



Comptroller of the Currency
Administrator of National Banks

OCC Asset Management Update

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- AM Industry Data
- OCC Concerns in the AM World
- OCC Guidance



AM Industry Data



Growth in Fiduciary & Custody Assets All Banks (2003 – 2006)

The level of fiduciary assets in the commercial banking system has increased by \$5.4 trillion or 37% from 12/03 to 12/06. The level of custody assets has increased by \$11.5 trillion or 32% during the same three year time period.

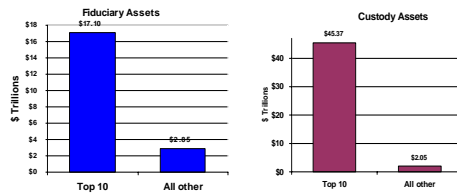


Source: Call Report. Includes all national and state-chartered commercial banks and national trust banks.

Concentration of Fiduciary & Custody Assets (4Q06)

While fiduciary and custody assets are highly concentrated in a few large banking groups, fiduciary activities are present in over 1,670 community and midsize banks as well as in all uninsured limited-purpose trust banks.

- The top 10 commercial banking groups reported a combined \$17.1 trillion or 86% of all fiduciary assets and a combined \$47.42 trillion or 96% of all custody assets.



Source: Call Report. Includes all national and state-chartered commercial banks and national trust banks.

Banks Exercising Fiduciary Powers All Banks December 31, 2006

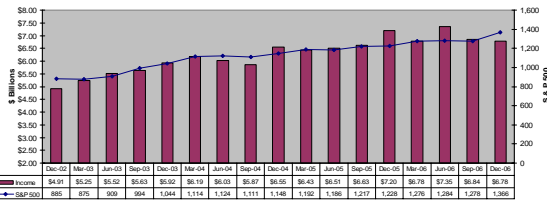
Account Type	Total Assets	# of Accounts	Average Size
Personal Trust & Agency	\$1.1 trillion	6%	785,000
Investment Management	\$1.5 trillion	8%	2,054,000
Retirement			
DB	\$6.2 trillion	31%	238,000
DC	\$2.2 trillion	11%	707,000
Other	\$2.4 trillion	12%	14,343,000
Corporate Trust	\$3.0 trillion	13%	464,000
Other	\$3.6 trillion	15%	245,000
Total Fiduciary Assets	\$20.0 trillion	100%	18,837,000
Custody/Safekeeping	\$47.4 trillion		5,259,000
			\$9,018,000

Source: Call Report. Includes all national and state-chartered commercial banks and national trust banks.

Fiduciary Revenue (All Banks)

Banks reported a combined \$6.78 billion in fiduciary revenue in 4Q06 compared to \$7.20 billion reported in 4Q05.

- Historically, there has been a strong correlation between the rise in the S&P 500 and an increase in fiduciary revenue. Looking at 2006 data, unclear whether that correlation is still as strong.



Source: Call Report RC-1
S&P 500 data is the quarter-end 90-day moving average

OCC Concerns in the Asset Management World



Asset Management Risks

- Reputation
 - Conflicts
 - Litigation
 - Investments
 - Collective investment funds
- Strategic
 - New product due diligence
- Compliance
 - Part 9; ERISA; Securities laws
- AM Operations/Transactions

Reputation Risks - Conflicts

- Process to oversee and manage conflicts
- Open architecture vs. proprietary products (mutual funds, ETFs, unregistered funds)
 - How is decision made and how are customers notified?
- Bank sale of affiliated RIAs and proprietary fund assets
 - What incentives does the bank receive?
- Fee transparency – Disclosure

Reputation Risk - Conflicts

- Soft Dollars – New guidance from the SEC
- Investment in own bank deposits
- Placing trades through bank or bank affiliate

Reputation Risk - Litigation

- Employee Benefit Plan litigation
 - Fund selection process
 - Reasonable fees
 - Transparency of fees and embedded costs to plan sponsors and plan participants

Reputation Risk - Investments

- Investment Strategies
 - Open Architecture
 - Expanded product offerings – unregistered pooled investments (hedge funds)
- Investment Performance/Market Losses
 - Account Objectives?
 - Institution's strengths/weaknesses

Reputation Risk - Investments

- Collective Investment Funds
 - Movement from proprietary mutual funds to collective investment funds particularly in the Defined Contribution arena
 - Use of financial Intermediaries to secure additional assets for bank CIFs
 - Bank must ensure relationships between parties (plan sponsor/intermediary/bank) are well documented.
 - Bank must ensure intermediary's processes are effective to limit access to CIFs only to eligible EB plan participants. Particularly important if CIFs are made available through NSCC.
 - Bank cannot delegate its fiduciary obligation to operate CIF consistent with CIF plan requirements and 12 CFR 9.18.

Reputation Risk - Investments

- Collective Investment Fund Data
 - Continued growth – in part associated with rise in equity markets
 - CIF assets have grown 71% in the past five years whereas mutual fund assets have only grown 50%.

