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August 2019 | americanbanker.com
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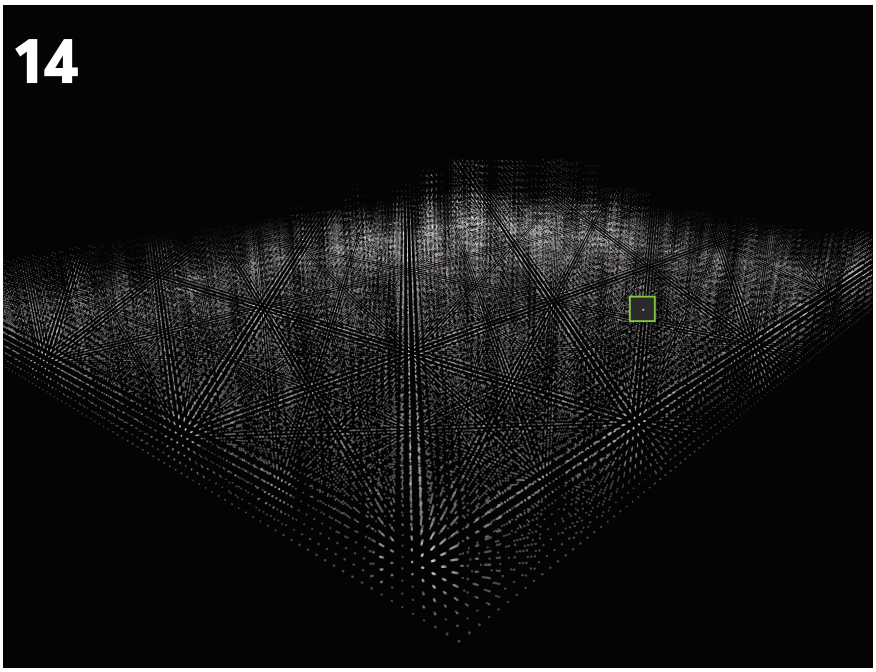
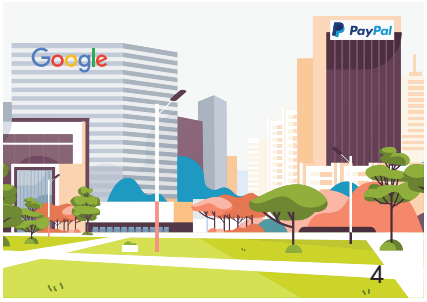
Banks submit millions of Bank Secrecy Act filings each year, yet only a fraction are valuable to law enforcement

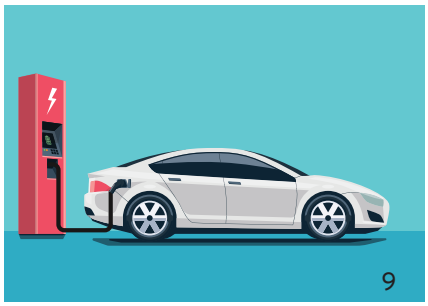
Is there a better way to fight money laundering?

Contents

August 2019 | VOL. 129 | NO. 8







Cover Story

Briefings

BankTechnology

Metrics & Measures

BankThink

BackPorch

AMERICAN BANKER

Volume 129, No. 8

AMERICAN BANKER.COM

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Bloomberg News

'Truist' Lands with a Thud

Judging by day one on social media, you'd think the new Truist brand was a flop. But marketing and branding experts say the name has a lot going for it. What matters most will be how the two banks advocate for the name. "When you use words like true or trust then you have absolutely got to deliver that in every way," one expert said.

MOST SHARED

Hope you'll stick around

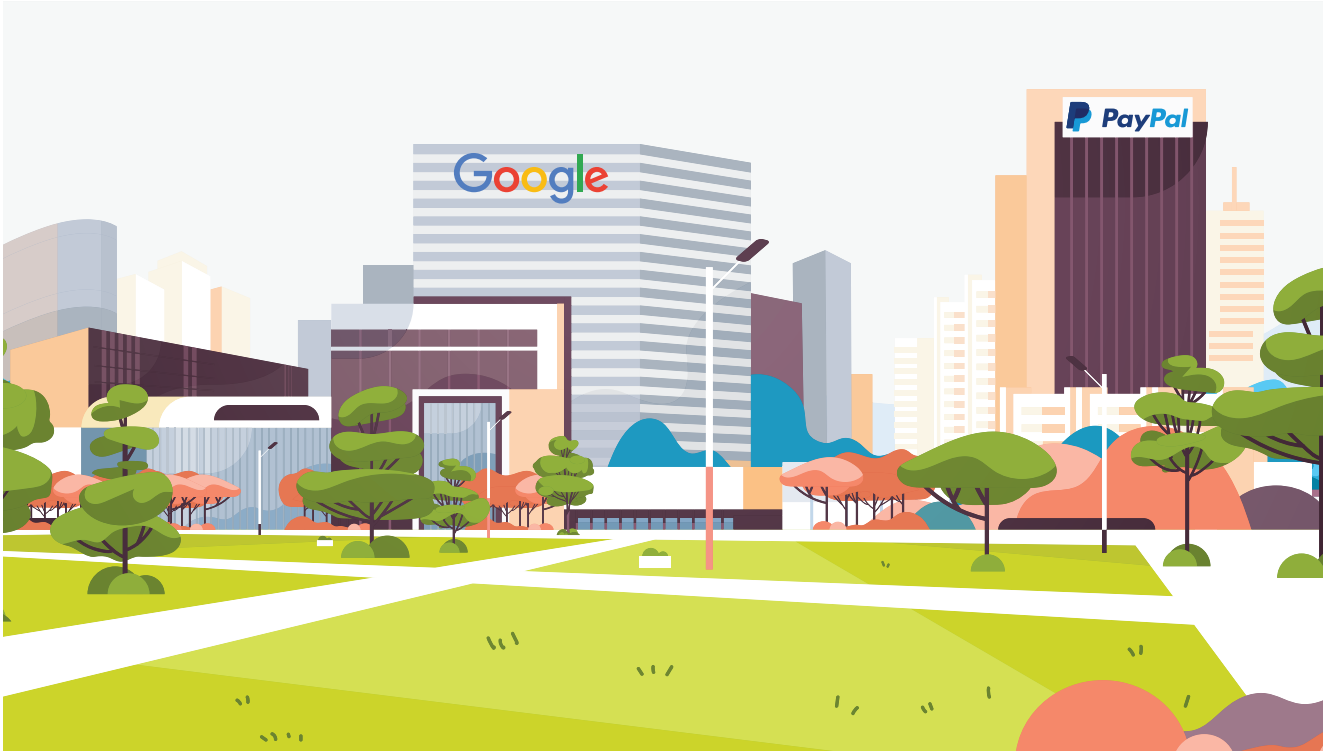
BB&T executive	Projected bonus
Christopher Henson	$4.2M
Daryl Bible	$3.1M
Clarke Starnes	$3.1M
Donna Goodrich	$2.6M

Source: BB&T

BB&T Dangles Promise of Bonuses

If four BB&T executives, including the CFO and COO, remain through the closing of its merger with SunTrust, they'll receive multimillion-dollar payouts. They're "designed to promote retention and to incentivize efforts to consummate and achieve the anticipated benefits of the proposed Merger," BB&T said.

American Banker (ISSN 2162-3198) Vol. 129 No. 8, is published monthly by SourceMedia, One State Street Plaza, 27th Floor New York, NY 10004. Subscription price: $149 per year in the U.S.; $229 per year for all other countries. Periodical postage paid at New York, NY and additional U.S. mailing offices. POSTMASTER: send all address changes to American Banker, One State Street Plaza, New York, NY 10004. For subscriptions, renewals, address changes and delivery service issues contact our Customer Service department at (212) 803-8500 or email: help@sourcemedia.com. Send editorial inquires and manuscripts to American Banker, One State Street Plaza, 27th Floor, New York, NY 10004. This publication is designed to provide accurate and authoritative information regarding the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering financial, legal, accounting, tax or other professional service.



Google, PayPal eyed fintech charter

Both companies backed off because of legal uncertainty about the OCC special-purpose charter and fears it would disrupt relationships with state regulators

By Rachel Witkowski

Google, PayPal and dozens of other technology and fintech companies have visited with officials at the Office of the Comptroller of the Currency during the past year to explore whether to obtain the agency's new special-purpose national bank charter, according to sources familiar with the matter.

But both Google and PayPal, as well as several others, have since backed off over fears that they could harm existing relationships with state regulators and concerns about whether the OCC will prevail in a legal challenge to its authority to create the fintech charter.

