

# REGULATORY UPDATE 2017 COMPLIANCE SYMPOSIUM

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**AuditLink**

# AGENDA

- 2016/17 Significant Regulatory Changes
- 2016/17 Significant Letters to Credit Unions
- Supervisory Priorities for 2017
- Cybersecurity Update
- Vendor Management
- What's Hot
- Top 10

# NCUA REGULATIONS

Regulation Part /Federal Register Notice	Description	Status	Comments
<a href="#"><u>12 CFR Part 747</u></a>	Civil Monetary Penalty Inflation Adjustment	Final Action	<a href="#"><u>Comments</u></a>
<a href="#"><u>12 CFR Part 792</u></a>	Revisions to the Freedom of Information Act Regulation	Final Action	<a href="#"><u>Comments</u></a>
<a href="#"><u>12 CFR Part 701 and 721</u></a>	Federal Credit Union Occupancy, Planning and Disposal of Acquired and Abandoned Premises, Incidental Powers	Final Action	N/A
<a href="#"><u>12 CFR Part 705</u></a>	Community Development Revolving Loan Fund	Final Action	N/A
<a href="#"><u>12 CFR Part 701</u></a>	Chartering and Field of Membership Manual	Final Action	N/A
<a href="#"><u>12 CFR Part 747</u></a>	Civil Monetary Penalty Inflation Adjustment	Final Action	N/A
<a href="#"><u>12 CFR Part 703</u></a>	Investment and Deposit Activities - Bank Notes	Final Action	N/A
<a href="#"><u>12 CFR Part 723</u></a>	Member Business Loans; Commercial Lending	Final Action	N/A
<a href="#"><u>12 CFR Part 790</u></a>	Technical Amendments	Final Action	N/A
<a href="#"><u>12 CFR Part 745</u></a>	Pass-Through Share Insurance for Interest on Lawyers Trust Accounts	Final Action	N/A
<a href="#"><u>12 CFR Parts 700, 701, 702, 703, 713, 723, and 747</u></a>	Risk-Based Capital	Final Action	N/A

# 2016

## NCUA LETTERS TO CREDIT UNIONS

Number	Subject	Date	Status
<a href="#"><u>16-CU-13</u></a>	Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses	December 2016	Active
<a href="#"><u>16-CU-12</u></a>	Risk-Based Examination Scheduling Policy	December 2016	Active
<a href="#"><u>16-CU-11</u></a>	Member Business Loans Guidance Added to Examiner’s Guide	November 2016	Active
<a href="#"><u>16-CU-10</u></a>	Projected 2017 Share Insurance Fund Premium and Stabilization Fund Assessment Range	November 2016	Active
<a href="#"><u>16-CU-09</u></a>	Real Estate Appraisal Waiver for Credit Unions Affected by Severe Storms and Flooding in Louisiana	October 2016	Active
<a href="#"><u>16-CU-08</u></a>	Revised Interest Rate Risk Supervision	October 2016	Active
<a href="#"><u>16-CU-07</u></a>	Military Lending Act Examination Approach	October 2016	Active
<a href="#"><u>16-CU-06</u></a>	Preparing for Same-Day Automated Clearing House (ACH) Payments	September 2016	Active
<a href="#"><u>16-CU-05</u></a>	Voluntary diversity and inclusion policies and practices checklist	September 2016	Active
<a href="#"><u>16-CU-04</u></a>	Member Account Deposit Reconciliation Practices	May 2016	Active
<a href="#"><u>16-CU-03</u></a>	Regulatory Relief on Annual Privacy Notices	January 2016	Active
<a href="#"><u>16-CU-02</u></a>	Online CUSO Registry to Open for Registrations in February	January 2016	Active
<a href="#"><u>16-CU-01</u></a>	Supervisory Priorities for 2016	January 2016	Active

# 2017 NCUA LETTERS TO CREDIT UNIONS

Number	Subject	Date	Status
<a href="#"><u>17-CU-03</u></a>	Prepaid Rule Implementation Delay	April 2017	Active
<a href="#"><u>17-CU-02</u></a>	Risk-Focused Examinations and Compliance Risk	March 2017	Active
<a href="#"><u>17-CU-01</u></a>	Supervisory Priorities for 2017	January 2017	Active

# NCUA SUPERVISORY PRIORITIES

## Supervisory Priorities for 2017

NATIONAL CREDIT UNION ADMINISTRATION  
1775 Duke Street, Alexandria, VA 22314

DATE:	January 2017	LETTER No.:	17-CU-01
TO:	Federally Insured Credit Unions		
SUBJ:	Supervisory Priorities for 2017		

Dear Board of Directors and Chief Executive Officer:

This letter is intended to assist you in preparing for your next NCUA examination. NCUA field staff will continue to use the streamlined small credit union exam program procedures for credit unions with assets up to \$50 million and CAMEL ratings of 1, 2, or 3. For all other credit unions, field staff will conduct risk-focused examinations, which concentrate on the areas of highest risk, new products and services, and compliance with federal regulations. In 2017, NCUA is implementing an extended exam cycle, which is discussed in more detail in NCUA Letter to Credit Unions 16-CU-12, [Risk Based Examination Policy](#).

