Key Areas Of Anticipated Regulatory Scrutiny

regulatory digital banking AML

Summary: For his first seven months, President Biden has focused on the economic and health effects of the pandemic. Now that the Infrastructure Bill is a step closer to being passed, he may turn his sights towards banking regulations. Community financial institutions will want to be ready. Here are four key areas that are expected to receive more regulatory scrutiny in the next few months.

Ever wonder how much pasta the average Italian eats every year? More than 51 lbs. according to Statista and 63% eat pasta almost every day or daily. Compare that to 15.5 lbs. per year for North Americans on average. Italians sure do load up their plates with plenty of pasta!

President Biden has had a full plate lately, with the pandemic. Yet, as some normalcy starts to return, the Biden Administration will likely get around to some delayed agenda items. That means community financial institutions (CFIs) need to be prepared for a greater focus on banking regulations.

These four banking areas are anticipated to have greater scrutiny, so be sure you are ready.

1. **Anti-money laundering (AML).** This area continues to be one of highest scrutiny. The UN estimates that around $800B to $2T is money laundered each year, globally, representing 2-5% of global GDP. At the end of June, FinCEN released its first government-wide priorities, which will be reviewed at least every 4Ys. These priorities include corruption, cybercrime, fraud. transnational criminal organizations, and more. This list is published to help organizations focus their compliance resources. FinCEN is expected to recommend new regulations in the coming months in accordance with these areas. So, it is prudent for CFIs to examine risk management and AML procedures, in preparation for these anticipated regulations. Remember to continue supporting the five pillars of AML compliance programs: designation of an AML officer; internal policies, procedures & controls; employee training; independent testing, and customer due diligence.
2. **Digital transformation.** Digital payments, online lending platforms, financial applications of artificial intelligence (AI), digital currencies – the digital revolution in finance keeps accelerating. As CFIs struggle to keep up, often through fintech mergers and partnerships, questions arise about new risks that may be creeping in. Digital Regulatory Reporting (DRR) is being used by regulators globally, including FINRA, the SEC, and the New York State Department of Financial Services. FINRA and the SEC are using AI to track market wrongdoing and more efficiently investigate issues. FINRA is also working on a "*taxonomy of its rules to enable electronic tagging, allowing computers to read requirements and track updates.*" These regulatory initiatives will hopefully help CFIs to effectively stay up-to-date on all regulatory guidance for digital banking. But, due diligence and ongoing risk management with fintech partners are still crucial to stay compliant.
3. **Governance.** This area is always one of great focus for regulators, since it is essential to keep financial institutions safe and sound. Financial institutions of all sizes can expect to see regulators more determined to hold senior management and boards accountable for all actions of the institution, and also to monitor whether boards are holding their own senior management teams accountable. Yet, it won't stop at the top. Regulators will be checking business lines too. Double-check your governance procedures, risk management practices, and audit controls to make sure you are covered here.

4. **Operational resilience.** There is meaningful regulatory policy happening here at the national level. At the end of last year, the FRB, OCC, and FDIC issued an interagency paper addressing it, Sound Practices to Strengthen Operational Resilience. This comes on the heels of the unprecedented pandemic to give all, but especially the most complex, FIs important ways to manage their institutions through uncertainty. It also includes "*common industry standards that address operational risk management, business continuity management, third-party risk management, cybersecurity risk management, and recovery and resolution planning.*" Look at all your business lines carefully to ensure you have the appropriate practices, controls, and accountability for institution-wide operational resilience before your next exam.

The consensus among banking experts seems to be that, in general, President Biden will bring about more scrutiny of financial institutions by regulators. How much more remains to be seen. But, reviewing these top four areas will help prepare you for whatever comes during your next regulatory exam.

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Rates As Of: 08/20/2021 09:05AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.06	0.00	-0.03
6M	0.05	0.00	-0.04
1Y	0.07	0.00	-0.04
2Y	0.23	0.05	0.11
5Y	0.79	0.09	0.42
10Y	1.25	0.02	0.33
30Y	1.87	-0.02	0.23

FF Market	FF Disc	IORB
0.09	0.25	0.15
SOFR	**Prime**	**OBFR**
0.05	3.25	0.08