Quarterly Conversations with the Federal Reserve Bank of St. Louis
Live from First Capital Bank of Kentucky
Louisville, Kentucky

May 28, 2014
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Agenda

• Bank Secrecy Act (BSA)/Anti-Money Laundering (AML)  
  Jeff Bock

• Interest Rate Risk Management  
  Eric Reckamp

• Q&A  
  Julie Stackhouse and presenters
Bank Secrecy Act/Anti-Money Laundering
Presented by Jeff Bock
Supervisory Examiner, FRB St. Louis
BSA/AML

• Agenda
  – Common examination findings and examiner observations
    • BSA/AML risk monitoring
    • Independent review
  – Current “hot topics”
Common Examination Findings and Examiner Observations

• BSA/AML risk monitoring:
  – The BSA/AML program has not kept pace with the institution’s risk profile.
  – Risk assessment is a static, point-in-time process.
  – BSA/AML compliance personnel are not consulted prior to entering new products or geographies.
  – Risks associated with certain customers and products are not always understood.
Independent review:

- Certain reporting lines have brought the independence of internal audit into question.
- Audits/independent reviews are not following up on violations and deficiencies noted in previous audits and regulatory examinations.
- The scopes of audits/independent reviews are not including all aspects of the BSA/AML compliance programs.
Common Examination Findings and Examiner Observations (continued)

• Independent review (continued):
  – Independent reviews are not conducting sufficient levels of transaction testing.
  – No assessment of the integrity/accuracy of management information systems (MIS) used in the BSA compliance program, e.g., large currency transaction reports and currency aggregation reports.
Current BSA/AML Hot Topics

- Virtual currency/Bitcoin
- State legalization of marijuana
Interest Rate Risk Management
Presented by Eric Reckamp
Supervisory Examiner, FRB St. Louis
Interest Rate Risk (IRR) Management

- Agenda
  - Examiner perspective
    - Common examination findings and examiner observations
    - IRR Management enhancement opportunities
  - Examiner expectations
  - Available guidance
    - SR Letters
Common Examination Findings and Examiner Observations

• Management should take a more active role in IRR model assumption development.
• IRR management practices should reflect the risk profile of the organization.
  – Increased risk profiles warrant enhanced risk management practices
• Implementation of “nonparallel” stress scenarios.
• Establishment of risk parameters.
• Back-testing of model results.
• Challenges in forecasting future interest rate sensitivities.
Enhancement Opportunities

• Management’s active participation in IRR model assumption development is highly valuable to the asset liability management (ALM) process regardless of the size of the institution.

• Sensitivity testing of “key assumptions.”

• Inclusion of nonparallel scenarios provides broader view of potential exposures.

• Ensure material balance sheet optionality is identified and appropriately measured.
Examiner Expectations

• Risk management practices should be commensurate with the size and complexity of the organization and reflective of the principles outlined in the Interagency Guidance on IRR Management (SR Letter 10-1).

• IRR management practices should be tailored to the individual organization and its inherent risk.

• IRR management practices do not need to be highly complex to be effective. However, management should demonstrate a sound understanding of the bank’s exposures and risk management practices utilized.

• Management should demonstrate an effective ability to manage IRR through balance sheet composition.
IRR Management Guidance

• **Supervision and Regulation Letters**
  – SR Letter 10-1
  – SR Letter 12-2
Questions?

You have three ways to ask a question

1. By webinar: Type your question into the chat box
2. By phone: Press *1 to ask a live question
3. By email: rapid@stls.frb.org
Thank you!