NCUA's primary areas of supervisory focus in 2017 are described below.

# CYBER SECURITY



# FFIEC ON CYBER SECURITY

## FFIEC Releases Cybersecurity Assessment Observations, Recommends Participation in Financial Services Information Sharing and Analysis Center

The Federal Financial Institutions Examination Council (FFIEC), on behalf of its members, today released observations from the recent cybersecurity assessment and recommended regulated financial institutions participate in the Financial Services Information Sharing and Analysis Center (FS-ISAC).

During the summer of 2014, FFIEC members piloted a cybersecurity assessment at more than 500 community institutions to evaluate the institutions' preparedness to mitigate cybersecurity risks. The assessment supplemented regularly scheduled exams and built upon key supervisory expectations contained within existing FFIEC information technology handbooks and other regulatory guidance. The "FFIEC Cybersecurity Assessment General Observations," released today, provides themes from the assessment and suggests questions that chief executive officers and boards of directors may consider when assessing their institutions' cybersecurity preparedness.

The FFIEC also recommended that financial institutions of all sizes participate in the FS-ISAC as part of their process to identify, respond to, and mitigate cybersecurity threats and vulnerabilities. The FS-ISAC is a non-profit, information-sharing forum established by financial services industry participants to facilitate the public and private sectors' sharing of physical and cybersecurity threat and vulnerability information. Rapidly evolving cybersecurity risks reinforce the need for all institutions and their critical technology service providers to have appropriate methods for obtaining, monitoring, sharing, and responding to threat and vulnerability information. **Financial institution management is expected to monitor and maintain sufficient awareness of cybersecurity threats and vulnerability information so that they may evaluate risk and respond accordingly.**

### Related Links:

- [FFIEC Cybersecurity Assessment General Observations \(PDF\)](#)
- [Cybersecurity Threat and Vulnerability Monitoring and Sharing Statement \(PDF\)](#)



# FFIEC MORE ON CYBER SECURITY

- October 6, 2016 - Press Release: [The Federal Financial Institutions Examination Council \(FFIEC\) Announces Webinars in Observance of Cybersecurity Awareness Month](#)
- June 7, 2016 - Press Release: [The Federal Financial Institutions Examination Council \(FFIEC\), on behalf of its members, is issuing this statement, in light of recent cyber attacks, to remind financial institutions of the need to actively manage the risks associated with interbank messaging and wholesale payment networks.](#)
- November 3, 2015 - Press Release: [The Federal Financial Institutions Examination Council \(FFIEC\) today issued a statement alerting financial institutions to the increasing frequency and severity of cyber attacks involving extortion.](#)
- June 30, 2015 - Press Release: [The FFIEC today released a Cybersecurity Assessment Tool to help institutions identify their risks and assess their cybersecurity preparedness.](#)
- March 30, 2015 - Press Release: [The FFIEC released information regarding the release of two statements about ways that financial institutions can identify and mitigate cyber attacks that compromise user credentials or use destructive software, known as malware.](#)
- March 17, 2015 - Press Release: [The Federal Financial Institutions Examination Council \(FFIEC\) today provided an overview of its cybersecurity priorities for the remainder of 2015.](#)
- November 3, 2014 - Press Release: [FFIEC Releases Cybersecurity Assessment Observations, Recommends Participation in Financial Services Information Sharing and Analysis Center](#)
- September 26, 2014 - Press Release: [State and Federal Regulators: Financial Institutions Should Move Quickly to Address Shellshock Vulnerability](#)
- June 24, 2014 - Press Release: [FFIEC Launches Cybersecurity Web Page and Commences Cybersecurity Assessment](#)
- May 7, 2014 - Press Release: [FFIEC Promotes Cybersecurity Preparedness for Community Financial Institutions](#)
- April 10, 2014 - Press Release: [Financial Regulators Expect Firms to Address OpenSSL "Heartbleed" Vulnerability](#)
- April 2, 2014 - Press Release: [Financial Regulators Release Statements on Cyber-Attacks on Automated Teller Machine and Card Authorization Systems and Distributed Denial of Service Attacks](#)
- October 7, 2013 - Press Release: [Financial Regulators Release Statement on End of Microsoft Support for Windows XP Operating System](#)
- October 2, 2013 - Press Release: [FFIEC Supports National Cybersecurity Awareness Month](#)