Many technology and fintech companies "operate under a national network of state licenses, so they don't want to jeopardize that relationship as they shift to a national bank charter, especially if it's unclear where the litigation will end up," said Thomas Curry, a partner at Nutter McClennen & Fish LLP and the former comptroller who initially called for the creation of the limited-purpose charter.

Since Curry formally unveiled a proposal to create the fintech charter in late 2016, the OCC has had hundreds of meetings with dozens of technology and fintech firms. The companies ranged in size and included some of the largest players in the sector — notably Google and PayPal, which visited agency officials for "exploratory conversations" on federal regulation and the new charter, according to several sources familiar with the meetings.

The conversations concerned how these firms could operate under the existing regulatory framework, not just on the new charter, the sources said.

PayPal declined to comment for this article, and Google did not return

requests for comment. The OCC declined to comment on individual companies.

Yet in almost a year since the charter has been available, no fintech or technology firm has filed an application. That's partly because state regulators, under the Conference of State Bank Supervisors and the New York State Department of Financial Services, have filed separate lawsuits attempting to stop the charter by arguing it goes beyond the OCC's statutory authority. Firms fear that their name could be added to the lawsuits if they apply for a charter, which poses a reputational risk and added expense to enter the federal banking system.

Moreover, applying for a fintech charter risks alienating state regulators with whom they have to work as part of their existing relationships. State regulators have been vocal on their antipathy to the charter — and few firms want to potentially draw their ire. State agencies have a range of existing legal authorities they could deploy to scrutinize any applicant.

"At this moment, there's just a lack of clarity as to what will the process be and will it be litigated," said Brian Peters, executive director at Financial Innovation Now, which represents big tech companies like Google, PayPal and Amazon. "Whoever is first to apply, will it become the sacrificial lamb that the states go after? And that is a process concern where the marketplace needs a lot more certainty."

For Google in particular, an application might prove politically dicey. The OCC's limited-purpose charter is theoretically designed to help fintechs that do not seek to take deposits but want to operate under a single national regulator.

That has proven controversial enough, but a move by a large tech company like Google would significantly raise the stakes. Community banks have successfully rallied in the past to push back against large firms — namely Walmart — seeking to enter the banking business. If Google sought to charter a bank, even a limited-purpose one that did not take deposits, it would almost certainly set off a political firestorm and prompt regulatory concerns of creating a monopoly.

"The OCC special-purpose charter is not a walk in the park."
— Sam Taussig of Kabbage

"There is an underlying fear for regulators as to whether there will be concentration of economic power in chartering a larger player and that is much more elevated with the big tech firms as opposed to smaller players," Curry said.

Some say it could be at least a year before a fintech is approved for an OCC specialty charter. And the first applicant is not likely to be a major player that already has a national presence.

Another impediment for fintechs flirting with the OCC's new charter is that it is "limited" and lacks two critical elements in both the lending and the payments space. First, it does not require an applicant to collect deposits, which many fintechs would like to do to access a cheap source of funding. If a company wanted to directly accept federally guaranteed deposits, it would also have to get a regular bank charter and face separate approval by the Federal Deposit Insurance Corp.

Second, the Federal Reserve has not yet indicated whether it would allow an applicant into its payments system or access to the discount window, which are critical components to companies seeking a charter.

"The OCC special-purpose charter is not a walk in the park," said Sam Taussig, head of global policy at Kabbage, an online small-business lending platform "The Fed has done little in issuing policy statements clarifying whether an OCC special-purpose national bank would be given access to the payment systems. ... While we have publicly supported the concept, there are still a number of variables that are unclear to the industry."

Kraninger's listening tour

The CFPB director has met more often with lawmakers than her predecessor did

In her first four and a half month on the job, Consumer Financial Protection Bureau Director Kathy Kraninger was no stranger to Capitol Hill, holding in-person meetings with lawmakers more than twice as often as her predecessor did during a similar time frame.

Kraninger, who has been at the helm of the agency since December, met in person with 16 members of the House or Senate from Dec. 11 through the end of April, most of them in the lawmaker's office. The meetings, posted as part of her public schedule that is available on the CFPB website, were held with 10 Republicans and six Democrats.

Yet her schedule, part of a planned "listening tour" to hear from various stakeholders, suggests a concerted effort to meet with members from both parties, as well as a diverse array of consumer advocates, bankers and trade group representatives.

Kraninger has had direct contact with the Democratic and Republican leaders of both the Senate Banking

and House Financial Services committees, as well as former Sen. Chris Dodd, D-Conn., and former Rep. Barney Frank, D-Mass., the two primary authors of the Dodd-Frank Act.

Still, observers say Kraninger's one-on-one meetings with members of Congress are notable for the head of an agency that is supposedly nonpartisan. During an equivalent time frame in 2012, former CFPB Director Richard Cordray, appointed under President Barack Obama, met face-to-face with only seven lawmakers. Yet his slate of meetings was less bipartisan since all seven were with Democrats.

Meanwhile, Kraninger met with 13 individual bankers, five more than Cordray during a similar time frame. Kraninger's meetings with bank executives included one on April 16 with interim Wells Fargo CEO C. Allen Parker. She has also held several meetings with trade group CEOs and staffs.

"An hour meeting with one senator or one banker means they're getting much more attention," said Dory Rand, president of Woodstock Institute, a Chicago-based advocacy group, who met with Kraninger both in person and as part of two larger group meetings on Feb. 5.

Yet Rand was just one of dozens of consumer advocates with whom Kraninger met.

While it is unclear whether such "meet and greet" sessions result in any changes to policy, it is informative to know who has had the CFPB director's ear.

Kraninger "has a deliberative manner and that is on display in the breadth of the meetings she's held, but it has not altered the bureau's priorities," said Isaac Boltansky, an analyst at Compass Point Research & Trading. "She will be orchestrating what will be a regulatory rollback, a curtailment of enforcement activities and a shift in supervisory mandates."

Kathy Kraninger has met with executives from Wells Fargo, Bank of America and JPMorgan Chase.

Kraninger's Capitol Hill visits included a December meeting with Sen. Sherrod Brown, D-Ohio, the ranking member on the Senate Banking Committee. In January, she met with House Financial Services Committee Chairwoman Maxine Waters, D-Calif., and Rep. Patrick McHenry, R-N.C., the House panel's ranking member.

By comparison, Cordray met in person with seven lawmakers, all Democrats, including former Senate Majority Leader Harry Reid. Cordray also met one on one with 16 consumer advocates and held 20 roundtable discussions in his first four and a half months as CFPB director in 2012. Cordray also reported meetings with high-level officials in the Obama White House, including then-senior adviser Valerie Jarrett.

Kraninger also made 25 phone calls with sitting and former members of Congress during the December-to-April time frame, including 12 calls with Democrats and 13 with Republicans. They included a Feb. 6 call with Senate Banking Committee Chairman Mike Crapo, a Feb. 8 call with Frank and a Feb. 13 call with Dodd.

Lawmakers said that Kraninger typically reached out to them.

Besides a meeting with Parker of Wells Fargo, the bank executives Kraninger met with included U.S. Bank CEO Andy Cecere on Feb. 21, American Express CEO Stephen Squeri on Feb. 27, TD Bank USA CEO Gregory Baca on March 1 and PNC Financial Services Group CEO Bill Demchak.