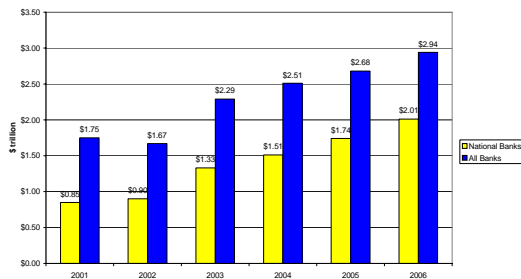
Collective Investment Funds and Common Trust Funds December 31, 2006

	Market Value of Fund Assets - \$ Thousands							
	Aggregate	Equity	International	Bond	Tax Bond	Muni Bond	ST MM	Spec/Other
National Banks	\$2,011,434,525	\$880,025,547	\$389,353,892	\$40,259,482	\$313,089,271	\$6,392,780	\$339,948,436	\$52,275,131
All Banks	\$2,838,625,514	\$1,167,038,513	\$540,381,621	\$236,258,909	\$338,756,218	\$8,121,983	\$535,987,087	\$113,021,198

	Number of Funds							
	Aggregate	Equity	International	Bond	Tax Bond	Muni Bond	ST MM	Spec/Other
National Banks	1,716	564	294	189	368	64	118	138
All Banks	3,652	1,037	952	641	465	101	235	251

Source: Call Report. Includes all national and state-chartered commercial banks and national trust banks.

Collective Investment Funds and Common Trust Funds 2001 - 2006



Source: Call Report. Includes all national and state-chartered commercial banks and national trust banks.

Strategic Risks

- Concentrations
 - Business Lines
 - Breadth vs. Depth
 - Systems integration and resources
- Corporate culture
 - Traditional trust vs. sales cultures
 - Dual employees
- Operating in a multi-regulator environment
 - Domestic
 - Functional supervision
 - Dual employees
 - International

Strategic Risks

- Limited purpose trust companies
 - Concentrated line of business that in turn may be concentrated in a particular niche area (monoline trust companies)
 - Many of these trust banks have limited capital and liquidity
 - Those that are truly independent may lack the ability to ride out a market downturn, the loss of a significant client, or the departure of a well connected employee.
 - Enhance capital and liquidity positions
 - Sell, merge, or liquidate

Compliance Risks

- Part 9
 - Pre and post-acceptance reviews
 - Annual review of discretionary assets
- ERISA
 - Pension Protection Act of 2006 and recent DOL interpretations
- Securities Laws
 - Finalization of Regulation "R" (FRB & SEC Rulemaking) and Bank Regulator follow-up

Compliance Risks

- Title II of the Gramm-Leach-Bliley Act of 1999 (GLBA)
 - repealed the blanket exemption from B/D registration previously applicable to bank securities activities, and
 - replaced it with several specific exceptions for certain securities activities that banks may engage in without being considered a B/D.
- In December 2006, the SEC and the Federal Reserve jointly proposed "Regulation R" which would
 - implement provisions of the GLBA,
 - define terms used in the statutory exceptions, and
 - include certain related exemptions.
- Proposed Reg R implements the statutory exceptions that allow a bank, subject to certain conditions, to continue to conduct securities transactions for its customers as part of the bank's
 - Trust and fiduciary services
 - Safekeeping and custody activities
 - Sweep functions, and
 - Networking arrangements with B/Ds focusing on referral fee payments.

Compliance Risks

Proposed Reg R – OCC Actions

- Comment period just ended March 26, 2007. Next steps -
 - Review comments and finalize rules.
- Banking Agencies need to adopt a recordkeeping rule that covers compliance with Title II of GLBA and Reg R.
- OCC will update policy guidance and examination procedures to reflect the changes. Training will be provided to OCC examiners.
 - Interagency effort underway to revise the Interagency Statement on Retail Sales of Nondeposit Investment Products from 1994.
- SEC issued order in December 2006, that further extends the effective date of GLBA's broker exceptions for banks to July 2, 2007. The compliance date will be at least a year beyond that.

Compliance Risks

Proposed Reg R – Banker Actions

- Review the proposed and final rules to determine their likely impact on your bank's securities activities.
- Develop a strategic initiative to organize and conduct bank securities activities in compliance with the new requirements.
- Establish compliance systems to ensure conformance with those requirements.
- Implement training for bank employees.
- Implement effective monitoring systems to ensure compliance including an effective internal audit program.
- Note, the stakes are high...if not in compliance, bank could be operating as an unregistered securities broker in violation of securities laws.

Compliance Risks

- Broader issues:
 - Structure, roles and responsibilities of risk managers
 - Lack of growth of risk management with growth of business lines
 - Complex business products and growth have been a big challenge for risk managers.
 - Expertise of risk managers to deal with new products and growth is lagging at some banks.
- Policies and Procedures
- BSA – enterprise-wide awareness
- Privacy issues

AM Operations/Transaction Risk

- Separation of Duties
 - Employees handling too many steps in operational functions
 - Dual Controls
- Corporate Actions
- Reconcilements
 - Standards
 - Tracking
 - Management Reporting

AM Operations/Transaction Risk

- Audit
 - Scope. Too narrowly focused? Assessing control group activities?
 - Competency - fewer auditors with asset management expertise
 - Limitations
 - Cuts in audit scope due to fewer auditors, lack of expertise and dependence on compliance, risk management and self-testing.
- Vendor Management
 - Outsourcing
 - Investments; Operations; Third Party Recordkeepers
 - Offshore issues
 - Reconcilements
 - Financial Reporting
 - Privacy

OCC Guidance

- Located at www.occ.gov



OCC Asset Management Handbooks & Guidance

- Conflicts of Interest – June 2000
- Asset Management – Dec. 2000
- Investment Management – Aug. 2001
- Custody & Securities Lending – Jan. 2002
- Personal Fiduciary Services – Aug. 2002
- Collective Investment Funds – Oct. 2005

OCC Safety & Soundness Handbooks & Guidance

- Community Bank Supervision – July 2003
- FFIEC BSA/AML Exam Manual – June 2005
- Internal and External Audits – April 2003
- Large Bank Supervision – May 2001
- Risk Management of New, Expanded, or Modified Bank Products and Services (OCC Bull. 2004-20) – May 2004
- Third Party Relationships (OCC Bull. 2001-47) – November 2001



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