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Attention: Comments/Legal OES (RIN 3064-AF94)
Federal Deposit Insurance Corporation
550 17th Street, NW
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Submitted via website

RE: Guidelines Establishing Standards for Corporate Governance and Risk Management for Covered Institutions with Total Consolidated Assets of $10 billion or More

INTRODUCTION

Starling Insights, Inc ("Starling Insights"), a US-based public benefits corporation, offers a membership-based platform that is a resource for and by the community of leaders, experts, and practitioners working to bring new ideas and tools to the governance and supervision of cultural, behavioral, and other nonfinancial risks and performance outcomes. We are pleased to collaborate in this with a number of global organizations, among them, the Financial Markets Standards Board, the Institute of International Finance, the Chartered Banker Institute, and the Association of Certified Chartered Accountants. Please note that comments offered here are our own.

We are grateful for the opportunity to provide comments to the FDIC's Guidelines Establishing Standards for Corporate Governance and Risk Management for Covered Institutions with Total Consolidated Assets of $10 billion or More (the "Guidelines").

We have written extensively on prioritizing corporate governance, relevant responsibilities implied for boards and management, the challenges they confront in this, and the need for real-time tools that permit for anticipating risk governance failures, so that these may be mitigated proactively.[1]

[1] Gary Cohn, Keith Noreika & Barbara Novick, An Interview for the 2022 Compendium, *Starling Insights*, May 15, 2022. https://insights.starlingtrust.com/content/compendium/an-interview-with-gary-cohn-keith-noreika-and-barbara-novick

The recent past focus on ESG has triggered heated debate, particularly in connection with the environmental and social dimensions. Few, however, contest the importance of corporate governance as being central to the maintenance of reliable and robust capital market systems.[2] Indeed, many prominent institutional investors are now placing greater emphasis on their own related stewardship roles. We note, for instance, the recent decision of Norges Bank Investment Management to act as lead plaintiff in a class action suit brought against Silicon Valley Bank, its board, management, and principal advisors.[3] Failed risk governance is central to their complaint.

For this reason, we welcome the FDIC's attention to corporate governance. However, we believe the FDIC will have missed an opportunity if the agency goes forward with these Guidelines as currently drafted. As the FDIC points out, these Guidelines mirror policies and guidance that are already in place for some of the largest and most complex banks in the world, such as the Federal Reserve's Regulation YY and the OCC's Heightened Standards for Certain Large Insured National Banks.

And yet, even after 10+ years of experience and hundreds of billions of dollars spent implementing required policies, processes, and systems, results have been mixed at best. In 2023, the banking industry faced failures among sizeable institutions, and regulatory fines and penalties significantly increased across many jurisdictions.[4] Before expanding these Guidelines to cover a greater number of institutions, most of smaller size, the FDIC would benefit by addressing the shortcomings in past approaches. There can be little value – although significant cost – in doing 'more of the same' when these past approaches and consequent investments have failed to deliver hoped-for results.

FIGHTING THE LAST WAR

Despite years of effort and billions spent in implementing past risk governance architectures, large banks continue to confront billions of dollars annually in fines, penalties, customer remuneration costs, and plaintiff awards. These costs are ultimately rooted in poor governance practices and ineffective risk management. As we approach the one-year anniversary of the banking turmoil of 2023, it is helpful to highlight some of the important learnings we have since achieved.

Silicon Valley Bank (SVB) shocked the world when it faced $42 billion in deposit outflows in a single day, which amounted to the largest bank run in history. The proximate cause of the bank run was a loss in confidence in the bank's viability when reports emerged that it was technically

[2] Starling Insights, "Governance: Putting the G in ESG," Deeper Dive, May 16, 2021. https://insights.starlingtrust.com/content/compendium/governance-putting-the-g-in-esg/

[3] Eliot Brown, "Sovereign-Wealth Giant Pursues Goldman Sachs, KPMG and Others Over SVB Collapse," *The Wall Street Journal*, Jan. 17, 2024. https://www.wsj.com/finance/banking/wealth-giant-pursues-goldman-sachs-kpmg-and-others-over-silicon-valley-banks-collapse-64a16039

[4] SteelEye, "Financial Services Fine Tracker 2023," Jan. 25, 2024. https://www.steel-eye.com/news/steeleyes-financial-services-fine-tracker-2023

insolvent. Much has been written about the root causes of those events. While clearly there was a profound failure in interest rate and liquidity risk management, ultimately the problem was one of a breakdown in governance. As described in the IMF's report *Good Supervision: Lessons from the Field,*[5] the problems that led to the bank run were known to both management and the bank's supervisors. Ultimately, SVB's failure amounted to a breakdown in several key constituents of effective of governance: accountability, decision-making, coordination, and reporting, among others.