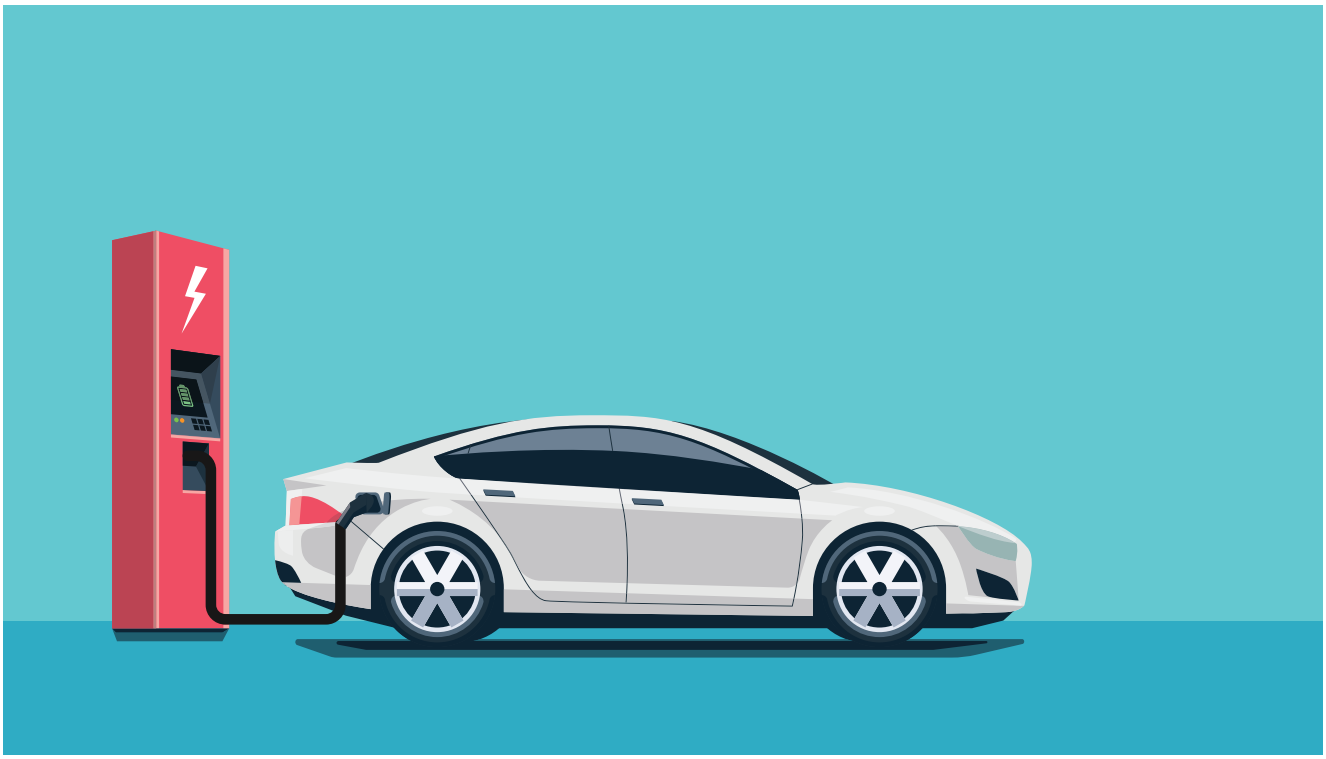
She also met with the heads of consumer banking at JPMorgan Chase and "senior staff" at Bank of America. Her industry meetings also included contact with fintech firms and other nonbank financial institutions. Kraninger has toured the headquarters of the software startup Plaid in San Francisco, and met with PayPal co-founder Max Levchin (now CEO of the online lender Affirm).

Kraninger also held phone or in-person meetings with over a dozen current and former regulators, both at the state and federal level. They have included multiple working meals with both Comptroller Joseph Otting and Federal Deposit Insurance Corp. Chairman Jelena McWilliams, as well as contact with Cordray; Sheila Bair, a former FDIC chair; and Martin Gruenberg, another former head of the FDIC who still sits on the agency's board.

Kraninger has met with dozens of advocates as well. Her calendar shows group listening sessions with current and former members of the CFPB's consumer advisory board, faith groups, consumer and housing advocates, and "financial education stakeholders."

From December 2018 to April 2019, Kraninger met with over 130 individuals affiliated with consumer, nonprofit and community organizations.

— Kate Berry



Government's say in how we pay

States and localities have pushed back against retailers that don't take cash. Now some are pressuring electric car firms to expand payment options at charging stations

By Kevin Wack

When shoppers reach the cash register, they typically have an array of payment choices. They can charge their purchases to a variety of credit cards. They can pull out a debit card, a prepaid card or a gift card. Mobile payment apps are often an option. So are old standbys like cash and personal checks.

If the merchant refuses to accept a particular payment method, the shopper can decide to shop elsewhere. These market forces may explain why there has historically been little government regulation of which payment types retailers must accept.

But in an age where payment options have multiplied, and newer technologies offer key advantages to merchants, the dynamics appear to be shifting. More businesses are refusing to accept older payment methods, including cash but also credit cards, and those decisions are sparking a backlash.

So far this year, two major U.S. cities and one state have passed legislation that requires stores to accept cash. And in the burgeoning electric vehicle industry, a policy spat has emerged over the payment options available at charging stations, whose operators generally encourage customers to pay via mobile apps.

"We'll face these battles for a while," predicted John Thompson, the chief program officer at the nonprofit Financial Health Network.

Thompson acknowledged that newer payment methods are more efficient than older ones, but he said that government-imposed guardrails may be necessary to preserve access for some segments of the U.S. population.

A Pew Research Center survey last fall found that 29% of U.S. adults with

annual household incomes of below $30,000 use cash for all or almost all of their purchases, compared with just 7% of adults with household annual incomes of $75,000 or more.

If any part of the U.S. retail economy is well positioned to rely exclusively on next-generation payments, it would seem to be the electric vehicle industry, whose customers have already demonstrated a willingness to embrace new technology.

Unlike gas stations, which lean heavily on card payments, many charging stations do not accept plastic. One likely factor in their reasoning is that credit cards are more vulnerable to fraud than mobile payments. Charging stations that accept card payments may be particularly susceptible because they are often located in remote locations with limited staffing.

"This provides an opportunity for criminals to install malicious devices without being easily detected," a recent report on the security risks associated with card payments at electric vehicle charging stations stated. "Skimmers and shimmers — small, easy-to-obtain devices engineered to steal credit card data — are a rampant problem today."

But critics of the charging networks argue that their payment models run the risk of leaving some drivers stranded, unable to recharge their vehicles. The networks often encourage drivers to sign up for monthly subscription plans, which may have the effect of tying consumers to a particular network of charging stations, and can also make it difficult for nonmembers to recharge.

"Can you imagine pulling up at a gas station and finding out you can't use your credit card, have to download an app, call an 800 number, or be a member of some club or network, and on top of all of that not know what price you are paying for fuel?" groups including Plug In America and Sierra Club California wrote in a letter to state officials last month.

"And that is assuming that one has cell coverage, which is intermittent and spotty outside of the urban areas."

The California Air Resources Board recently released a proposed regulation that would require charging stations to accept chip-enabled credit card payments. The agency said in a staff report that the ability to use standard payment methods will simplify transactions and improve access to charging stations.

A similar debate is unfolding on the Eastern seaboard, where a body with representatives of states from Virginia to Maine recently adopted model language stating that card payments should be required at public charging stations.

The group, Northeast States for Coordinated Air Use Management, noted last month that while 77% of U.S. adults own a smartphone, only 10% of consumers under age 45 use mobile wallets as a payment method.

The situation at charging stations has parallels with the recent push in various cities and states to ban cashless stores.

In March, Philadelphia became the first U.S. city to impose such a ban. The city of San Francisco and the state of New Jersey soon followed, and similar proposals have been introduced in New York, Chicago and Washington, D.C.

The pushback from state and local governments may be having an effect on corporate decision-making.

In April, the upscale salad chain Sweetgreen said that it was reversing its earlier decision to stop accepting cash. Around the same time, Amazon said that it will start accepting cash at its cashierless stores.

Scrutinizing Facebook

Why did Washington mobilize so quickly against the social media giant's crypto plans?

It took less than 24 hours after Facebook announced its foray into cryptocurrency for Washington to mobilize against it.

House Financial Services Committee Chairman Maxine Waters demanded Facebook put its plan on hold until she could examine it. Her Republican counterpart on the panel, Rep. Patrick McHenry of North Carolina, immediately called for hearings.

And the Senate Banking Committee — a panel generally known for deliberation, not speed — went ahead and set a date for its own look into the matter, scheduling it for mid-July. By comparison, it took three months for Congress to hold hearings after the 2017 Equifax data breach and two months to act on Wells Fargo's 2016 phony-accounts scandal.

"It is an incredibly quick response," said Scott Talbott, a senior vice president of government affairs at the Electronic Transactions Association, a trade group of banks, fintech firms and payments companies.

In this case, the speed and the bipartisan nature of the demand for an investigation are telling. Had any other technology giant — Google, Amazon or PayPal — announced something similar, it seems likely Congress would have eventually gotten involved. But Facebook greatly accelerated D.C.'s interest, adding ammunition to those who have warned the crypto business is underregulated and unsafe.

"Anytime that a very large tech provider makes an announcement like this, it's going to create a lot of

questions on what it means and how regulators are going to look at it and how the private sector responds," said David Cotney, a former Massachusetts banking commissioner who serves on the board of Cross River Bank in Fort Lee, N.J. Cross River provides banking services to the online consumer lender Affirm and the cryptocurrency exchange Coinbase.