# CYBER SECURITY RESOURCES

- [FBI Infragard](#)
- [Financial Services Information Sharing and Analysis Center](#)
- [National Credit Union Administration's Cyber Security Resources Page](#)
- [U.S. Computer Emergency Readiness Team](#)
- [U.S. Secret Service Electronic Crimes Task Force \(ECTF\)](#)

<http://www.cuanswers.com/resources/cybersecurity/>

# MORE ON CYBER SECURITY

## FREE TRAINING YOU SAY?

All Available Courses	Your Status	Course Type	Category
CSEC01: Introduction to Cyber Security	Completed	Web-based	Cyber Security
CSEC02: Cyber Security for Directors and Senior Management		Web-based	Cyber Security
CSEC03: Schemes, Scams and Spies		Web-based	Cyber Security
CSEC04: Devices and Systems		Web-based	Cyber Security
CSEC05: Software and System Controls		Web-based	Cyber Security
CSEC06: Keeping Kids Safe Online		Web-based	Cyber Security
CSEC07: Savvy Social Media Security		Web-based	Cyber Security
CSEC08: Smartphone and Mobile Device Security	Assigned	Web-based	Cyber Security

# CYBER SECURITY/VENDOR MANAGEMENT

# CYBER SECURITY

## IMPACT ON VENDOR MANAGEMENT STRATEGIES

- 3 references to vendor management in the General Observations document:
  - [http://www.ffiec.gov/press/PDF/FFIEC\\_Cybersecurity\\_Assessment\\_Observations.pdf](http://www.ffiec.gov/press/PDF/FFIEC_Cybersecurity_Assessment_Observations.pdf)
- 8 references to vendor management in the assessment tool including:
  - Audits
  - Due diligence
  - Site visits
  - Assessments of high risk vendors
  - Contract reviews
  - Security and code reviews
  - [https://www.ffiec.gov/pdf/cybersecurity/FFIEC\\_CAT\\_June\\_2015\\_PDF2.pdf](https://www.ffiec.gov/pdf/cybersecurity/FFIEC_CAT_June_2015_PDF2.pdf)

# VENDOR MANAGEMENT

- 46% percent of bank exams listed vendor management as a deficiency...
  - NCUA's numbers are probably close or higher
- NCUA mentioned at the years fall NAFCU conference vendor management will become a high priority and stated they will follow the OCC's recommendation on VM becoming a more dynamic responsibly
- It is estimated that the cost of monitoring a vendor will double in the coming years and be in the thousands...



# VENDOR MANAGEMENT

## A NETWORK SOLUTION: "AUDITLINK VM"

- AuditLink has partnered with Trust Exchange and began doing vendor management for CU\*Answers in October of 2016
- End to end with a dynamic monitoring process
- 13 credit unions are currently in the vendor management program
- Service includes:
  - Assessment of vendor criticality
  - Creating and categorizing them on the monitoring system
  - Creating critical event tables with real time monitoring
  - Daily monitoring including communicating with vendors directly
  - Full contract management platform for credit unions with archival and notification of critical dates
- Where are we at?



# CECL CURRENT EXPECTED CREDIT LOSS

- ASU (accounting standards update) to be issued the end of the first half of 2016, but with that said...
- Replaces the existing incurred loss methodology for calculating loan and investment losses
  - Requires CUs to record credit losses over the loan/investments lifetime... allowing for loan loss the second after you put it on the books
  - Based upon managements expectations of cash flows they do not expect to collect and it does incorporate historical losses but also current conditions and forecasts
- Expected implementation date after ?
- So what is all the buzz about now?
  - Ambulance chasing?
  - Data collection that can be used for cash flow analysis
  - Correlations and segmentation of loan and investment types
  - What is the network up to?

<http://https://www.ncua.gov/regulation-supervision/Pages/policy-compliance/communications/letters-to-credit-unions/2016/13.aspx>  
[www.fasb.org/cs/ContentServer?c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176167771938](http://www.fasb.org/cs/ContentServer?c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176167771938)  
<https://www.ncua.gov/regulation-supervision/Pages/policy-compliance/communications/letters-to-credit-unions/2016/13.aspx>

# WHATS HOT

- CECL
- TCPA
- Compliance Risk Focus
- Courtesy Pay Lawsuits
- Choice Act
- Exam Innovation
- MLA and Credit Cards for Discussion



# TOP 10

## AuditLink Top Ten

Following is the list of suggested projects—referred to as **AuditLink's Top Ten** which have made it to my radar and are currently being discussed here at CU\*Answers. You'll notice a few that are well along in development and nearing implementation, while others are still in the early stages of design. And some of these suggestions could remain on the drawing board indefinitely until they are championed by a client.

The logo for 'TOPTEN' is displayed in a bold, sans-serif font. The letters are white with a thick, orange-to-yellow gradient shadow that gives the text a three-dimensional, glowing appearance. The background of the logo is a dark, gradient-filled shape that matches the overall aesthetic of the slide.

QUESTIONS??

