

Vice Chair Bowman Gives Outline of Her Agenda Following Senate Confirmation

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Last Friday, following her confirmation by the Senate as Federal Reserve Board Vice Chair of Supervision, Michelle Bowman laid out some of her priorities in a speech entitled “[Taking a Fresh Look at Supervision and Regulation](#).”

She noted that at the core of her principles is pragmatism, and that she would bring that pragmatic view to improve supervision and regulation by “addressing: (i) enhancing supervision to more effectively and efficiently meet the Fed’s safety and soundness goals; (ii) reviewing and reforming the capital framework to ensure that it is appropriately designed and calibrated; (iii) reviewing regulations and information collections to ensure that this framework remains viable; and (iv) considering approaches to ensure the applications process is transparent.”

Vice Chair Bowman stated that supervision should be “focused on material financial risks that threaten a bank’s safety and soundness... [rather than] becom[ing] distracted by relatively less important procedural and documentation shortcomings.” She noted that near-term changes would likely include:

- better tailoring of rules so as not to have the rules appropriate for the largest banks apply to smaller community banks;
- have exam ratings better reflect the link between ratings and actual financial condition;
- prioritize core financial risks (e.g., credit risk, interest rate risk, and liquidity risk) over “supervisory box-checking”;
- use regulatory guidance to better provide clarity on regulatory expectations rather than obscure them; and
- enhance the already rigorous training and commissioning process for examiners, and require more staff that is involved with supervision to actually be commissioned examiners.

Vice Chair Bowman’s second broad category of discussion was updating the capital adequacy framework. She noted that too often the leverage ratio components of the capital framework become the binding constraint on an institution rather than the backstop it is intended to be. As a result, institutions are incentivized to take on more risk rather than less, and this in turn can lead to distortions in the marketplace for safe assets such as treasury securities. The first change to the capital framework is likely to come in updates to the enhanced supplementary leverage ratio (“eSLR”) applicable to the largest banks.

Vice Chair Bowman’s third area of focus was in reviewing existing regulations and information collections. She noted that in the 15 years since enactment of the Dodd-Frank act, the number of rules banks must comply with have increased dramatically. She noted that in some cases, the result of this increased regulatory burden on banks “resulted in pushing foundational banking activities out of the regulated banking system into the less regulated corners of the financial system.” She went on to note that “[d]riving all risk out of the banking system is at odds with the fundamental nature of the business of banking. Banks must be able to earn a profit and grow while also managing their risks.”

Vice Chair Bowman’s fourth main theme in her speech was considering approaches to ensure the applications process is transparent, predictable, and fair. She stated that “application[s] for bank regulatory approval should reflect both (1) transparency as to the information required in the application itself, and the standards of approval being applied, and (2) clear timelines for action.”

In closing, Vice Chair Bowman noted that ultimately her pragmatic approach to supervision and regulation is to “refocus supervisory and regulatory efforts on the core financial risks most critical to maintaining a healthy and resilient banking system.”