Some were surprised at the timing of the announcement, given that Facebook is being investigated for failing to police Russia's involvement in the 2016 presidential election, for anticompetitive advertising practices and for its role in spreading hate speech in Myanmar.

Increased scrutiny of Facebook appears likely to hurt big technology companies trying to enter the crypto or banking space — and ultimately may benefit traditional banks in the process.

Though Facebook has partnered with PayPal, Mastercard, Visa and others to facilitate payments, banks still play a core role in most cryptocurrencies, because consumers have to have a bank account or debit card to make purchases.

"To create an exchange and buy goods outside the U.S., you need an ID and a bank account and digital access," said Sam Taussig, head of global policy at Kabbage, a small-business lending platform. "And Facebook needs to be able to verify the user."

Talbott agreed. "I can't buy my groceries in cryptocurrency," he said. "I have to take my money out of the system and get cash, so I have to get into my checking account or use my debit card. The banks are going to be the on-ramps and off-ramps."

Facebook created a subsidiary called Calibra to ensure a separation between a consumer's financial data and the social media platform. Given

Facebook CEO Mark Zuckerberg must address privacy concerns.

the company's history of sharing user data with the political consulting firm Cambridge Analytica, lawmakers will want evidence that Facebook does not tap a user's banking or payments information for targeted advertising.

Beyond matters of privacy, Facebook and its CEO Mark Zuckerberg will have to answer concerns that the social media network, with its billions of consumer users, could effectively bypass the U.S. monetary system with its new digital currency.

"The overarching concern is if crypto became so large, what would its impact be on the money supply and the Fed's ability to respond?" said Cotney, now a senior adviser at FS Vector, a fintech consulting firm in Washington. "To date, the amount of crypto is a drop in the bucket with no adverse impact on the central bank's ability to control the money supply."

Federal Reserve Board Chairman Jerome Powell said in June that while digital currencies are a "long way" from interfering with monetary policy, the central bank was prepared to regulate any cryptocurrencies that gained significant traction.

"There are potential benefits here; there are also potential risks," Powell said when asked about Facebook's plans. "A currency could potentially have a large application, so I would echo what [Bank of England Gov. Mark] Carney said, which is that we will wind up having quite high expectations from a safety and soundness and regulatory standpoint if they decide to go forward with this."

The patchwork of state and federal law governing cryptocurrencies in the U.S. also may come under a microscope as a result of Facebook's plans. At the moment, the states have primary oversight over cryptocurrencies. Facebook currently is licensed as a money transmitter in 42 states plus the District of Columbia and Puerto Rico, according to the Conference of State Bank Supervisors.

California and New York also have robust requirements for licensing cryptocurrencies. In April, New York's Department of Financial Services refused to give the cryptocurrency exchange Bittrex a virtual exchange license, because it claimed the company lacked a strong framework of controls for monitoring and reporting suspicious activities.

DFS examiners found that a large number of transactions for customers in sanctioned countries, including Iran and North Korea, had passed through screening and been processed. Some Bittrex users were using obviously fake names like "Donald Duck" and "abcd," the regulator said.

Cryptocurrency platforms must comply with all federal laws that protect consumers from unfair, deceptive, or abusive act or practices, but state law varies considerably on other issues.

"When you look at something as simple as money transmitters, that can be an incredible point of confusion and worry," said Tony Alexis, a partner at Goodwin Procter and the former head of enforcement at the Consumer Financial Protection Bureau.

— *Kate Berry*

Bloomberg News

Pressure's on to boost fee income

Net interest margins have been expanding at a nice clip over the past year, giving a boost to bank profits. But with the Federal Reserve likely to either hold the line on, or even cut, interest rates, margin expansion may grind to a halt.

Regional banks are especially vulnerable to this trend because they rely heavily on lending for profits and, unlike big banks, typically don't have large fee-generating operations to offset downturns in loan demand.

Median net loans as a percentage of assets at banks with $10 billion to $50 billion of assets were 70.68% at Dec. 31, 2018, compared with 64.4% at banks with more than $50 billion of assets, according to Capital Performance Group in Washington, D.C.

Yet even if interest rates stay put or decline, regional banks will be under pressure to raise deposit prices to remain competitive, said Kevin Halsey, a senior consultant at Capital Performance Group.

To make up for some of the margin compression, regionals will need to accelerate fee income, Halsey said. Total noninterest income for the group slowed from a 26.9% growth rate in 2017 to 3.6% last year.

"They need to boost revenue streams that aren't dependent on interest rates," Halsey said. "But that's a significant challenge as well."

—Andy Peters

Rank	Institution/Ticker	Location	Total Assets ($000)	3-Year Avg. ROAE (%)	ROAE (%)	ROAA (%)	Efficiency Ratio FTE (%)	Net Interest Margin FTE (%)	Net Income ($000)	Asset Growth YOY (%)	Net Income Growth YOY (%)	Core Deposit Growth YOY (%)
1	Bank of Hawaii Corporation (BOH)	Honolulu, HI	17,143,974	16.23	17.63	1.29	55.94	3.05	219,602	0.32	18.91	0.35
2	Western Alliance Bancorp. (WAL)	Phoenix, AZ	23,109,486	16.13	18.07	2.05	43.03	4.68	435,788	13.68	33.89	12.97
3	FirstBank Holding Company	Lakewood, CO	18,578,162	15.14	17.16	1.50	53.39	3.64	271,116	5.73	27.55	6.11
4	East West Bancorp (EWBC)	Pasadena, CA	41,042,356	14.60	17.04	1.83	45.25	3.78	703,701	10.56	39.17	(1.15)
5	Commerce Bancshares (CBSH)	Kansas City, MO	25,463,842	13.01	15.81	1.78	55.27	3.53	438,214	2.54	36.98	0.05
6	Midland Financial*	Oklahoma City, OK	17,253,182	12.80	13.31	1.42	59.95	3.68	275,442	16.97	34.93	11.15
7	Bank OZK (OZK)	Little Rock, AR	22,388,030	12.70	11.58	1.90	35.58	4.59	417,081	5.23	(1.15)	(2.71)
8	Pinnacle Bancorp*	Omaha, NE	10,970,611	12.60	15.44	1.62	56.76	3.73	171,786	5.54	1.17	4.22
9	Bremer Financial Corporation	St. Paul, MN	12,192,038	11.89	13.11	1.21	62.98	3.43	145,924	1.65	17.66	2.16
10	Home BancShares (HOMB)	Conway, AR	15,302,438	11.83	13.17	2.06	37.64	4.42	300,403	5.90	122.38	1.84
11	Cullen/Frost Bankers (CFR)	San Antonio, TX	32,292,966	11.76	13.85	1.47	55.34	3.64	454,918	1.72	24.93	0.84
12	FCB Financial Holdings	Weston, FL	12,525,806	11.61	12.70	1.42	39.36	3.22	168,138	17.31	34.30	1.69
13	Signature Bank (SBNY)	New York, NY	47,364,816	11.29	12.17	1.12	36.70	2.93	505,342	9.85	30.51	7.92
14	Glacier Bancorp (GBCI)	Kalispell, MT	12,115,484	11.05	12.56	1.59	53.53	4.21	181,878	24.82	56.28	27.06
15	Cathay General Bancorp (CATY)	Los Angeles, CA	16,784,737	10.72	13.18	1.70	43.69	3.79	271,885	7.32	54.44	(4.35)
16	Synovus Financial (SNV)	Columbus, GA	32,669,192	10.65	14.29	1.35	55.60	3.82	428,476	4.64	55.54	0.41
17	Ameris Bancorp (ABCB)	Moultrie, GA	11,443,515	10.52	10.27	1.24	54.10	3.92	121,027	45.66	64.56	29.94
18	First Financial Bancorp. (FFBC)	Cincinnati, OH	13,986,660	10.37	9.85	1.37	51.26	4.10	172,595	57.21	78.32	42.84
19	CVB Financial Corp. (CVBF)	Ontario, CA	11,529,153	10.36	11.00	1.60	40.56	4.02	152,003	39.40	45.58	34.64
20	Webster Financial Corporation (WBS)	Waterbury, CT	27,610,315	10.35	12.95	1.33	57.82	3.61	360,418	4.24	41.10	0.74
21	Texas Capital Bancshares (TCBI)	Dallas, TX	28,257,767	10.35	12.72	1.19	52.64	3.75	300,824	12.69	52.65	(0.01)
22	Heartland Financial USA (HTLF)	Dubuque, IA	11,408,006	10.03	9.93	1.09	64.55	4.30	116,998	16.28	55.43	17.23
23	First Citizens BancShares (FCNA.A)	Raleigh, NC	35,408,629	9.77	11.70	1.15	66.02	3.69	400,313	2.55	23.65	3.90
24	First Interstate BancSystem (FIBK)	Billings, MT	13,300,200	9.66	10.50	1.27	58.87	3.88	160,200	8.90	50.39	6.53
25	Community Bank System (CBU)	De Witt, NY	10,607,295	9.66	10.20	1.58	57.25	3.73	168,641	(1.29)	11.89	(1.14)
26	UMB Financial Corporation (UMBF)	Kansas City, MO	23,351,119	9.60	8.91	0.93	69.02	3.21	195,513	7.26	(20.88)	8.31
27	BOK Financial Corporation (BOKF)	Tulsa, OK	38,020,504	9.55	11.94	1.28	60.99	3.19	446,424	17.81	32.99	15.96
28	Flagstar Bancorp (FBC)	Troy, MI	18,531,000	9.55	12.57	1.04	73.93	3.08	187,000	9.57	196.83	31.82
29	International Bancshares Corp. (IBOC)	Laredo, TX	11,871,952	9.42	11.63	1.81	50.50	3.98	218,735	(2.57)	38.76	3.62
30	Wintrust Financial Corporation (WTFC)	Rosemont, IL	31,244,849	9.42	11.07	1.18	61.04	3.61	343,166	11.92	33.17	10.58
31	Washington Federal (WAFD)	Seattle, WA	16,188,126	9.34	10.26	1.30	49.37	3.25	205,122	3.88	11.51	4.21
32	BancorpSouth Bank (BXS)	Tupelo, MS	18,001,540	9.13	10.60	1.28	65.76	3.72	221,317	17.67	44.62	17.51
33	United Community Banks (UCBI)	Blairsville, GA	12,573,192	9.09	12.04	1.35	55.02	3.91	166,111	5.52	144.93	3.15
34	First Hawaiian (FHB)	Honolulu, HI	20,695,678	8.99	10.76	1.31	46.60	3.16	264,394	0.71	43.94	4.44
35	First Horizon National Corp. (FHN)	Memphis, TN	40,832,258	8.96	12.05	1.38	63.56	3.45	556,507	(1.43)	214.45	4.69

