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FRB Governor Bowman Spells Out Her Principles for Supervision and Regulation



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Federal Reserve Board (“FRB”) Governor Michelle Bowman gave an important [speech](#) last week on the future of supervision and regulation at the Institute of International Finance.

Governor Bowman’s speech comes on the heels of Vice Chair of Supervision [Michael Barr’s first speech](#) on his supervisory and regulatory provisions. Governor Bowman sits on the Federal Reserve Board’s Committee. Until the FRB recently gained its full complement of members, she was the only member of that committee. Vice Chair Barr serves as the Chair of that committee in light of his position as Vice Chair of Supervision.

Governor Bowman noted that supervision and regulation of the largest banks changed significantly after the financial crisis, but has “evolved more gradually over the past 5 years.” She said that “our gradual and evolutionary approach was wise.”

Governor Bowman went on to say that she is strongly in support of the dual goals Vice Chair Barr laid out of making the financial system safer and fairer. In working toward those goals, she said that she would be guided by the standard of ensuring that “any further changes yield significant improvement to safety and soundness at reasonable cost and seek to avoid approaches that fail to consider the tradeoffs between cost and safety.”

Governor Bowman noted that she would be guided by four principles she has previously described.

- **Due process.** Said Governor Bowman: “Bank regulation and supervision should be transparent, consistent, and fair.” She noted this first principle can be thought of as due process.

- **Safety and soundness.** Governor Bowman stressed the importance of “striking the right balance between ensuring safety and soundness, on the one hand, and promoting acceptable and manageable risk-taking, including encouraging responsible innovation.”
- **Efficient regulation and supervision.** Governor Bowman’s third principle is “that effective regulation and supervision needs to be efficient.”
- **Legitimate prudential purpose.** Governor Bowman emphasized that “regulation and supervision should serve a legitimate prudential purpose, like promoting safety and soundness, or reducing financial stability risk.”

Governor Bowman noted that she would be using these principles as the regulators review certain “critical issues that are relevant to large banks.” She added that these issues include: stress testing (which she thinks could be reformed in a way to limit the volatility of the testing); capital (which she noted is necessary but can be susceptible to over-regulation); bank mergers and acquisitions (which shouldn’t have rules of the road that change during the application process); resolution or living wills (offering a counterpoint to [Acting Comptroller Hsu’s idea](#) of requiring amendments to resolution plans when large regional banks merge); and crypto-assets (which have risks that need to be managed but shouldn’t push this activity out of the banking system).

As noted above, the speech is an important statement from Governor Bowman, and notwithstanding the summary above, the full [speech](#) is very much worth a read.
