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EDITOR'S NOTE: CASHIER'S CHECKS

Steven A. Meyerowitz

**PAPER TIGERS? CASHIER'S CHECKS, NONPAYMENT, AND THE HOLDER IN DUE
COURSE DEBATE**

Thomas O. Ashby and Eli A. Rosenberg

FDIC ADOPTS FINAL RULE REGARDING ILC APPLICATIONS

Bob Jaworski

THE FDIC'S RAPID PHASED PROTOTYPING COMPETITION

Zayne Ridenhour Tweed, James W. Stevens, Alan D. Wingfield, and Gregory Parisi

**MSB OR NOT MSB? THAT IS THE QUESTION (FOR DETERMINING APPLICABILITY OF
ANTI-MONEY LAUNDERING RULES)**

Stephen R. Heifetz, Joshua Kaplan, Julie E. Krosnicki, and Christina Wang

THE DAWN OF A NEW DAY: EXPANSIVE LAW SIGNALS HEIGHTENED AML ENFORCEMENT

Inbal P. Garrity, Ariel S. Glasner, William E. Lawler III, Jed M. Silversmith, and
Victoria Ortega



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May 2021

Editor's Note: Cashier's Checks

Steven A. Meyerowitz

253

**Paper Tigers? Cashier's Checks, Nonpayment, and the
Holder in Due Course Debate**

Thomas O. Ashby and Eli A. Rosenberg

255

FDIC Adopts Final Rule Regarding ILC Applications

Bob Jaworski

283

**The FDIC's Rapid Phased Prototyping
Competition**

Zayne Ridenhour Tweed, James W. Stevens,
Alan D. Wingfield, and Gregory Parisi

291

**MSB or Not MSB? That Is the Question (for Determining
Applicability of Anti-Money Laundering Rules)**

Stephen R. Heifetz, Joshua Kaplan, Julie E. Krosnicki, and
Christina Wang

296

**The Dawn of a New Day: Expansive Law Signals Heightened
AML Enforcement**

Inbal P. Garrity, Ariel S. Glasner, William E. Lawler III,
Jed M. Silversmith, and Victoria Ortega

304

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The FDIC's Rapid Phased Prototyping Competition

*By Zayne Ridenhour Tweed, James W. Stevens, Alan D. Wingfield, and Gregory Parisi**

The authors of this article discuss the Federal Deposit Insurance Corporation's Rapid Phased Prototyping Competition to develop a new approach to financial reporting, particularly for community banks.

The growing role of technology in banking cannot be overstated. Financial technology is reshaping the retail banking industry in real time—changing the way banks receive deposits, lend money, and invest. At the same time, a determined effort to innovate the supervisory relationship banks have with their regulators is gathering steam.

In particular, the Federal Deposit Insurance Corporation (“FDIC”) is working to encourage technological innovation in financial reporting as a way to promote community banking, reduce compliance burdens, and modernize supervision. This effort promises to remake the way banks report, analyze, and use financial data in the supervisory context. Institutions that are poised to accept and use this technology can expect to reap significant benefits.

THE RAPID PHASED PROTOTYPING COMPETITION

In June 2020, the FDIC announced the launch of its Rapid Phased Prototyping Competition to develop a new approach to financial reporting, particularly for community banks.¹ The FDIC invited 20 U.S.-based technology firms to participate in the competition and propose solutions to:

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¹ FDIC Press Release 79-2020 (June 30, 2020).

- Help make financial reporting seamless and less burdensome for banks;
- Provide more timely and granular data to the FDIC on industry health; and
- Promote more efficient supervision of individual banks.

BACKGROUND

As community banks well know, each quarter they must submit detailed financial call reports to the FDIC. These reports contain between 1,400 and 2,400 data fields, which the FDIC aggregates, analyzes, and then makes available for public review on its website. For the largest banks, the FDIC uses technology to fill the gaps between quarters, gaining a granular data feed on liquidity, security exposures, and asset quality. For community banks, this near-constant data stream is not available.

However, because the health of the country's community banks is a window into the economy at large, reflecting not only strengths, but also stresses in the financial system, the challenge for the FDIC has become how to obtain regular reporting from community banks—where technology levels vary greatly—without increasing reporting burdens or costs. The FDIC believes that a Rapid Phased Prototyping approach can provide a solution to meet this challenge.