REGIONALS, RANKED BY 3-YEAR ROAE

Rank	Institution/Ticker	Location	Total Assets ($000)	3-Year Avg. ROAE (%)	ROAE (%)	ROAA (%)	Efficiency Ratio FTE (%)	Net Interest Margin FTE (%)	Net Income ($000)	Asset Growth YOY (%)	Net Income Growth YOY (%)	Core Deposit Growth YOY (%)
36	MB Financial (MBFI)**	Chicago, IL	20,207,026	8.76	7.23	1.07	63.29	3.81	213,915	0.60	(29.64)	(1.43)
37	Central Bancompany (CBCY.B)	Jefferson City, MO	13,194,170	8.75	9.58	1.39	57.86	3.42	177,576	2.47	29.59	2.88
38	Cadence Bancorporation (CADE)	Houston, TX	12,730,285	8.75	12.07	1.45	48.58	3.61	166,261	16.27	62.44	15.20
39	Hope Bancorp (HOPE)	Los Angeles, CA	15,305,952	8.57	9.92	1.29	49.68	3.53	189,589	7.74	35.96	(4.62)
40	Great Western Bancorp (GWB)	Sioux Falls, SD	12,573,641	8.55	9.68	1.46	47.09	3.87	174,473	6.50	27.25	4.21
41	Simmons First National Corp. (SFNC)	Pine Bluff, AR	16,543,337	8.47	10.00	1.37	53.06	3.97	215,713	9.88	132.10	3.71
42	Arvest Bank Group	Bentonville, AR	18,576,135	8.43	9.59	1.02	73.77	3.77	184,945	10.65	37.10	8.08
43	PacWest Bancorp (PACW)	Beverly Hills, CA	25,731,354	8.41	9.68	1.91	42.01	5.05	465,339	2.95	30.05	0.36
44	TowneBank (TOWN)	Portsmouth, VA	11,163,030	8.41	9.47	1.30	61.91	3.61	137,774	30.99	48.48	28.60
45	Pinnacle Financial Partners (PNFP)	Nashville, TN	25,031,044	8.37	9.37	1.53	46.18	3.60	359,440	12.72	106.60	10.51
46	Columbia Banking System (COLB)	Tacoma, WA	13,095,145	8.35	8.78	1.36	55.37	4.33	172,882	2.97	53.23	0.02
47	Hancock Whitney Corporation (HWC)	Gulfport, MS	28,235,907	8.26	11.04	1.17	56.77	3.38	323,770	3.29	50.15	(0.75)
48	Fulton Financial Corporation (FULT)	Lancaster, PA	20,682,152	8.25	9.24	1.03	65.39	3.40	208,393	3.22	21.33	3.28
49	CenterState Bank Corporation (CSFL)	Winter Haven, FL	12,337,588	8.06	9.41	1.43	50.46	4.39	156,435	73.18	180.37	61.92
50	Pacific Premier Bancorp (PPBI)	Irvine CA	11,487,387	7.92	7.71	1.26	51.66	4.44	123,340	43.15	105.22	44.82
51	Renasant Corporation (RNST)	Tupelo, MS	12,934,878	7.82	8.64	1.32	58.87	4.16	146,920	31.59	59.37	27.01
52	Trustmark Corporation (TRMK)	Jackson, MS	13,286,460	7.78	9.43	1.11	66.15	3.54	149,584	(3.71)	41.61	7.45
53	Prosperity Bancshares (PB)	Houston, TX	22,693,402	7.70	8.15	1.42	42.65	3.18	321,812	0.47	18.24	(2.85)
54	Chemical Financial Corp. (CHFC)	Detroit, MI	21,498,341	7.68	10.36	1.41	51.42	3.53	284,020	11.50	89.95	10.50
55	Associated Banc-Corp (ASB)	Green Bay, WI	33,647,859	7.63	9.03	1.01	62.16	2.97	333,562	10.38	45.49	8.05
56	Union Bankshares Corp. (UBSH)***	Richmond, VA	13,765,599	7.57	7.85	1.11	54.57	3.74	146,248	47.78	100.55	39.34
57	Stifel Financial Corp. (SF)	St. Louis, MO	24,519,598	7.57	13.06	1.73	80.84	2.56	393,968	14.66	115.43	5.14
58	WesBanco (WSBC)	Wheeling, WV	12,458,632	7.54	8.68	1.26	52.99	3.52	143,112	26.92	51.47	27.87
59	Sterling Bancorp (STL)	Montebello, NY	31,383,307	7.36	10.30	1.45	38.69	3.56	447,254	3.37	380.76	3.23
60	South State Corporation (SSB)	Columbia, SC	14,676,328	7.35	7.63	1.23	56.57	4.09	178,871	1.45	104.30	0.79
61	Valley National Bancorp (VLY)	Wayne, NJ	31,863,088	7.31	7.91	0.86	58.80	3.11	261,428	32.75	61.47	19.16
62	Hilltop Holdings (HTH)	Dallas, TX	13,683,572	7.25	6.51	0.93	86.56	3.56	125,727	2.38	(5.57)	10.02
63	Apple Financial Holdings	New York, NY	14,307,254	7.24	8.77	0.75	58.46	2.56	100,900	11.70	33.78	(1.79)
64	Banner Corporation (BANR)	Walla Walla, WA	11,871,317	7.14	10.45	1.29	63.46	4.43	136,515	21.59	124.62	13.03
65	Old National Bancorp (ONB)	Evansville, IN	19,728,435	7.08	8.42	1.07	61.54	3.54	190,830	12.62	99.35	12.26
66	First Midwest Bancorp (FMBI)	Chicago, IL	15,505,649	7.02	8.21	1.07	56.75	3.90	157,870	10.15	60.46	1.45
67	Eastern Bank Corporation	Boston, MA	11,381,576	6.90	9.02	1.10	68.36	3.87	122,727	4.67	41.56	5.75
68	IBERIABANK Corporation (IBKC)	Lafayette, LA	30,833,015	6.89	9.54	1.25	54.95	3.75	370,249	10.50	159.98	5.47
69	United Bankshares (UBSI)	Charleston, WV	19,250,498	6.86	7.84	1.36	49.44	3.57	256,342	1.00	70.24	4.07
70	Umpqua Holdings Corporation (UMPQ)	Portland, OR	26,939,781	6.68	7.90	1.21	58.16	4.04	316,263	4.90	30.52	(1.31)
71	F.N.B. Corporation (FNB)	Pittsburgh, PA	33,101,840	6.68	8.30	1.16	54.91	3.38	372,858	5.36	87.17	2.29
72	People's United Financial (PBCT)	Bridgeport, CT	47,877,300	6.52	7.75	1.04	58.55	3.12	468,100	7.70	38.82	5.97
73	First BanCorp. (FBP)	San Juan, PR	12,243,561	6.52	10.64	1.65	53.70	4.74	201,608	(0.14)	201.11	10.99
74	BCI Financial Group	Miami, FL	14,332,955	6.04	6.64	0.76	58.28	3.06	95,663	40.84	98.36	47.84
75	Berkshire Hills Bancorp (BHLB)	Boston, MA	12,212,231	5.91	6.84	0.90	59.02	3.43	105,765	5.54	91.44	(2.81)
76	Popular (BPOP)	Hato Rey, PR	47,604,577	5.83	11.36	1.33	56.92	4.34	618,158	7.51	474.06	14.76
77	Investors Bancorp (ISBC)	Short Hills, NJ	26,229,008	5.54	6.57	0.80	55.89	2.73	202,576	4.38	59.83	(6.17)
78	Third Federal Savings and Loan Assoc.	Cleveland, OH	14,238,626	4.91	4.73	0.51	64.16	2.04	71,004	2.53	(2.70)	(8.04)
79	Utrecht-America Holdings	New York, NY	24,093,694	(0.36)	6.37	0.72	64.90	2.76	173,207	0.15	NM	(4.88)
	Median for all institutions		**17,253,182**	**8.55**	**10.20**	**1.29**	**55.94**	**3.64**	**205,122**	**7.32**	**47.03**	**4.44**
	Median for the top 10		**17,915,672**	**12.91**	**15.63**	**1.70**	**54.33**	**3.71**	**287,923**	**5.64**	**30.72**	**2.00**
	Average for all institutions		**20,722,980**	**8.97**	**10.53**	**1.30**	**55.95**	**3.65**	**257,088**	**11.99**	**68.89**	**9.35**
	Average for the top 10		**20,344,412**	**13.69**	**15.23**	**1.67**	**50.58**	**3.85**	**337,906**	**6.81**	**33.15**	**3.50**

