

Remarks by
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at the

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Good afternoon. Thank you for inviting me to speak here today.

As the primary supervisor of the majority of the nation’s small and medium-size banks, the FDIC oversees a segment of the banking system that plays a vital role in communities across the country. Through our back-up examination authority, the FDIC also has the ability to examine the nation’s largest banks. And through our statutory mandate to protect the Deposit Insurance Fund, we have a duty to ensure that all insured banks are operating in a safe and sound manner.

Having worked both as a regulator and at a regulated entity, I spent a lot of time thinking about supervision before I came to this job. If we were to set up a supervisory approach from scratch, we would want it to: (1) ensure that insured institutions are safe and sound; (2) provide clear rules of the road; (3) be consistent

in its application; (4) be fair, effective, and holistic in the consideration of regulatory issues; (5) be timely and contemporary in providing feedback; (6) respect the business judgment of an institution's management team; and (7) promote an open, two-way dialogue between the regulated and the regulators.

Since I am addressing a room full of lawyers today, I will discuss the importance of certainty, consistency, diligence, and communication in our supervisory approach, as well as our ongoing efforts to be cognizant of regulatory burden.

Certainty

As a supervisor, our rules and expectations should be clear to those we supervise. A key aspect of effective supervision is providing a level of certainty surrounding compliance with applicable laws and regulations.

Related to this concept, much has been said about the role of guidance in our regulatory and supervisory framework. Under the Administrative Procedures Act, a rule is defined, in part, as "... an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy..."¹ That is a rule.

Separately, there is supervisory guidance. Supervisory guidance can be a helpful tool to provide clarity to our regulated institutions and to FDIC supervisory

¹ 5 U.S.C. § 551(4).

staff on how to operate in a safe and sound manner, be fair to consumers, and comply with applicable laws and regulations. But supervisory guidance documents are not the same as rules, and should not be treated as such.

In September, the FDIC joined several other agencies to issue a statement clarifying to examiners and financial institutions that institutions cannot be criticized for violations of *guidance*, only for violations of law, regulation, or other enforceable conditions. We have taken a number of steps to ensure our examiners understand this, including written instructions, all-hands examiner calls, and in-person training. We also are reviewing our outstanding guidance documents, the role such guidance documents play in the examination process, and our approach to issuing supervisory guidance going forward.

A critical component of certainty is transparency. In October, the FDIC launched the “Trust through Transparency” initiative to make publicly available previously unpublished FDIC information, including how case managers and examiners implement the risk-focused supervision program, turnaround times for examinations, and guidelines and decisions related to appeals of material supervisory determinations.

By making this information available to the public, we are holding ourselves publicly accountable to high standards. My hope is that the “Trust through Transparency” initiative will strengthen the bond of trust among consumers, banks,

and the FDIC. We are in the process of releasing this information, so I recommend visiting the website and paying close attention to our press releases and financial institution letters (FILs).

Consistency

Our regulatory system is set up in a way that ensures banking supervision is a responsibility shared among several federal agencies – the Federal Reserve Board, Office of the Comptroller of the Currency, Consumer Financial Protection Bureau, and FDIC – as well as state regulators.

To promote consistency in supervision, these agencies and entities work together through the Federal Financial Institutions Examination Council (FFIEC) to prescribe uniform principles, standards, and report forms. Separately, I have regular, informal conversations with the other agency heads, which gives us an opportunity to share information and discuss issues as they arise.

Currently, the FFIEC is exploring how to ensure the different agencies and different examiners within each agency are applying CAMELS ratings consistently and uniformly.

Additionally, the FDIC has partnered with the FFIEC agencies on an examination modernization project that, among other things, is exploring ways to use technology in the exam process, without compromising on quality. For

example, the project team is considering how technology can reduce regulatory burden by shifting examination work from on-site to off-site.

Diligence

I live in Arlington, Virginia with my daughter, two elderly parents, and two dogs. I try to live in a clean house, so I frequently clean. I am quite skilled at getting rid of dirt, but no matter how much cleaning I do, I can always find more dirt.

We can apply this concept to banking exams. Our examination approach should not be such that we focus more on seeking out dirt than on whether the home is clean.

But if the home is dirty, we will take action.

And rest assured, if you try to sweep dirt under the rug, we will find it.

Communication

To ensure that our examination process is fair, unbiased, and free of outside influence, we require our examiners to establish a dialogue with bankers and to keep the lines of communication open throughout the examination process. This helps supervised institutions understand what is expected so they can decide how best to comply given their unique circumstances.

Communication is especially important in the case of community banks with limited resources. If the chief compliance officer is also the chief loan officer and

a bank teller in her spare time, she needs to be able to allocate her limited time efficiently. Understanding clearly what the institution's supervisory obligations are makes this possible.

The FDIC communicates with its regulated entities in multiple ways, including interactions between examiners and bank employees, and through issuance of FDIC documents and materials such as regulations, supervisory guidance, FAQs, FILs, articles and research, webinars, and technical assistance videos. As part of our efforts to improve and streamline our communication, the FDIC recently retired 493 FILs that were outdated or duplicative, more than one half of the 837 FILs that were outstanding.

Regulatory Burden

The FDIC is also mindful of the burden imposed by regulations. We have to ensure that our regulations are appropriate to the size and complexity of the banks we supervise. As I said in the past, we have made our regulatory system way too complicated for the banks that are not that complicated.

A key priority of mine is to substantially simplify the capital requirements for community banks. In November, we joined with the Federal Reserve and the OCC on a proposal to give qualifying community banks the option to calculate a simple leverage ratio, rather than multiple measures of capital adequacy. As part

of this proposal, we proposed a definition of tangible equity that is simple to calculate and includes high-quality, loss-absorbing capital.

The agencies estimate that more than 80 percent of community banks will be eligible for the Community Bank Leverage Ratio (CBLR), based on the proposed calibration and qualifying criteria. This was a key priority in designing the proposal – to ensure that the simple ratio would be available broadly.

We are also working with our fellow banking regulators on ways to tailor the risk-based capital rules for community banks that do not qualify for the CBLR, recognizing that the risk-based regime should be simpler. We are focusing on the capital ratios and buffers community banks are subject to, and will revisit some of the more complicated calculations and risk-weightings currently required.

Conclusion

I have now been at the FDIC for seven months. I have a long to-do list, and we are making progress on a number of fronts. We are working to improve the *de novo* application process, undertaking a comprehensive review of brokered deposits regulations, simplifying overly complex capital requirements, tailoring regulations as appropriate, and refining the resolution process for large institutions, to name just a few of our early initiatives.

Improving the supervisory process in a holistic, forward-looking manner is another topic we plan to tackle, and it is a topic you will hear more about from me in the future.

Thank you.