

Southeast Bankers Outreach Forum

What's on Our Radar Screen?

Current Perspectives on Supervision/Regulation and Risk

Date: September 30, 2014

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The opinions expressed are those of the presenter and are not those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or its Board of Governors.



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RESERVE
BANK
of ATLANTA**

Macroprudential Supervision

Developed in response to the financial crisis

Broad Financial Stability Goals:

- Identify and limit systemic risk
- Restore financial resiliency
- Eliminate “TBTF” (too big to fail) moral hazard

Focuses on the largest, most complex organizations and essential markets and activities

Strives for appropriately scaled supervisory response to risks

Complements the traditional micro prudential approach (institution specific examinations)



Macroprudential Supervision

New Supervisory Framework:

Creates the Financial Stability Oversight Council (FSOC) to identify systemically important financial institutions (SIFIs) for enhanced Federal Reserve supervision and to report annually to Congress on emerging threats.

Key efforts to strengthen the resiliency of the financial industry:

- New Regulatory Capital framework, including Basel
- Enhanced prudential standards for capital, liquidity, and risk management (Larger banks >\$50 billion in assets)

Forward-looking Risk Management focus (planning ahead and stress testing)

- Capital planning and stress testing
- Liquidity stress testing, coverage ratio, and contingency planning

Continued efforts to reduce “TBTF” Risk and Improve Resolvability, increase transparency, and promote market integrity



FRB Atlanta – Supervisory Approach Components

Apply examination guidance in accordance with size, complexity, and risk profile (Large, regional/mid-sized, community, and FBO portfolios)

- Economic and industry analysis – national, regional, and local
- System and Division Risk Councils - top of the house view of risks and response
- Draw from broader Fed system and others – research department, Federal interagency, state supervisors, industry affinity groups
- Risk Analysis Unit in S&R – Research, surveillance, and analytical support (e.g., real estate markets)
- Direct engagement in system-wide work – participation in key activities & coordinated reviews (CCAR, DFAST, recovery & resolution, vendor mgmt, liquidity, cyber, etc...)
- Vertical view – Specialty examiners for risk “stripes”: credit, operational, market & liquidity, compliance/CRA, IT, fiduciary , BSA/AML, etc...
- Horizontal view - Business lines: Community, Large / Regional, International
- Active communication & feedback - industry and individual institutions - outreach
- Institution level examination process – onsite and offsite work
- Utilize horizontal/coordinated reviews when it makes sense
- Implement risk mitigating actions as appropriate through supervisory process such as examinations and through formal/informal actions if necessary



What is on Our Radar?

Risk impact can vary widely by portfolio – large, mid-sized, community, foreign

High Priority Risks

- Information Security – Cyber Risk
- Strategic Risk – banking business model, competition, earnings pressures, growth, talent
- Compliance Risk – Consumer compliance (e.g. fair lending), BSA/AML, QM rules, new guidance requirements (e.g. capital), reputation impact
- Interest Rate Risk

Other Risks

- Vendor Management – 3rd party outsourcing providers
- Credit Topics – Indirect auto, HELOCs, C&I underwriting, CRE concentrations, leveraged lending, asset based lending
- TruPS deferrals
- Accounting implementation (e.g. ALLL)