Source: Capital Performance Group analysis of data provided by S&P Global Market Intelligence. Ranking is of top consolidated bank holding companies, banks, and thrifts with total assets of between $10 billion and $50 billion as of 12/31/18 and is based on three-year average ROAE from 2016 to 2018. Additional data is for the 12 months ended 12/31/18; year-over-year changes compare 2018 to 2017. Financials are from SEC filings. If unavailable, regulatory financials were used. Excludes industrial banks, nondepository trusts, foreign-owned banks, and bankers' banks, as well as institutions with credit cards to total loans of more than 25%, loans to total assets of less than 20%, or loans to total deposits of less than 20% at 12/31/18. Excludes institutions with a leverage ratio of less than 5%, Tier 1 risk-based capital ratio of less than 6%, or total risk-based capital ratio of less than 10% during any quarter in the ranking period. Excludes institutions that received a tax benefit of greater than 10% of net income or that did not report data for any year in the ranking period. Also excludes institutions that have fewer than five depository branches and are owned by a company not primarily focused on commercial or retail banking. Ties broken using the 2018 ROAE and subsequently the 2017 ROAE.

*Denotes an institution that operated as a subchapter S corporation for at least one quarter between 2016 and 2018. Its profitability ratios were calculated from regulatory financials and adjusted using an assumed tax rate **Sold to Fifth Third Bancorp on March 22, 2019. ***The former Union Bankshares changed its name and ticker symbol on May 20.

IS THERE A BETTER WAY TO FIGHT MONEY LAUNDERING?

Banks submit millions of Bank Secrecy Act filings each year, yet only a fraction are valuable to law enforcement. Inside the effort to change that.

By Victoria Finkle

"Collectibles Club" — a membership association for sports memorabilia fans and other hobbyists — sounded innocuous enough when it was launched in 2013.

But as law enforcement agencies subsequently discovered, the company was actually a front for Coin.mx, a bitcoin exchange responsible for laundering more than $10 million over the span of two years.

The plot involved some twists fit for Hollywood — investigators found that those behind the scheme went so far as to bribe the head of a New Jersey credit union so they could take control of the institution and further evade the government's scrutiny.

The Financial Crimes Enforcement Network, or Fincen, a bureau of the Treasury Department, recently held up the case as a triumph for the Bank Secrecy Act — and the work banks undertake to help stop money laundering — as part of an annual awards program. Fincen noted in a May press release that "a high volume of sensitive financial information was instrumental" in shutting down the operation.

The story is a positive one — financial data also helped prosecutors find out that the exchange was connected to a hacker involved in several high-profile data breaches, including one at JPMorgan Chase. Investigators found that the exchange was used to launder money for the criminal organization behind the cyberattacks, which stole the personal information of more than 100 million people.

Still, there's a problem. The aggregate data tells a far more sobering story.

The United Nations Office on Drugs and Crime estimates that as much as $2 trillion is illegally laundered around the world each year — while law enforcement reportedly catches less than 1% of that. As much as $300 billion in illicit funds make their way through the U.S. financial system in a given year, according to the Treasury Department.

All the while, banks are submitting millions of BSA reports annually, running up a sector-wide compliance bill of $25 billion, money

spent on a system in which, according to the banking industry, the vast majority of filings go unseen, much less are used in criminal prosecutions.

It's a multitrillion-dollar problem that has plagued the financial industry and government officials for decades: Can we make the system less burdensome on banks, while also providing law enforcement with the information on criminals that it actually wants?

It's not that the current system isn't helping the cops on the beat do their jobs or that the data being compiled is worthless. But there are critical disconnects waiting to be addressed, and incentives across the regime that remain at cross-purposes. The question is whether there's now finally enough collective interest to see concrete improvements put into place — even as significant details still need to be ironed out.

"Everybody in the regime wants to try to make it more efficient and effective, but everybody's got a different definition of efficient and effective," said Jim Richards, the former global head of financial crimes risk management for Wells Fargo and the founder of RegTech Consulting.

'Mountains' of data

For bankers, the sheer volume of information that must be filed under current standards can be overwhelming to comprehend — more than 15 million reports per year on cash transactions over $10,000 and suspicious activities.

"All of these reports are like hay straws — they're just piling up, and there may or may not be a needle in there somewhere," said Camden Fine, president and CEO of Calvert Advisors and the former head of the Independent Community Bankers of America. "But we can't find the needle because we've created mountains, literally, warehouses full of mainly innocuous transactions."

A Bank Policy Institute survey last year of 19 major banks found that they produced 640,000 suspicious activity reports and 5.2 million currency transaction reports in 2017, based on 16 million alerts. But law enforcement agencies followed up on only 4% of the SARs and less than 0.5% of the CTRs.

This state of affairs is largely a product of how the regime has been expanded over time. The system was built in 1970 to catch mob bosses and tax cheats, but was amended in the 1980s to add a focus on drug cartels. After 9/11, the regime was modified again to address terrorist financing.

And a growing number of organizations, from money transmitters to casinos to jewelers, now have anti-money-laundering responsibilities as part of running their businesses.

"You have a system that has multiple objectives — that defaults into producing as much information as possible and leaving it to someone else to figure out what's useful," said Aaron Klein, policy director of the Brookings Institution's Center on Regulation and Markets.

While bankers see this mountain of data as a drawback, law enforcement officials often do not. Indeed, one of the fundamental tensions in the debate between the financial industry and law enforcement is that from the latter's point of view, the more data, the better. Officials argue that just looking at the number of SARs used to put specific bad actors in jail misses the point.

"When I looked at SARs, I looked at the full universe of SARs from a macro level, and we were analyzing SARs not only to identify SARs for ongoing investigations or predicate investigations, but for me, more importantly, I was trying to identify emerging trends — SARs are a huge part of those types of analytics, especially in terrorism," said Dennis Lormel, a former chief of the FBI's financial crimes section who is now the president and chief executive of DML Associates, a consultancy.

Fincen reports that users of its database have initiated more than 10 million queries over the five past years, and that more than 21% of FBI investigations draw on Bank Secrecy Act data.

As technology has advanced, this evolution toward using the data for trend-spotting has accelerated, opening up new avenues for government officials to develop insights beyond the specifics contained in any one report. Still, those in the financial industry say this means there's arguably even less reason for law enforcement to seek changes to make the system more efficient, particularly if the result is that less data comes over the transom.

"The problem is that we are still operating as if it was 25-30 years ago." —Jim Reuter, CEO of FirstBank Holding Co. in Lakewood, Colo.