Similarly, the near-collapse of Credit Suisse, a G-SIFI, exposed fundamental risk governance weaknesses that were clearly visible to many for some time. Indeed, it is precisely because such risk governance failures were seen perpetually that the market lost confidence in the institution when macro-economic trends turned against it. In the words of *Financial Times* writer Helen Thomas, "Credit Suisse (...) managed to scandalise itself out of existence."[6]

The collapse of the hedge fund Archegos in 2021 led to a $4.7 bn loss for Credit Suisse. Unlike other banks that had been exposed to the fund, Credit Suisse seemed singularly unprepared. And yet, a more nuanced story emerges in the post-mortem report prepared by law firm Paul Weiss.[7]

According to that report, management was very much aware of the risk, and even formed a special committee of senior executives to monitor the relationship and to wind it down if necessary.[8] On paper, at least, Credit Suisse demonstrated sound governance. In practice, however, shortly after the committee was formed, it shifted its focus to more general customer and risk-based issues. As a result, the bank was unprepared when collapse came.

SVB and Credit Suisse had implemented industry standard "3 Lines of Defense" (3LoD) frameworks, they had adopted codes of ethics, risk policies, extensively documented controls, and their boards espoused a 'tone-from-the-top' that promoted safety and soundness. These represent the formal governance structure of those firms. This includes elements management is believed to control: board composition, reporting structure, risk management frameworks, management policies and procedures, compensation schemes, the assignment and mapping of roles and responsibilities, etc.

But the risk governance failures at these institutions stemmed from their *informal* governance structures. These include the practical, day-to-day lived realities among personnel – "the way

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[5] Tobias Adrian et al., "Good Supervision: Lessons from the Field," *International Monetary Fund*, Sept. 6, 2023. https://www.imf.org/en/Publications/WP/Issues/2023/09/06/Good-Supervision-Lessons-from-the-Field-538611
[6] Helen Thomas, "How 'Competitive' Would You Like Your Bank Regulation Now?," *Financial Times*, Mar. 20, 2023. https://www.ft.com/content/ee75dc94-2919-42c6-b40d-0e2ee556af83
[7] Brad Karp, "Lessons Learned from the Archegos Default: How Banks Can Better Identify Risk and Prevent Losses," Compendium, *Starling Insights*, May 15, 2022. https://insights.starlingtrust.com/content/compendium/lessons-learned-from-the-archegos-default-how-banks-can-better-identify-risk-and-prevent-losses-1
[8] Credit Suisse, "Archegos Info Kit." https://www.credit-suisse.com/about-us/en/reports-research/archegos-info-kit.html

things are done around here." Things like employee behavioral norms, understood if unwritten expected practices, invisible but consequential networks of internal peer influence, and generalized operational norms that explain how work actually gets done.

Such factors, commonly captured with reference to "corporate culture," are *material* contributors to risk and, in many cases, they represent the most critical challenges to risk governance. But because we have poor means of identifying, measuring, and managing these elements, they are habitually neglected – by firms *and* their supervisors – until disaster erupts.

Federal Reserve Board Vice Chair Michael Barr spoke to this, last June, at the New York Fed's annual conference on banking governance and culture reform: "Governance is another word for culture," Barr remarked, acknowledging the importance of attending to these informal but nevertheless structural components of both risk and its effective mitigation.[9]

ADDRESSING THE FORMAL STRUCTURE ALONE IS NOT SUFFICIENT

The FDICs proposed Guidelines represent a significant shift in board responsibility, with the expectation that boards must *ensure* that effective governance and risk management is delivered. This includes variously ensuring "compliance with laws and regulations," "that management corrects deficiencies that auditors or examiners identify in a timely manner," and that "the CEO, front line, independent risk management, and internal audit units implement and adhere to, an effective risk management system," among other stated expectations.

These proposed Guidelines, however, rely on highly prescriptive changes to a bank's formal governance structure but fail to attend to its informal structure. The ability to *ensure* that good governance is in place is not possible if formal structures alone are captured. To take one example, a Code of Ethics (a formal structure), as called for in these proposed Guidelines, has little intrinsic benefit if unspoken norms are such that the Code is to be ignored whenever it proves inconvenient.

