



Presentation to:



April 19, 2016



Overview of TBS

- Privately held technology and financial services firm focused on the needs of banks and financial institutions
- Provides cash management products to broker-dealers, banks, advisors and trust companies
- Founded in 2004 by seasoned professionals with unparalleled knowledge and experience in cash management, operations, technology, investments, credit research and finance
- Committed to developing the next generation of innovative products for our clients

12CFR-Part 237: Deposit assessment for small banks

Overview

- Changes in brokered deposit regulation trigger limits by changing the compliance denominator to total assets for under \$10B banks.
- Creates exemptions for counting reciprocal brokered deposits as part of FDIC deposit insurance assessments for certain “safe and sound” small depository institutions.

Impact

- Eases deposit insurance costs for an estimated 2,500 eligible small banks.
- Further eases costs for 1,100 small banks with RiskCat I safety and soundness profiles.
- Creates an incentive to consider new reciprocal products for other liability classes.

Unknowns

- Creates a potential “cliff risk” for smaller institutions that may see preferred insurance rates eliminated due to unforeseen systemic externalities.
- Regulator appetite for new vendors to enter service sector unknown.

12CFR-Part 370: Recordkeeping for timely deposit insurance determination

Overview

- Increases recordkeeping requirements for the largest Insured Depository Institutions (IDI's) to guard against a systemic impact due to a single failure.
- Regulators' stated objective is for recordkeeping to be current, accurate and available to meet 72 hour timeliness payout objectives.

Impact

- Raises recordkeeping requirement to a significantly higher standard when compared to Rule 12 CFR Part 360.9.
- Requires account balance transparency with linkage to tax ID.
- Creates the need for a new processing and support infrastructure(s).

Unknowns

- Raises issues of privacy vs competitiveness between counterparties.
- Security risks surrounding PII

12 CFR Part 370: Recordkeeping for Timely Deposit Insurance Determination

■ Rule

- ❑ Increases recordkeeping requirements for the largest Insured Deposit Institutions (IDI's) to guard against economic collapse should one of these IDI's fail.

■ TBS Position

- ❑ We fully agree with the systemic importance of the regulator's intent.
- ❑ ***We believe it is technically feasible to perform this recordkeeping task for the IDI's covered by the proposed rule.***
- ❑ We believe that a technical solution can be extended to improve recordkeeping for Part 360.9 IDI's in the future.
- ❑ We are sensitive to privacy and competitive issues that must be addressed to achieve a successful implementation of the rule.
- ❑ We are happy to share our observations and possible solutions as we prepare our comment to the NPRM.

12 CFR Part 370: Counterparty concerns

- Brokerage firms and banks compete fiercely for the best customers. This impacts core business profitability and viability.
- The transparency necessary to facilitate timely determination of pass-thru insurance potentially enables the parties to “data mine” records.
- Obfuscation of recordkeeping details in the past is as much driven by competitive concerns as privacy concerns.
- ***TBS recordkeeping has maintained provisions to reconcile pass-thru account balances with TIN records since inception.***

12 CFR Part 370: Regulatory Solution Options

Option A: Bifurcated Record Keeping Reconcilable by Proxy Identifiers; Recombined on Failure	Option B: Bifurcated Record Keeping Combined by a Secure Custodial Facility	Option C: Transparent Record Keeping Constrained by Legal or Contractual Prohibitions on Business Data Mining
<ul style="list-style-type: none"> • Most industry “competition concerns” sensitive approach. • Multiple counterparties means it is slowest form of recordkeeping to reconcile. • Cannot be done in isolation following failure. • Extreme challenge to guarantee timeliness sufficient to prevent economic disruption. 	<ul style="list-style-type: none"> • Requires establishment of a trusted custodian. • Encrypted data can reside within IDI’s IT so failure firewall can be closed. • Regulator is provided with the unlock key to decrypt. • Some form of verification strategy needs to be created for going concern compliance testing. 	<ul style="list-style-type: none"> • Requires secure pass-thru records reconciliation and transmission facility. • IDI will see the information necessary to fill in the 360.9 file format(s). • Eases timeliness upon failure and going concern testing. • Complicates legal/contractual concerns: brokerages and IDI’s operate parallel customer acquisition processes.



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