Banks point in particular to cases where institutions feel compelled to file reports simply to avoid potential pushback from regulators — so-called defensive suspicious activity reports. Law enforcement isn't necessarily very worried about such filings, bankers say, but they come at a price.

"What's changed is, the cost of all the defensive and useless SAR filings is not that you're wasting the time of a law enforcement officer who has to read it; it's the opportunity cost for the bank," said Greg Baer, chief executive of the Bank Policy Institute. "It's having to do investigations in order to make

that SAR decision that take resources away from actual innovation and creative thinking about how the bad guys behave."

John Ciulla, the president and CEO at the $27.6 billion-asset Webster Financial in Waterbury, Conn., is almost wistful at the idea of reform.

"Imagine if you could pull all your resources and have the best technology and have all your transactions monitored," he said in an interview earlier this year. Anti-money-laundering compliance "is a costly endeavor. If you're a small bank, you don't get a discount to put in the technology and have the people to chase down a lot of false positives. So if there's a way to simplify, increase the [dollar] amount of transactions we are looking at and potentially merge technology across a group of banks, that would be terrific."

Costs vs. Benefits

When it comes to BSA/AML compliance in 2017, big banks participating in a survey:

Spent **$2.4 billion** per year per institaution

Employed **14,000** individuals per institution

Used more than **20** different I.T. systems per institution

Filed more than **640,000** SARs, only 4% of which prompted law enforcement inquiry (on average)

Filed more than **5.2 million** CTRs, only 0.44% of which prompted follow-up from law enforcement

Source: Bank Policy Institute

Siloed regime

There are a growing number of efforts aimed at improving the system — including those to enhance the quality of information that gets passed on to the FBI and other officials and to reduce the compliance burdens associated with those reports.

On the front end of the detection process, many observers are watching eagerly to see if beneficial ownership legislation — aimed at eliminating the use of anonymous shell companies — can make it over the finish line this term. There are bills pending in the House and the Senate that would require the true owners of a corporation to register with the government when a firm is formed, instead of through the banking system, in cases where those companies seek a bank account.

"Beneficial ownership transparency is the foundational reform — without that the system can't really improve," said Clark Gascoigne, deputy director of the Financial Accountability and Corporate Transparency (FACT) Coalition.

At the same time, the industry has been pushing for more feedback and transparency around how the information being collected is used — to help better inform which types of reports are most valuable and how they aid the intelligence communities. Many have pointed to the transformative role that artificial intelligence and machine learning could one day play, simplifying and improving the process for financial institutions — although widespread adoption of such technologies is likely still years away, as the technologies will need to be tested for their effectiveness against traditional compliance.

"The tools we have were written in an era when all these processes were originally designed on paper — and now they can be digitized. We can turn the information in the system into digital forms that we can work with much more data, and we can bring machine learning and artificial intelligence into analyzing the data," said Jo Ann Barefoot, co-founder of the regtech startup Hummingbird and a former deputy comptroller of the currency. "And the secret to it is to enable computers to find the big patterns of crime that we can't detect just by looking at spreadsheets or reading suspicious activity report."

Baer said that the use of such technologies will be integral to improving and simplifying the system.

"The real holy grail is on the monitoring side. Banks of every size are still using off-the-shelf software to do transaction monitoring, which incidentally, sophisticated criminals have that software too and know how to avoid it," he said. "You can get to a world where you are generating dramatically fewer alerts, filing significantly fewer SARS and yet are catching exponentially more bad guys."

Until recently, regulators appeared wary of AI programs. Even if supervisors allowed banks to test them, there was a concern that examiners might still want them following the same rules-based system they've used in the past. In other words, banks were allowed to pursue AI, but didn't really any see benefits from doing so, because they feared having to keep using the traditional methods to detect suspicious activity as well.

Critically, there are signs that view is changing. Fincen and the prudential regulators issued a joint statement last

year encouraging banks to consider the use of new technologies to comply with AML standards — something Baer called "a good sign." That's in addition to a second joint statement that highlighted the benefits community banks and credit unions could gain by pooling BSA resources through collaborative agreements. Fincen also announced a new "innovation hours" program in May, which will give financial institutions and startups the opportunity to hold demonstrations of new AML technologies at the bureau.

"We are much more coordinated than I think we have been" with the prudential regulators, said Kenneth Blanco, Fincen's director, noting that he regularly meets with the heads of the agencies. "We have monthly meetings to talk not only about innovation, but about things that are happening out there in the financial sector, how we can work together, how we can be more efficient."

Blanco said he has invited bank CEOs to meet with him privately to discuss their concerns about the system.

"I will walk them through exactly what it is we're using their information for, so that they can understand that the information — and the money that they're spending — is valued," he said.

Fincen has similarly indicated that it's working with a private vendor on a process aimed at determining what's working and what isn't under the current regime.

"If you think about it on its face, what is the value of BSA? It sounds like a pretty simple question, but it really is hard — people in different agencies and institutions put different value on different pieces of information," Blanco said.

But bankers don't necessarily feel like Fincen is working with them.

"If you go up to the Hill and talk to the legislators, they hear from Fincen and they want to keep things the way they are," said Jim Reuter, the president and CEO of the $18.5 billion-asset FirstBank Holding Co. in Lakewood, Colo., in a recent interview. "The problem is that we are still operating as if it was 25-30 years ago. I feel like if we worked together, banking and Fincen, we could just be much more strategic."

Policymakers are at least aware of the issue. Broad AML legislation recently introduced by a bipartisan group of senators — Mark Warner, D-Va., Doug Jones, D-Ala., Tom Cotton, R-Ark., and Mike Rounds, R-S.D. — would require the Department of Justice to report annually on how frequently law enforcement agencies use Bank Secrecy Act reporting as part of their investigations. The bill would also establish beneficial ownership reporting requirements and mandate a number of steps aimed at improving coordination between all of the different players in the regime.

Draft legislation being debated in the House would similarly establish a voluntary "Fincen Exchange" between financial institutions and their affiliates, law enforcement and Fincen, designed to improve the efficacy of the system.

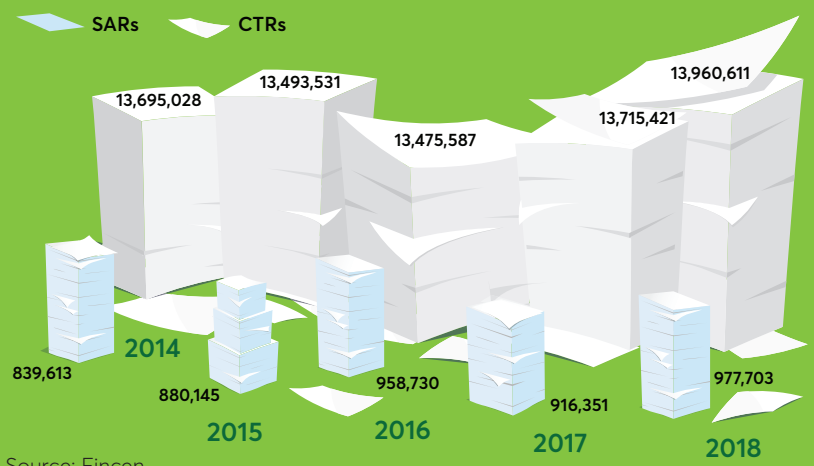
All of these efforts go to vital questions banking officials and others have been asking themselves for more than two decades: What is useful information, how is it being used and where do we go from here?

"What the CFOs and the CEOs are saying is, what are we getting for all this money we're pumping into the AML/BSA regime?" said Richards, the former Wells Fargo executive. "Can we produce fewer alerts and have it cost less and investigate fewer cases and file better SARs? The answer to that is maybe — but we don't know what a better SAR is."

Still, AML reform has been on the minds of many for years, with the need for updates and improvements fairly clear to most parties — somewhat of a rarity in policymaking circles. But that's not to say those good intentions are always enough to lead to concrete changes, particularly when it comes to

A warehouse of data

Banks and credit unions have consistently filed more than 14 million reports each year, yet only a fraction are used by law enforcement.



Source: Fincen

the more sweeping reforms being debated in the divided Congress.

For example, while the House's beneficial ownership bill enjoys bipartisan support and recently advanced out of committee, it has been opposed by the Chamber of Commerce and other powerful business interests, raising questions about its fate on the House floor and in the Republican-led Senate. At the same time, smaller institutions have pushed for raising the thresholds for suspicious activity reports and currency transaction reports as a way to reduce reporting burdens, even as other industry officials argue that doing so would open up dangerous loopholes in the system.

