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FRB Governor Bowman Speaks on Bank Regulation and Supervision



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Federal Reserve Board (“FRB”) Governor Michelle Bowman gave [remarks](#) last week to the American Bankers Association (“ABA”) Community Banking Conference. Governor Bowman discussed the role of FRB independence, predictability and tailoring in the FRB’s Bank Regulatory and Supervision function, as opposed to its monetary policy function. Governor Bowman noted that Chair Powell recently discussed FRB independence as it pertains to supervision and regulation in his speech at the Swedish Central Bank in January that we also [discussed](#) at the time. She noted that while this independence is important, it is appropriately accompanied by accountability through mechanisms such as Congressional oversight. She noted, however, that accountability to Congress wasn’t enough, and that transparency to the public (including regulated institutions) was also a requirement.

Governor Bowman elaborated on her transparency point by saying that being transparent also means “conducting supervision in a way that is predictable and fair.” She noted that what FRB is “always looking to improve is the publication of clear, appropriate guidance, especially for community banks.” She noted that providing community banks with tools to predict their CECL exposures was an instance where she thought the FRB has “done a pretty good job.” She added that, for larger institutions, the FRB is likely to publish its supervision manual for institutions covered by the FRB’s Large Institution Supervision Coordinating Committee (“LISCC”).

Governor Bowman then turned to an area where she thought FRB transparency had room for improvement: bank mergers. While the factors that go into review of bank merger applications are fairly transparent and set by Congress, she noted her concern that “the increase in average processing times will become the new normal.” She noted that there often are very understandable reasons why an application may take longer than anticipated, including new supervisory issues

coming to light or the need for additional information from the applicants. Governor Bowman pointed out that “often, the key difference in processing times is whether the application will be acted on by the Reserve Banks on a delegated basis or will require Board action,” and Board action can be triggered due to a single protest from the public. She summed up her comments on bank merger application processing by saying that she believes there is room for improvement in the process and reiterated her belief that “the application process should not be used as a substitute for rulemaking.”

Governor Bowman concluded her remarks on the “virtues” of the tailored approach to bank supervision that the group of community bankers she was speaking to were presumably happy to hear. She noted that she believes the tailored approach will be present in the shortly forthcoming proposed rulemaking on the regulatory capital framework that should implement the Basel III Endgame rules in the United States. Governor Bowman concluded with her view that the tailoring approach has fostered fairness and efficiency in bank supervision.
