Our Perspectives:
Commentary on the economy & regulatory policies affecting financial companies

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WASHINGTON, DC

Greater Cooperation Among Banking Regulators is Needed*

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May, 2014

Last month, I wrote about the Bipartisan Policy Center's report on a staged approach to creating a more coordinated, and less fragmented, structure for our financial regulatory agencies. Recent pronouncements by federal regulators on risk management and corporate governance illustrate the need for greater coordination between the OCC and Federal Reserve Board.

At the end of January, the OCC published for comment proposed risk management guidelines for large national banks. As proposed, these guidelines would require large national banks to establish a risk governance framework and bank specific risk appetite. Just two weeks later, in mid-February, the Federal Reserve Board released a final rule implementing some of the heightened prudential standards mandated for large bank holding companies and systemically important non-banks by section 165 of the Dodd-Frank Act. That rule included risk management standards for bank holding companies, including requirements for a designated chief risk officer and development of an enterprise-wide risk management framework.

In the wake of the financial crisis, no one questions the need for heightened risk management standards for large banks and bank holding companies. Moreover, the final rule issued by the Board and the guidelines proposed by the OCC are complimentary in many respects. Yet, there are differences in the Board's final rule and the OCC proposed guidelines, which have generated a number of questions and concerns. Most importantly, it is not clear how an organization's enterprise-wide risk framework and the risk framework for its subsidiary bank intersect.

When the OCC issues a final guidance, it is likely that the agency will resolve many, if not all, of the questions and concerns regarding the interplay between its proposed guidelines and the Board's final rule. Indeed, OCC staff has told a number of industry groups that the agency is in discussions with Board staff. In an ideal world, however, the two agencies would have engaged in extensive discussions prior to the release of the OCC's guidelines in order to ensure that those guidelines and the Board's final rule were fully in sync.

In a separate, but related matter, supervisory staff for the Board and supervisory staff for the OCC have told industry groups that each agency is developing additional supervisory guidance on board governance.

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Again, this is an important issue, and some guidance may be useful. However, institutions already are subject to somewhat conflicting advice from the two agencies on the type and scope of material that management needs to provide to a board of directors. There also seems to be some differences between the agencies in what may constitute a "credible challenge" by directors. Clearly, it would be useful if the two agencies collaborate on this matter before separate, and potentially conflicting, guidance is issued.

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