The requirement that Covered Institutions implement a 3LoD framework poses greater challenge. As we have discussed elsewhere,[10] these models are simple to describe but extraordinarily difficult to implement effectively. Conceptually, the approach of assigning roles and responsibilities to the front office, risk management, and audit is broadly understood. In practice however, 3LoD structures must operate in complex, dynamic, and high-pressure environments. Effective implementation

[9] Stephen Scott, "Changing Supervision for Good," *The Banker*, July 24, 2023. https://www.thebanker.com/Changing-supervision-for-good-1690188032

[10] Erich Hoefer, Mark Cooke & Thomas J. Curry, "Three Lines of Defense: Failed Promises & What Comes Next," *Starling Insights*, Aug. 21, 2020. https://insights.starlingtrust.com/content/thoughts/three-lines-of-defense-failed-promises-and-what-comes-next

requires effective, continuous coordination among individuals across all three lines – coordination that regularly fails when not adequately supported by internal networks of peer influence.[11]

It is no wonder that, despite over a decade of effort and hundreds of billions of dollars invested, large banks continue to face problems implementing effective 3LoD systems. Wells Fargo's experience is a case in point. This past September, more than five years since the Federal Reserve imposed an asset cap in response to a continuing series of misconduct scandals, the *Wall Street Journal* reported that the bank was still struggling to implement core elements of 3LoD oversight consistently across its operations.[12] This despite having access to world-class expertise, high-quality talent, and significant financial resources – assets that smaller firms cannot boast.

This situation is repeated all too often as firms invest in risk management and internal controls, only to realize later that they must spend a multiple of that to effectively embed appropriate behaviors into the culture of their organizations so that those systems will work properly. Without an ability to measure behavioral proclivities reliably, in real time, and at enterprise-wide scale, it is challenging even to identify when there is misalignment.

The result is that boards, executives, and supervisors alike are often lulled into believing that the formal governance structure can be expected to deliver good governance outcomes, even when the informal structure almost assures otherwise.

The Guidelines emphasize a worthy goal: that boards should have deep insight into the firms they oversee. Further attendance to formal governance structures alone will not deliver that. Instead, firms will face significant cost increases unlikely to be justified by a commensurate increase in return-on-investment. And while supervisors may believe they are better positioned to identify idiosyncratic and systemic risks, they are instead likely to be further lulled into false sense of security. When future governance failures ensue, an aggrieved public will hold both accountable.

A NEW WAY OF APPROACHING CULTURE

We note that the proposed Guidelines reference culture in the context of setting an appropriate 'tone-from-the-top'. This is of course important as firms must articulate appropriate values which typically include elements such as "safety and soundness", "innovation", "rapid decision-making", and "effective collaboration", etc.

[11] Aiyesha Dey, Jonas Heese & James Weber, "Regtech at HSBC," Case Study, *Harvard Business Review*, Oct. 9, 2019. https://store.hbr.org/product/regtech-at-hsbc/120046
[12] Ben Eisen, "Wells Fargo Is Still in Fix-It Mode," *The Wall Street Journal*, Sept. 6, 2023. https://www.wsj.com/finance/banking/wells-fargo-fake-account-scandal-aftermath-2b9b11e9

These values are unique to each firm. So long as these values are compatible with good corporate governance and risk management, the specific 'tone-from-the-top' is less important than the informal governance structure that enables those values to take root and propagate across the firm.

An effective approach to corporate governance and risk management is one that acknowledges the importance of these cultural and behavioral elements and approaches them with the same rigor as would feature in any other management discipline.

In recent years we have seen global supervisory bodies begin to embrace the importance of culture in response to the risk governance failures highlighted above.

For example, in 2023 the Basel Committee on Banking Supervision (BCBS) sought public comments on an update to the Core Principles for Effective Banking Supervision that incorporates assessments of risk culture for the first time. They wrote, "(R)isk culture refers to a bank's norms, attitudes and behaviours related to *risk awareness, risk-taking and risk management, and controls that shape decisions on risks*. Risk culture influences the decisions of management and employees during their day-to-day activities and has an impact on the risks they assume."[13]

Several supervisory bodies are encouraging innovative approaches that seek to add more structure and rigor to culture supervision. Efforts are underway to implement effective culture and behavior assessments,[14] design more impactful executive accountability regimes, [15] improve root cause analysis, and embed effective behaviors into first-line operations. Key to these efforts is the development of reliable metrics by which firms can assess themselves on culture and behavioral risk indicators and compare themselves vis-à-vis peers on a horizontal-review basis. [16]

