

## **Remarks by Thomas J. Curry Comptroller of the Currency**

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It is a great pleasure to be with you at this historic moment in banking and bank supervision in the United States. This year marks the 150th anniversary of the National Currency Act, which created the OCC and the national banking system. It also marks the 100th anniversary of the Federal Reserve Act.

Coincidentally, it was 150 years ago on this exact date, May 9, 1863, that the OCC began operations, with a staff consisting of the Comptroller, a single deputy, and a small cadre of clerks. That was roughly 10 weeks after President Lincoln signed the Currency Act into law—a quick start-up by any standard, especially for a law as ambitious as this one. The new law provided for the first uniform national currency and authorized the first federal banking charter.

It created the OCC as the nation's first federal regulatory agency, with unprecedented power and independence to implement a single set of rules applicable to all national banks. Doing all this in such short time was a remarkable accomplishment by any standard, and doubly so given the demands of the Civil War.

Yet, while the Currency Act and succeeding laws were forward-looking, they also affirmed the fundamental values of sound banking. It is well to remember that the national bank laws were a reaction to the slippage in banking standards in the pre-Civil War era. Without a central bank to impose discipline, thousands of lightly regulated private banks issued notes without the promised hard-money backing and leveraged their capital to unimaginable multiples. One Rhode Island bank had \$800,000 in notes outstanding but only \$45 in capital. Cheap money fueled speculation, which fed a pattern of bubble and subsequent collapse. Unstable banking had real economic effects: for example, the Panic of 1837, which was triggered by credit-driven speculation, led to the longest depression in American history.

These events shaped the national banking acts, with their tough capital requirements, strict limits on bank activities, and provisions for regulatory oversight. An era of laxity came to an end; safety and soundness became paramount.

Now, 150 years later, after several cycles of economic boom and bust, of regulatory relaxation followed by regulatory stringency and then back again, we have arrived at another turning point. The Dodd-Frank Act, like the National Bank Act, is a legislative watershed. You can glean how fundamental a shift Dodd-Frank brought to regulatory

policy by looking at the structural changes it makes and its sheer numbers: over 200 required rulemakings, 70 required studies, and more than 1,000 key provisions of the law that directly affect financial institutions and their regulators.

Carrying out these mandates has been a major preoccupation for the regulatory agencies. The job is still not complete; important rule writing remains.

Some have asserted that the scope and prescriptive nature of Dodd-Frank, coupled with the increased emphasis on supervisory stress tests, reflect basic doubts about the role and value of the federal banking agencies' traditional on-site examination programs and the role that examiner judgment plays in bank supervision.

I believe, however, that the financial crisis underscored the importance of bank supervision and the role of examiner judgment, along with strong regulation and robust analytics, as cornerstones of a healthy financial system. Rules are crucial to safety and soundness, but so are examiner “boots on the ground”—the seasoned professionals who bring the benefit of sound judgment and careers-worth of experience to their work. The best way to restore credibility to supervision is by reaffirming its traditional values of rigor, teamwork, and accountability. That is what the OCC is doing right now.

One clear lesson from the crisis involves the important role of capital. Basel III takes important steps toward raising both the quantity and quality of capital and in setting even higher standards for our largest banks. I think it is particularly important that we revisit the issue of the leverage ratio in the context of the Basel rulemaking.

We are still working on Basel, and I am hopeful that we will soon have in place a final rule that will ensure that our banks—and our large institutions in particular—have enough high-quality capital in place to better reflect the risks these institutions pose.

Another lesson of the crisis and the events leading up to it is that while regulators may have discrete responsibility for separate parts of the financial system, we must understand how risk is transmitted across different types of institutions. The fact is that the financial world rarely conforms to the legal or functional distinctions that define regulatory responsibilities. In response to this reality, Dodd-Frank created the Financial Stability Oversight Council to coordinate risk identification and systemic responses across the financial system.

It also created the Consumer Financial Protection Bureau to bring federal oversight to previously unregulated providers of consumer financial products and services. And it consolidated the supervision of federal thrifts and national banks into the OCC. These initiatives helped fill important gaps in supervision, eliminated certain overlap, and

helped break down bureaucratic silos.

Toward that end, we are also stepping up our coordination with other agencies, including the Fed, the FDIC, and the CFPB, to develop integrated strategies for joint supervision of complex institutions and new tools to aid oversight. This process involves the sharing of information, but it's much more than that. In a world of increasingly complex financial institutions, we need to be able to allocate supervisory resources more effectively and take advantage of each other's work.

As Comptroller, I have made interagency collaboration one of my top priorities. We have invited our regulatory partners to attend meetings of the OCC's National Risk Committee, which monitors the condition of the federal banking system and emerging threats to the system's safety and soundness, and provides guidance to examiners based on industry trends. We are also actively seeking the input of other agencies early in the process as we develop examination strategies. These are small steps, to be sure, but they are part of the process of building the kind of trust that promotes collaboration.

