [rules](#) to implement *CRD4* country-by-country reporting requirements.

- Aims for transparency on firm activities, such as profit made, taxes paid, subsidies received.
- Mandatory reporting key element of corporate responsibility of firm to stakeholders, society.

### Country Reporting Requirements

- Firms to disclose activity, location, number of employees, turnover by country, in July 2014.
- Systemic firms to disclose to EC pre-tax profit or loss, taxes paid, subsidies at a country level.
- Subject to EC assessment, all firms required to disclose profits and tax by country, from 2015.
- Defines firms in scope, consolidation method, firm *establishment* in UK, reporting and audit.
- 1,709 of 1,922 UK investment firms are small as assets under £100mn, consults on approach.
- Whether applies to all firms with UK presence either UK head office, subsidiary or branches.
- Asks if Government should provide a template for disclosure, or leave to discretion of firms.

## FCA AIFMD Applications to be Depositories

On Sep. 24, [FCA](#) issued guidance on firms seeking to act as depositary or trustee to hedge fund (AIF).

- Depositary must not delegate function to third party, except for certain safekeeping of assets.
- Third party is any party not part of same legal entity as applicant for any depositary function.
- No limits if delegates supporting role linked to depositary tasks, e.g. administrative functions.
- FCA to not issue administrative functions list, will need resources to do depositary functions.
- Core functions, cash monitoring, safekeeping if is not delegated to third party, and oversight.
- EEA firm with branch in EU, not carrying out delegation when providing permitted services.

## PRA Deputy, BoE Executive Policy Leaves

On Sep. 20, [Bank](#) of England stated Paul [Sharma](#) Executive Director, PRA Deputy Head, will leave.

- Currently Deputy Head of PRA and Executive Director at the Bank of England for Policy.
- Prior to PRA, had been Director of Prudential Policy at predecessor FSA, which joined 1999.
- Takes senior role at consulting firm Alvarez & Marsal, as co-head of their regulatory practice.

## FCA Retail Advice Inducement and Conflicts

On Sep. 18, [FCA](#) proposed [guidance](#) to [supervising](#) retail advice inducements and conflicts of interest.

- Published review on whether firms continue to be influenced by inducements from providers.
- *Retail distribution review* (RDR) aimed to end adviser remuneration distorting client advice.
- Found evidence of life insurance and advisory firms undermining the objectives of the RDR.
- Some payments by insurers to advisory firms were linked to securing level of product sales.
- Alongside review also issued guidance of why payments cause conflicts, listed best practices.
- Covers the service and distribution agreements with providers for retail investment products.
- How to deal with conflicts if providers pay for IT, training, conferences, hospitality, research.



## UK Appeal CRD Bank Bonus Caps with ECJ

On Sep. 26, [Treasury](#) issued legal challenge to EU CRD rules that cap bankers' bonuses vs. fixed pay.

- Challenge with EU Court of Justice, UK fears rules will undermine responsibility in banking.
- UK reforms have aligned banker pay with risk and performance, lowered signing-on bonuses.
- City bonuses in 2012/13 were 60% lower than 2011/12, at £1.6bn, 85% lower than 2007/08.
- No impact assessment or evidence before rule issued, will undermine progress already made.
- Regulation of pay in this manner goes beyond what is permitted in EU's single market treaty.
- UK believes it will not improve bank stability, cause rise in fixed salary with opposite effect.
- Pending verdict, UK will still implement CRD pay rules, in line with obligations per EU law.

## AML & Enforcement

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### FinCEN Accounts Held With Mexican Banks

On Sep. 27, [FinCEN](#) issued guidance on [restricted](#) Mexican bank activity in US currency transactions.

- FinCEN in 2012 issued [guidance](#) re patterns of activity that appear to be related to restriction.
- US banks filed SARs termed 'MX Restriction' to indicate connection to Mexican regulations.
- Mexican CNBV on Sep. 27 issued [advisory](#) on fall in currency to \$990mn, from \$2.7bn 2009.
- CNBV also issued best [practices](#) for Mexican banks, including interactions with US banks.
- US banks to also consider [practice](#) if establish or maintain the accounts with Mexican banks.

### US Treasury FATCA on Tax Evasion, Myths

On Sep. 20, [Treasury](#) issued a statement to counter myths raised on FATCA implementation, impact.

- FATCA has become global standard in aim to curtail offshore tax evasion, adopted by G-20.
- Use of *Intergovernmental Agreements* (IGAs) make flows two-way, and easier to administer.
- Does not force banks to violate privacy law as use of IGAs respects law of other jurisdiction.
- US issued six-month extension to July 1, 2014 for FFIs to register and install new processes.

### CFTC, UK FCA Fine ICAP \$87mn re LIBOR

On Sep. 25, [CFTC](#) fined [ICAP](#) Europe \$65mn and UK [FCA](#) \$22mn [fine](#) re [manipulating](#) Yen [LIBOR](#).

- Charged ICAP Europe subsidiary of ICAP plc in UK, first for interdealer broker on LIBOR.
- ICAP brokers disseminated false, misleading Yen borrowing rates to participants in market.
- Supplied banks with market insight, projection of likely LIBOR fixings, claim unbiased view.
- ICAP brokers sent group email to panel banks that suggested LIBOR based on client request.
- Key client was senior Yen derivative trader at UBS Japan Co., Ltd and later at another bank.

### JPMorgan Fined \$920mn for London Whale

On Sep. 19, [OCC](#), [Fed](#), [SEC](#), UK [FCA](#) issued fines of \$920mn to [JPMorgan](#) re *London Whale* trading.

- Fines split [OCC](#) \$300mn, [Fed](#) \$200mn, [SEC](#) \$200mn and UK [FCA](#) \$220mn (or £137.6mn).
- Found unsafe, unsound practice on derivatives trades by bank's *chief investment office* (CIO).
- Controls failed to identify credit derivatives by CIO that resulted in over \$6bn losses to bank.
- Management did not respond to warnings of problems, or notify board, audit, or regulators.
- Weak process for risk management, control of pricing, developing models, and internal audit.
- Follows [OCC](#), [Fed](#) Jan. 2013 orders issued to JPMorgan on derivatives trading risk controls.
- OCC said bank management must ensure open [communication](#) with supervisors for their role.
- SEC announced that bank had agreed to admit [wrongdoing](#) in settlement, part of new [policy](#).
- Required bank to admit the facts in the SEC's order – and acknowledge that it broke the law.
- SEC charged re misstating results, lack control to stop traders overvaluing, concealing losses.
- In Aug, [DoJ](#) and [SEC](#) charged two ex-traders. Martin-Artajo, Julien Grout re concealing [loss](#)

### OCC, CFPB Fine JPMorgan \$80mn for Sales

On Sep. 19, [OCC/CFPB](#) fined [JPMorgan](#) \$80mn re sales of identity theft, credit monitoring [products](#).

- CFPB ordered refund of \$309mn for deceptive practices of billing for products not received.
- For products marketed as credit-monitor tool, which was added on to features of credit card.
- Many newly enrolled customers were charged, even if they had not yet received any services.
- OCC fined firm \$60mn, ordered restitution to consumers for sale of identity-theft protection.
- Consumers enrolled in, and paid for identity-theft protection products, they did not receive.



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