Achieving good governance and risk management means equipping executives and boards with a means by which to demonstrate that informal structural elements are recognized and that they are effectively aligned with the more easily visible formal structures that support corporate governance and risk management. Absent this, governance systems default to self-reporting mechanisms and superficial tick-box exercises. Such approaches may, in fact, contribute to greater instances of poor conduct, as task completion becomes the goal and is viewed as absolving leaders of responsibility

[13] Basel Committee on Banking Supervision, "Core Principles for Effective Banking Supervision," Consultative Document, *Bank for International Settlements*, July 2023. https://www.bis.org/bcbs/publ/d551.pdf
[14] Wayne Byres, "Strengthening Supervisory Assessments of Risk Culture," Compendium, *Starling Insights*, May 15, 2022. https://insights.starlingtrust.com/content/compendium/strengthening-supervisory-assessments-of-risk-culture
[15] Ruth Walters & Raihan Zamil, "Holding Bank Executives Accountable for Misconduct," Compendium, *Starling Insights*, June 7, 2023. https://insights.starlingtrust.com/content/compendium/holding-bank-executives-accountable-for-misconduct-1
[16] Stephen Scott, "Culture as Culprit, Culture as Cure," Opinion, *The Banker*, Sept. 15, 2023. https://www.thebanker.com/Culture-as-culprit-culture-as-cure-1694762983

for ultimate outcomes achieved.[17]

If what we refer to here as a firm's informal governance structure is to be managed to the level expected with respect to other material risks, then the industry will need to establish standard metrics by which to assess these informal structures, and practices that allow for it to be managed purposefully. Without such, these material concerns will be ignored or de-prioritized until crisis demands differently.

NEW TOOLS

Machine learning has made it possible to process vast troves of internal corporate data at scale. With the adoption of novel approaches to culture assessment made possible by "computational social science," it is now possible to detect signals within those data sets that tie to particular behaviors of interest to management and supervisors.[18] This makes it possible to generate "predictive behavioral analytics" — continuously updated behavioral indicators that provide an accurate, real-time view of the state of a firm's informal governance structure *in vivo*.[19]

Analyzing these signals, we can establish metrics that reveal where specific behavioral propensities are likely to appear – and propagate in a contagion-like manner[20] – and link those to any number of key performance indicators, key risk indicators, or other relevant management information.[21] This may include behaviors that represent a predilection for questionable conduct or, equally, behaviors that reinforce good governance practices.

By incorporating network science, it becomes possible to determine likely pathways by which specific behaviors of interest, or of concern, are likely to extend throughout an organization.[22] Such

[17] Michelle Kirschner & Matthew Nunan, "The UK's Consumer Duty: A Rebirth, Not a Rebrand," Compendium, *Starling Insights*, June 7, 2023. https://insights.starlingtrust.com/content/compendium/the-uk-s-consumer-duty-a-rebirth-not-a-rebrand

[18] Keith Noreika & Bryan Hubbard, "Decoding "Too Big to Manage": What It May Take to Manage Large, Complex Institutions Successfully," Compendium, *Starling Insights*, June 7, 2023. https://insights.starlingtrust.com/content/compendium/decoding-too-big-to-manage-what-it-may-take-to-manage-large-complex-institutions-successfully

[19] Starling Insights, "Starling on Managing Culture Risks with AI," Observations, Mar. 7, 2023. https://insights.starlingtrust.com/content/observations/starling-on-managing-culture-risks-with-ai

[20] Michael Arena & Rob Cross, "Organizational Culture is Caught, not Taught," Compendium, *Starling Insights*, May 15, 2022. https://insights.starlingtrust.com/content/compendium/peer-perspectives-organizational-culture-is-caught-not-taught

[21] Financial Markets Standards Board, "Conduct & Culture MI: Boundaries of Current Practice," Spotlight Review, July 2023. https://fmsb.com/wp-content/uploads/2023/07/FMSB-Conduct-and-Culture-MI-Report-July-24-2023.pdf

[22] Nicholas Christakis, "Culture as Contagion," Compendium, *Starling Insights*, Mar. 26, 2019. https://insights.starlingtrust.com/content/compendium/our-view-culture-as-contagion

'behavioral epidemiology' positions leadership to operate from the front-foot and to engage in proactive interventions, if only to "keep the problem small."

Predictive behavioral analytics enable a new generation of governance and supervisory tools that permit for precision targeting of audit activities and risk management interventions, enabling those responsible to scale risk oversight and to act in a more timely, effective, and efficient manner.

