

# Regulation, Risk & Resiliency: Lessons From A Former Bank Regulator

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# LEARNING OBJECTIVES

In this session, a former bank regulator shares insights gained from working with successful (and unsuccessful) banks over the past 20 years.

Topics include:

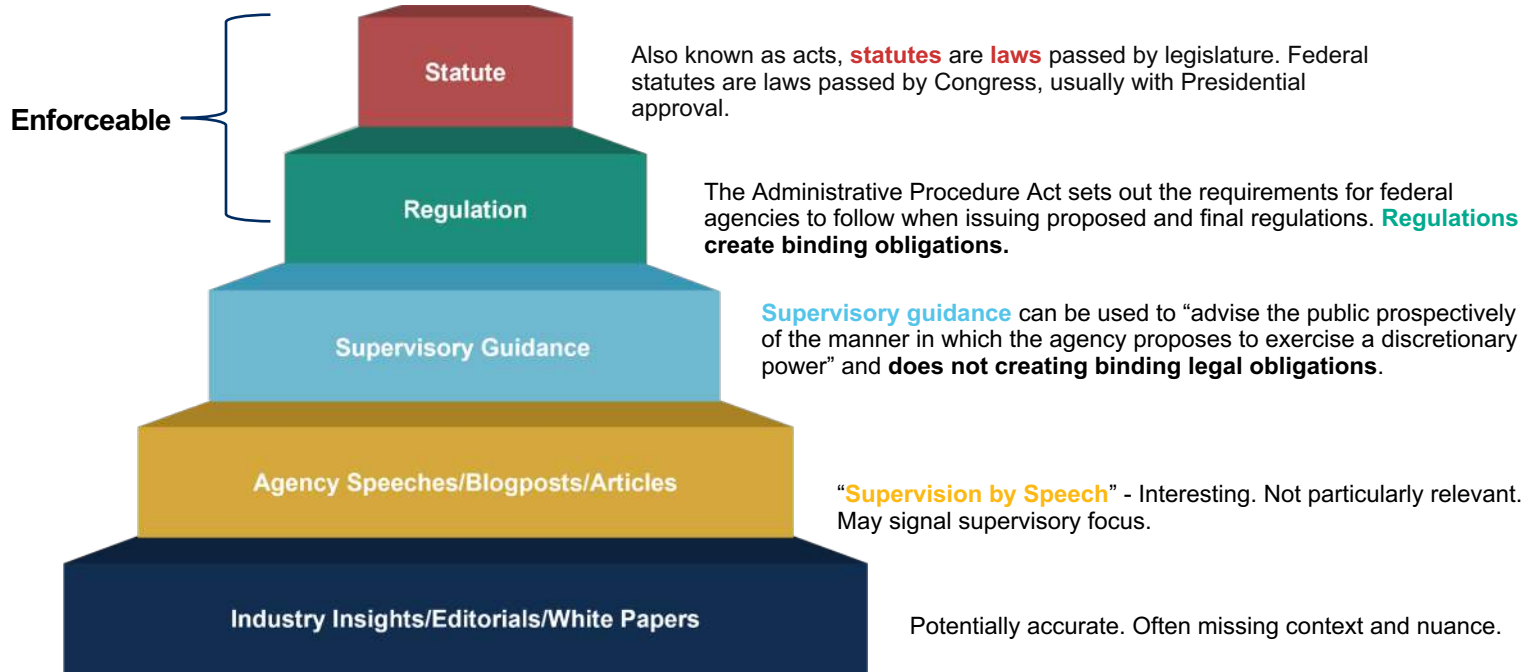
- 1) How to navigate pending legislation
- 2) Regulation and “supervision by speech”
- 3) The biggest risks facing banks (*hint: it is not the Big 3 – compliance, credit or cyber*)
- 4) How strategic risk management is at the root of truly resilient organizations



# LEGISLATION, REGULATION, AND SUPERVISION

What's the **difference** and why **it matters**

# LEGISLATION, REGULATION, AND SUPERVISION



# LEGISLATION, REGULATION, AND SUPERVISION

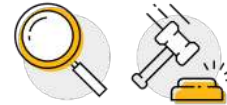
“**Supervision** and **regulation** are complementary but worth distinguishing. **Regulation** is broadly applicable and implements statutory imperatives; **supervision** is the practical art of applying that **regulatory** framework to individual banks through the exercise of examiner judgment.”

*Johnathan Gould, Partner Jones Day,  
House Financial Services Committee, May 8, 2023*



## REGULATION

- ✓ Bank regulation refers to the written rules that define acceptable behavior and conduct for financial institutions.
- ✓ Bank regulation applies equally to all applicable banks.
- ✓ The banking agencies, including the FRB, FDIC, and OCC, issue banking regulations.