Described as a competitive hackathon, the Rapid Phased Prototyping Competition “allows developers and government R&D organizations to quickly demonstrate potential solutions that meet urgent requirements, bring technologies to maturity and integrate them into the solution space, and highlight advantages over alternative options.”²

The FDIC's Rapid Phased Prototyping Competition uses a “show me, don't tell me” approach, asking competitors to produce working prototypes over multiple competitive phases. Each phase focuses on a different set of challenges that relate to the FDIC's mission to maintain stability and public confidence in the nation's financial system. The goal is to rapidly create a technologically advanced financial reporting solution, moving from initial concept paper to final prototype in less than a year.

PHASE I

Phase I, which began in late summer 2020, solicited an answer to the following question: “How can access to more granular, targeted, and frequent

² See MITRE Corporation, “Competition Prototyping” summary, *available at* <https://aida.mitre.org/agile/agile-competitive-prototyping/>.

data help the FDIC better assess the credit and liquidity risks of our member banks?” The 20 invited competitors each submitted a 10-page concept paper for evaluation by a panel of experts.

This phase concluded on October 15, 2020 when the FDIC announced the selection of 14 competitors for Phase II.³

PHASE II

Phase II involved the submission of initial prototypes. During this phase, competitors prototyped the concepts outlined in their papers using mockups and other low-fidelity techniques intended to generate discussion, validate assumptions, and quickly revise ideas. To facilitate timely and substantive responses, the FDIC scheduled “sprint check-ins” throughout Phase II so that competitors could meet with FDIC stakeholders and gather developmental feedback.

This phase concluded on January 11, 2021 when the FDIC announced the selection of 11 competitors for the third and final phase.⁴

PHASE III

Phase III, currently underway, involves the creation of final prototypes. Competitors continue to prototype their concepts, developing functionality, conducting beta testing, and refining technical details. Once complete, each competitor’s system will show how it will better equip regulators to detect signs of risk and to take early actions designed to protect consumers, banks, the financial system, and the economy.

COMPETITORS

The following is a list of competitors selected to develop a prototype for Phase III:

- ACTUS Financial Research Foundation, Inc.
- BearingPoint
- DSQuorum LLC (Data Society)
- Fed Reporter, Inc.
- Fidelity Information Services LLC

³ FDIC Press Release 109-2020 (Oct. 15, 2020).

⁴ FDIC Press Release 4-2021 (Jan. 11, 2021).

- First Data Government Solutions LP (Fiserv)
- Neocova Corporation
- Novantas, Inc.
- Palantir Technologies, Inc.
- PeerIQ
- S&P Global Market Intelligence LLC

These final competitors have proposed state-of-the-art technological solutions involving, among other things, open-source software algorithms, application programming interface (“API”) platform exchanges, artificial intelligence systems that power predictive risk modelling, complex visual analytic dashboards, and systems that integrate bank core systems and electronic general ledgers with the FDIC reporting system.⁵

DRIVING TECHNOLOGICAL CHANGE

This project is not a mere paper tiger; the FDIC appears to be committed to driving technological change for community banking. In a July 1, 2020 column published in the *American Banker* “BankThink” blog, FDIC Chair Jelena McWilliams discussed the long-term outlook for the Rapid Phased Prototyping Competition. She said, “The supervisory technology that the competing teams will develop will be the initial step in a long journey to eliminate call reports. . . . This transformation will not happen overnight—it may not even happen during my FDIC tenure. But it is critical for our banking system to begin the process now.”⁶

While the adoption of these technologies among community banks will be voluntary, the FDIC’s intention is to create solutions that will prove to be mutually beneficial for both regulators and banks alike.

As Chair McWilliams emphasized, “modernized and automated data system[s] would improve the ability of supervisors to identify bank-specific and systemwide risks sooner and more efficiently, while reducing the compliance burdens on individual institutions. [It] would also promote early supervisory engagement with banks when risks are identified . . . and allow banks to take remedial action before issues become irreparable.”

⁵ A brief overview of each company’s solution can be found on the FDIC’s Rapid Phased Prototyping Competition website, <https://www.fdic.gov/fditech/rpp.html>.

⁶ Available at <https://www.americanbanker.com/bankthink>.

CONCLUSION

As community banks already know, technology-enabled innovation is disrupting the banking industry at an ever-accelerating pace. If harnessed to the right end, technology has the potential not only to make bank supervision more efficient, but also to reshape the roles that will exist in tomorrow's industry for the better. This is the ultimate goal of the Rapid Phased Prototyping Competition.