As this trend continues, we see an emerging future in which supervision of culture and behavioral risk is conducted as tangibly as is the case for financial risks. With this, culture will no longer be seen as superficially tied to risk management but, instead, will become embedded in a consistent approach to management challenges across the enterprise and, indeed, across financial systems, allowing for horizontal peer-review on an apples to apples basis.

In this context, we offer the following recommendations as to how the FDIC may amend its proposed Guidelines to make them more effective and efficient.

RECOMMENDATIONS

1. ***Should the proposed Guidelines apply to FDIC-supervised institutions with $10 billion or more in total consolidated assets, or would a higher or lower threshold be appropriate? Alternatively, should the proposed Guidelines only apply to FDIC supervised institutions that are examined under the FDIC's Continuous Examination Process? Please explain.***

2. ***Is there a need to differentiate corporate governance and risk management requirements for covered institutions with $50 billion or more in total consolidated assets (or some other threshold)? Please explain.***

With regard to questions 1 & 2, we encourage the FDIC to consider the complexity of the bank's operations and business model rather than the size of its total assets. As discussed, complex operations, particularly those that require coordination among multiple internal stakeholders, demand a higher standard for governance.[23]

An additional factor to consider is that, absent investments in advanced analytics to manage and mitigate behavioral risk at scale, the operational infrastructure required to implement effective risk management frameworks to the standard set by the FDIC in these Guidelines will be prohibitively expensive for smaller banks.

3. ***Should the proposed Guidelines apply to any insured state nonmember bank or insured state savings association with total consolidated assets less than $10 billion if that institution's parent company controls at least one covered institution?***

As noted above, we suggest the FDIC base requirements for these Guidelines on complexity of operations rather than size.[24]

[23] Michael J. Hsu, Preamble to the 2023 Compendium, *Starling Insights*, June 7, 2023. https://insights.starlingtrust.com/content/compendium/preamble-to-the-2023-compendium

[24] Keith Noreika & Bryan Hubbard, "Decoding "Too Big to Manage": What It May Take to Manage Large, Complex Institutions Successfully," Compendium, *Starling Insights*, June 7, 2023. https://insights.starlingtrust.com/content/compendium/decoding-too-big-to-manage-what-it-may-take-to-manage-large-complex-institutions-successfully

4. ***The proposed Guidelines include a reservation of authority enabling the FDIC to determine that compliance with the proposed Guidelines should not be, or no longer be, required for a covered institution based on risk and complexity. Should there be an application process in accordance with subpart A of part 303 of the FDIC's regulations for a covered institution to request exemption from the requirements of these proposed Guidelines? If so, what criteria would be appropriate for FDIC to establish to consider such a request?***

We would encourage the FDIC to consider a process that would offer regulatory relief from certain elements of these Guidelines to all Covered Institutions if they are able to demonstrate a) that the complexity of their operations does not warrant full compliance; or b) that they have implemented solutions that generate outcomes that meet or exceed the requirements stated in these Guidelines.

The latter could be demonstrated through various methods to include predictive behavioral analytics. Such a carveout would incentivize Covered Institutions to embrace new capabilities and tools that would strengthen corporate governance and potentially deliver better outcomes at lower cost.

5. ***Should the covered institution and its parent holding company with other affiliates be required to have separate risk management officers and staff? Please explain.***

6. ***The proposed Guidelines provide that a covered institution may use its parent company's risk governance framework to satisfy the Guidelines based on certain factors. What other factors, if any, should the FDIC consider?***

Questions 5 & 6 speak to the importance of integrating the Guidelines with a firm's culture and behavioral norms.

However, where risk management is structured between parent companies, subsidiaries, and affiliates, the most important factor to consider is how well the management teams of those organizations are aligned and coordinated. Requirements related to skills, knowledge, diversity, or independence are useful but not sufficient on their own. So long as there is evidence of effective coordination and information sharing between entities the FDIC may be less concerned with structural requirements, lest it mandate formal systems and investment that will have little to no benefit.

7. ***Should the proposed Guidelines include more specific suggestions for corporate governance? If so, what additional suggestions should be included?***

8. ***Should the proposed Guidelines include more specific requirements for risk management? If so, what additional requirements should be included?***

9. ***Do the proposed Guidelines provide sufficient and appropriate requirements regarding the role of the board for corporate governance and risk management? Please explain.***

10. ***Do the proposed Guidelines provide sufficient and appropriate requirements regarding the role of executive management for managing the covered institution and its risks? Please explain.***

Regarding Questions 7 - 10, the proposed Guidelines offer very specific direction regarding the formal structures Covered Institutions are expected to make. However, such changes alone will not necessarily improve governance if the underlying behaviors and culture of the organization are not also aligned with those changes. In fact, in several cases, the FDIC risks being overly prescriptive in these Guidelines. This may encourage Covered Institutions to comply with the technical requirements of the Guidelines and ignore potential root causes that may be undermining their governance programs.