## SUPERVISION

- ✓ Bank supervision refers to the enforcement of these rules.
- ✓ Supervision is **risk based** (i.e., Risk-Based Supervision). The extent of supervisory oversight should be commensurate with an institution's risk profile.
- ✓ Examiners supervise institutions by periodic/ongoing monitoring of financial information and examinations.



# THE BIGGEST RISKS FACING BANKS

"What gets us into **trouble** is not what we don't know. It's what we know for sure that **just ain't so.**" – Mark Twain

# THE BIGGEST RISKS FACING BANKS

What gets us into trouble...



## Recency Bias

We prepare for the last crisis, not the one approaching. And we expect current conditions to continue.



## Success Breeds Complacency

Our greatest strengths and successes can also be our biggest blind spot and our greatest weakness.



## Compliance Fallacy

Compliance is a risk category. Not risk management.



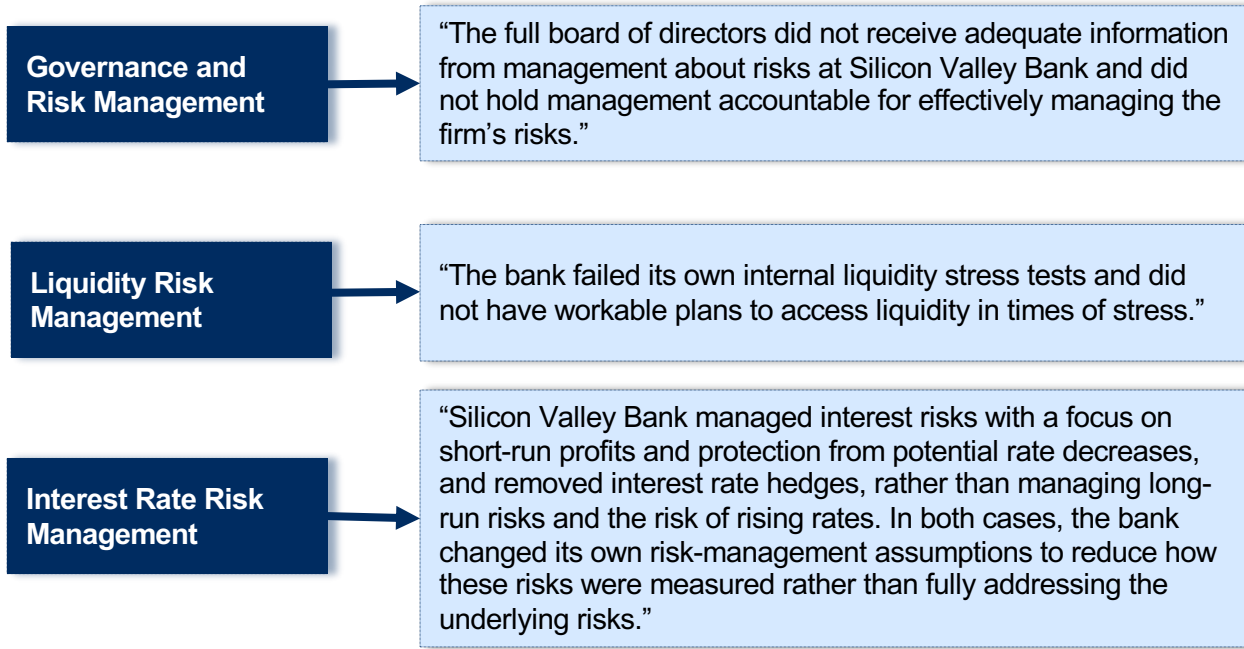
## Consensus Culture

The absence of conflict and confrontation are symptoms of an unhealthy culture. Credible Challenge is necessary to build resiliency.



# THE BIGGEST RISKS FACING BANKS

## Critical Weaknesses in Recent Bank Failures





# STRATEGIC RISK MANAGEMENT

Focus on **managing your risk**

# STRATEGIC RISK MANAGEMENT

Focus on managing your risks, **not Risk Management**

"SVB and bank supervisors spent "considerable effort seeking to understand the rules and when they apply, including the implications of different evaluation criteria, historical and prospective transition periods, cliff effects, and complicated definitions," and SVB "regularly engaged consultants".

In other words, SVB seems to have been more **focused on complying with financial regulation** than prudently managing its balance-sheet risks."

WSJ Editorial Board,  
*Fed Failed but Wants More Power*



# Thank You

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