A certain amount of professional disagreement among agencies is inevitable. Before and during the financial crisis, it was sometimes the case that one agency identified a risk that it thought warranted joint action, and others disagreed.

Sometimes, that meant action was not taken in a timely manner. We can't let that happen again. We need to be able to work through issues in a collaborative and collegial way.

We need to develop the kind of trust and the kinds of effective working relationships that will ensure we act together and in harmony.

When we do act, it must be with appropriate vigor and with the right resources. To this end, we launched an internal OCC initiative on supervision last year that is intended to evaluate how effectively we handle this responsibility and make any changes that are needed. In particular, we are taking a hard look at how we supervise large banks. How do we spot risks? How do we ensure that we can take action, when needed, in a timely manner?

In part, this is a question of having the right people with the right skills. We have reengineered our entry-level examiner recruitment process to improve the way we recruit and hire entry-level examiners. We are updating our pre-commission training program to ensure it is consistent with our current business demands. We are also assessing the viability of alternative examiner training programs to provide flexibility for multiple career paths.

However, much of our focus is on the mechanics of how we supervise banks. For example, every organization tends to fall victim at some point to the silo approach to

doing business. One way we are breaking through the silos is by reorganizing our program of lead experts.

This program involves highly-specialized experts who support OCC examiners. Our lead experts also provide independent judgment to our senior executives, to ensure that supervisory resources are properly allocated and risks in the banking system are addressed in a timely manner. We have already found that these specialists add significant value to the supervisory process, and so we are enhancing their role. We will be deploying lead experts across companies, to measure risk horizontally and validate the results of our supervision.

In that respect, they can provide an element of quality control and identify areas in need of increased supervisory attention.

We are also continuing to enhance our data collection, analytical tools, and technology. All OCC examiners will benefit with the addition of more refined analytical tools and more granular reporting from banks.

That will better enable us to benchmark risks and track early warning indicators. We know we need to take better advantage of external resources, including market data, and we are doing that. In addition, we are looking for better ways to marshal the vast amount of data that we have assembled in support of our analytics program.

We recognize that good information about emerging trends and risks is as important for banks as it is for regulators, and we believe that as regulators we have a role to play in providing that kind of information to the institutions we supervise. One vehicle for getting this information into their hands is our *Semiannual Risk Perspective*, a report we issued for the first time last year. This report provides the OCC's view, derived from supervisory activity and outside sources, of where systemic threats are building—and where they are going. It presents the empirical data that supports our conclusions.

It also helps banks understand our supervisory responses, giving them detailed data on the kinds of issues our supervision has flagged in banks that fail to heed these trends.

Beyond its value as a source of information, the risk report sends an important message: we expect greater diligence from our banks in managing their risks. To that end, we have also clarified—and raised—our expectations for corporate governance for the largest and most complex institutions.

We refer to this program as “heightened expectations.” I know that might sound at first like nothing more than a slogan, but we have something very concrete in mind, and we have been very specific about it in our conversations with senior management and independent directors at large national banks and thrifts.

It means, for example, that our expectations for independent directors have been ratcheted up. We expect them to present a credible challenge to management and to have a thorough knowledge of the risks their institution is taking on and how senior management is addressing those risks. It means that we are no longer willing to accept audit and risk management systems that are simply satisfactory. We are looking for excellence. Our expectation now is that large institutions will meet the standard of “strong” for audit and risk management functions and that independent directors will take a strong hand in ensuring compliance.

We also want boards and management to fulfill their fiduciary responsibility to preserve the sanctity of the federal bank charter. When I refer to the sanctity of the charter, I have something very specific in mind. We want to be sure that national banks and federal thrifts are not just treated as booking entities for the holding company. The federal bank charter is a special corporate franchise that provides a gateway to federal deposit insurance and access to the discount window, and the highest fiduciary duty of management and independent directors is to ensure the safety and soundness of the national bank or federal thrift.

These are very specific measures that our examiners are looking at in our large banks each and every day, and I think this work demonstrates just how important it is to have examiner “boots on the ground” as one prong of a three-legged stool that also includes the improvements to the rule book that were made by Dodd-Frank and the improved data analytics that includes stress testing.

Stress tests are an important supervisory tool, but they only go so far. They don’t tell us about the strength of management or the health of a bank’s organizational culture, corporate governance, risk management, or internal controls. A bank that passes a stress test with flying colors might fall short on other tests that would tell a seasoned examiner that more capital, more reserves, or a change in direction is needed.

And that is another reason why we, the federal banking regulators, need to do a better job of working together. While we are asking more of our banks, we must also ask more of ourselves. Considering what the economy has gone through, greater focus on governance and risk management is only proper. The OCC, for its part, will continue to evolve to ensure that we are on top of a rapidly changing banking system, and we will work in a collegial and collaborative way with the other financial regulatory agencies to ensure we do everything possible to prevent the next crisis.

Thank you.