This may leave firms complying with the letter and not the spirit of the Guidelines, however inadvertently. We would thus recommend the FDIC consider a more principles-based approach. The roles and responsibilities that are spelled out in these proposed Guidelines will have little impact on their own. Rather, what will ultimately drive good governance outcomes will be the way in which employees implement these changes on a day-to-day basis.

Boards are already challenged to provide effective oversight over business strategy and financial condition, which has led to board members being overwhelmed with data. This lack of visibility into organizations and how work actually gets done in the enterprise is the central challenge of corporate governance. Without it, boards and even senior management teams are largely blind to their true risk exposure, notwithstanding large investments in risk and control systems and processes.

11. Should the CRO or the CAO report to the board or solely to a board committee? Please explain.

12. Do the CRO or the CAO and their associated functions have sufficient independence under the proposed Guidelines? Please explain.

Questions 11 and 12 are good examples of our position on avoiding unnecessarily prescriptive requirements related to structure or function as we discuss in our recommendations to the questions immediately prior.

Whether the CRO or the CAO reports to the board itself or to a board committee may not have any real bearing on the safety and soundness of an organization on its own. What likely matters more is whether the culture of the organization encourages employees to embrace these roles and to engage with their departments consistently, from the first line all the way to the C-Suite. With such a culture in place, the board, senior executives, and the bank's supervisors can have confidence that the right information is being reported – regardless of the part of the organization to which the CRO or CAO technically reports.

On the other side of the coin, making any kind of judgement about the safety and soundness of a bank simply because they adhered to the black letter requirements of these Guidelines would be ill-advised. If the culture of the organization is such that risk and audit are not respected, valued, or properly understood by the business, then no formal structures or even "tone-from-the-top" will be sufficient to guarantee the independence of those functions.

For these reasons, we urge the FDIC to take this opportunity to consider making adjustments to its approach. Rather than enforcing specific formal structures to achieve the FDIC's stated objectives, a more principles-based approach may prove more successful and would relieve banks from making what may be unnecessary changes to formal structures that offer little practical benefit.

13. Would the proposed Guidelines have any costs or benefits that the FDIC has not identified? If so, please identify and discuss.

While we strongly support the principles behind the proposed Guidelines, as currently drafted, we believe the FDIC may be underestimating the implementation costs they would require. We lack sufficient detail to evaluate the FDIC's Table *Estimated Hourly Burden*, but it appears to represent time spent gathering data and preparing reports.

What may not be included here is the significant amount of time required by Covered Institutions to ensure that the processes described in the Guidelines are being properly carried out. Among large institutions that have implemented 3LoD models and related governance and risk management programs, this is by far the largest source of time and expense.

As these proposed Guidelines point out, a Covered Institution that currently has a strong corporate governance and risk management program may not see a significant increase in hours spent meeting these requirements. However, even this does not account for the additional work that will be required by firms to measure and demonstrate their effectiveness to the satisfaction of FDIC supervisors.

14. Are there alternative ways to achieve the objectives of these proposed Guidelines that would impose lower burdens and costs on covered institutions? If so, what alternatives would be appropriate?

Starling Insights covers regulatory jurisdictions around the world that recognize the critical importance of culture in supporting corporate governance and risk management programs. These bodies recognize the challenge with identifying and measuring culture in order to supervise it effectively but the approaches they have espoused tend to focus on formal governance structures such as those proposed in the Guidelines, e.g. Codes of Ethics, "tone-from-the-top," etc.

Advances in behavioral science and technology are changing this dynamic by making forward-looking culture assessment tools more operationally practical. This promises to make operable problems previously considered to be intractable. The FDIC should thus consider including specific Guidance that identifies firm culture as a necessary component of good governance and provide guidance as to how it is to be assessed most credibly, and for greatest management and supervisory impact.

Given the FDIC's desire to raise standards for corporate governance and risk management programs among all banks, large and small, the development of these capabilities presents an opportunity for the FDIC to champion innovation to industry-wide benefit.

Thank you for your consideration.

For questions or further commentary, please contact Erich Hoefer at ehoefer@starlingtrust.com