"In some ways, it's classic Washington — there's a sense that something should be done, but not necessarily an agreement on what that should be," said Edward Mills, a policy analyst at Raymond James.

That's particularly true as large institutions, most recently Deutsche Bank, continue to stumble amid headline-grabbing compliance failures.

Regulatory oversight

And yet compliance with anti-money-laundering rules is very much on the minds of banking officials as part of the reform effort. Industry experts argue that bank examiners don't have enough insight into the work institutions do to report suspicious activity, distorting how their compliance programs are evaluated.

"The examiners who determine compliance are not allowed to know, in all but rare cases, what becomes of the suspicious activity reports that are filed," Baer of the Bank Policy Institute said. "So that compliance rating is driven far more by things like, are there written policies and procedures, has there been strict one hundred percent adherence to those policies and procedures, rather than the efficacy of the SARs that are filed."

"People in different agencies and institutions put different value on different pieces of information," said Kenneth Blanco, the director of the Financial Crimes Enforcement Network.

"What that leads to is, AML is examined much the same way as any other function — through a check-box kind of approach," Baer said.

This in turns shifts the balance with regard to bank priorities, with compliance becoming the main focus. That includes an overreliance on defensive SARs and a fixation on minutiae, according to industry experts.

"We have these laws for one reason and one reason alone — and that's to get valuable data and information in the hands of law enforcement, so there can be a reaction," said John Byrne, an expert on anti-money-laundering issues and vice chairman of AML RightSource. "When regulators are criticizing banks for being a couple of days late in a filing or putting a company on a cash reporting exemption list by error, that's a problem."

For their part, regulators are taking steps that they say are designed to meet some of these concerns — including through the regular meetings held by the heads of Fincen and the prudential agencies, along with even more frequent discussions among staff.

"There is significant collaboration across all parts of this — among the regulators, among Congress, among all stakeholders," said Grovetta Gardineer, the senior deputy comptroller for bank supervision policy at the Office of the Comptroller of the Currency. "There continues to be a heightened focus in order to really ensure that we can protect the system — and that's a good thing that so many eyes are on it."

That collective effort also includes meetings held through the Bank Secrecy Act Advisory Group, which is made up of government officials, law enforcement bodies, financial institutions, trade groups and tech startups, officials said.

"We've re-energized the BSAAG since I've been here — we're now making it an even bigger event, and our subgroups and our workstreams are more focused," said Blanco, the Fincen director, who joined the bureau in late 2017.

Still, the biggest unanswered question remains: How much change will the system undergo in coming years and will it be enough? To the degree there are broad strokes of agreement across the industry and government and other players, there are numerous areas where the essential details still need to be hashed out. Absent that, progress is likely to remain more piecemeal than comprehensive. Whether that's sufficient to keep up with the savviest criminal minds out there remains to be seen.

The bad actors "are getting smarter," Gardineer said. "They're figuring out how to get around some of these systems, and so, we have to keep pace in order to protect the integrity and the safety of the financial system." □

The threat posed by Facebook's Libra

By Karen Shaw Petrou

Facebook's recently launched Libra promises a lot: a new construct made up variously of a virtual currency, a payment system, a digital wallet, a remittance service, a new financial-intermediation vision ... and a whole lot of rhetoric about the liberation of roughly 2.6 billion people from the thrall of traditional banking.

In the white paper behind the announcement, Facebook provided details on the things it knows well. Much thought is given to software in hopes that someone will figure out how to build capacity on what the fine print describes as this financial prototype.

But for Libra to be a robust product with the capacity to both cross-sell Facebook services and handle the thousands of transactions a second its ambitious flaunt anticipates, Facebook or — more likely — global and U.S. policymakers need to quickly determine whether Libra is more than an astute way to bypass growing U.S. antitrust, privacy and content-regulation challenges.

There's even more at risk than election integrity, personal privacy and the free flow of information. If Libra becomes a major financial force, then the household savings of vulnerable consumers and the stability of global finance are on the line.

Libra's coin of the digital realm is founded on what is usually described as a "basket of currencies." But what's in the basket? Libra is said to be a "stablecoin," making it better than a bitcoin because, as Facebook promises, its medium of exchange (i.e. new currency) won't gyrate wildly like other virtual currencies. This works well in virtual-currency trading venues but is it a medium of exchange in its own right?

Even a simple basket of currencies akin to the International Monetary Fund's longstanding currency benchmark fluctuates daily, based on volatile exchange rates. The value of a fixed fiat currency such as the dollar is that: except for inflationary effects, its value is fixed immutably for exchanges within its own currency framework. Simply put, a dollar is a dollar through which you can buy and sell what's worth a dollar; even if the dollar in comparison to another currency is worth more or less than it was a moment ago.

If Libra becomes a major financial force, the household savings of vulnerable consumers will be on the line.

Moving away from a single, fiat currency also raises critical safety-and-soundness questions. Who picks what is in Facebook's basket and how much volatility might result? Who wins or loses based on what's in the basket? Theoretically, a global Libra balances everyone's interests across each national fiat-currency regime.

Libra's basket gets even more fragile because Facebook says it might value its Libra currency based not only on a currency basket, but also on allowing investors to hold a handle or bit of the basket's bottom by taking a stake in the exchange medium. And then, perhaps, even trading in it. This raises myriad questions:

Whose funds would be involved? On what terms could they be redeemed? Are investors limited only to Libra's members who build the reserves that appear to fund the transactional basket? How much liquidity risk is for whom? Is this a security or some form of a mutual fund? Who's in charge of some or all of this?

Facebook says that its new subsidiary, Calibra, would run all this in a regulated fashion. But it's unclear who would regulate Calibra and for which transactions, customers and in what countries. Any big bank will say this raises a lot of not-so-minor operational and legal-risk considerations as well as recovery-and-resolution challenges.

This brings me to one final caveat: What happens if something goes wrong in the single operational infrastructure behind Libra within its vast reaches of Facebook's empire?

Global regulators are rightly fearful that concentrated operational risk creates single points of failure with sweeping systemic consequences if too many counterparties or customers rely on a single system. Understanding this, Congress created "financial-market utilities" in the Dodd-Frank Act and targeted them for top-down systemic regulation.

Libra has a long way to go before it's as essential to global or U.S. finance. But now might be a good time to be sure that a system with Libra's ambitions is tempered by advance thought about its infrastructure implications and all of the potential risks. □

Karen Shaw Petrou is a managing partner at Federal Financial Analytics. The views expressed are her own.

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BackPorch

KELLY KING

"It's the biggest day of my career. Now I can tell my wife, so she can get it embroidered onto my pajamas."

BB&T's CEO, ending months of suspense in announcing that the new name of the merging BB&T and SunTrust will be Truist Bank

CORY D. RAINES

"It sounds like a pharmaceutical drug, not something I would be happy to have on my checks. Did y'all do any focus groups?"

Atlanta lawyer and SunTrust customer, reacting to the name Truist

NICK BOURKE

"It would definitely be a bad thing to roll back what minimal protection is in place already."

Director of consumer finance at the Pew Charitable Trusts, on the Consumer Financial Protection Bureau's decision to revisit a financial crisis-era rule that requires bank customers to opt in for overdraft protection

JOHN MOSCOW

"He made a series of incredibly bad [loans] to a guy who Google would tell him he's buying into a problem."

Former New York prosecutor on banker Stephen Calk, who was charged with bribery in an alleged scheme involving Paul Manafort

MAXINE WATERS

"Given the company's troubled past, I am requesting that Facebook agree to a moratorium on any movement forward on developing a cryptocurrency."

House Financial Services chairwoman, a California Democrat, calling for hearings on Facebook's digital-currency ambitions

BLOOMBERG NEWS

JEROME POWELL

"The issue isn't that the banks don't understand what the rules are. The issue is that the risk isn't in the banks."

Federal Reserve chairman, arguing that nonbank lenders, not banks, are most responsible for the exploding levels of corporate debt

CHAITI SEN

"What we hope to do with this initiative is really make this whole process more sensitive and private and free of personal questions that will allow for true names to appear on cards."

Mastercard's vice president of communications, on the decision to let transgender people swap out cards bearing their birth names for those with names they now use

ROB NICHOLS

"It defies simple logic that the NCUA would propose again to delay imposing comparable rules for the nation's credit unions, when the agency is simultaneously allowing and encouraging credit unions to operate exactly like banks."

President and CEO of the American Bankers Association, on the National Credit Union Administration's decision to delay a rule that would require credit unions to hold more risk-based capital

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Elizabeth E. Flynn, Director
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