Remarks by
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Thank you, Jim, and thank you everyone for being here this morning.

This is my third presentation to the New England Council since becoming Comptroller of the Currency. It's a real pleasure to be so close to home with so many people I know and respect.

What I most appreciate about the New England Council, however, is that it provides a "big roof" under which businesses of different sizes and types can work together in the interests of a prosperous regional and national economy. I want to discuss why I think that's so important.

Of course, there's nothing new about businesses collaborating to achieve common goals through trade associations, chambers of commerce, and similar organizations. The American Bankers Association, for example, dates back to 1875, making it almost as old as the national banking system itself. In other words, there is lots of precedent for enterprises competing and collaborating at the same time.

What makes things different today is that we operate in increasingly interconnected U.S. and global economies, in which companies and industries increasingly face common risks.

I was struck by this thought in reviewing the latest edition of the OCC's *Semiannual Risk Perspective*, which can be found on our Web site, OCC.Gov. This report discusses the top risks facing the national banks and federal savings associations that the OCC supervises. But much of what it contains applies to businesses across the spectrum.

Take interest-rate risk. Rates have been at historic lows for quite a few years. For banks, this has been a good news/bad news story. On the one hand, many banks have benefited from the loan demand and economic growth that low rates helped to fuel. On the other hand, the flattening of the yield curve compressed banks’ net interest margins.

Now we face the near certainty that interest rates will rise—the only question being when and how fast. As bank supervisors, we are concerned that interest rate movements could imperil loan quality—especially for loans that were not carefully underwritten in the first place—and create a mismatch between what banks will have to pay for funding and their fixed earnings on longer term assets. Loans that are typically refinanced, such as leveraged loans, would especially feel the effects. Needless to say, we are carefully monitoring these risks and, where appropriate, taking supervisory action.

But how many of you are not approaching the likely end of the era of cheap money with some trepidation? Every business that depends upon funding—which means practically every business—and the ability of its customers to finance their purchases will be affected in some way by the coming changes. Certainly, the potential for rising interest rates is not a risk that banks face alone.

Another example of risk that cuts across industries is regulatory compliance. Banking, which has always been among the most heavily regulated industries, became subject to numerous new regulatory requirements written into the Dodd-Frank Act of 2010, which address financial stability and consumer protection issues brought to light by the financial crisis. The impact of new and, in some respects, tougher regulations fall into two categories. First, there is the risk that banks run afoul of the new regulations, possibly damaging their reputations and subjecting themselves to regulatory penalties. And secondly, there is the fact that time and money devoted to regulatory compliance are resources that cannot be used to accomplish the bank's mission of serving customers and their communities. This is particularly challenging for community banks, where the "compliance officer" is likely to have multiple responsibilities.

The federal banking agencies have a legal as well as a practical responsibility to minimize unnecessary regulatory burden. In fact, we are in the midst of the periodic regulatory review mandated by the Economic Growth and Regulatory Paperwork Reduction Act of 1996, better known as EGRPRA. In this collaborative interagency process, the OCC and other federal banking agencies are conducting outreach meetings around the country to collect comments from bankers and concerned members of the public about our regulations. In May, I joined several of my colleagues here in Boston, where we learned a great deal from participants about specific regulations that are outdated, unnecessary, or needlessly burdensome.

But while banks, and especially community banks, face regulatory challenges all their own, I doubt there is anyone in this room who is unaffected by the growing costs of regulation. While regulations by their nature carry at least some burden, most provide public benefits that outweigh the burden they impose. The challenge for us as regulators is balancing the benefits of regulation against its burdens where Congress has not already made that judgment.

I could provide several additional examples of how the major risks facing banks today are risks shared by businesses operating in other industries. But there is one risk that stands out: cyber threats. This is the subject I addressed in my remarks to you last year. I wish I could report that the threat has eased in the months since. Unfortunately, as you know, the opposite is true. Hackers, organized criminals, and so-called "hacktivists" have been hard at work trying to undermine confidence in and the security of the information technology systems our society depends upon. We have seen major breaches at companies in such diverse industries as health care and entertainment and, of course, banking. The most notorious recent case is the breach of the data systems of the federal Office of Personnel Management, which compromised the personal information of millions of federal employees and government contractors. This news was not only deeply alarming to the affected individuals, it was also deeply embarrassing to the federal government. Clearly, no one is immune.

Our Semiannual Risk Assessment highlights cyber threats as perhaps the foremost risk facing banks today, and it undoubtedly represents one of the major, if not the major, risk facing businesses of all sorts. Essential to addressing such a significant risk is collaboration and communication among and within business sectors and the government.

The OCC continues to work with our colleagues in the regulatory community to help keep the institutions we supervise safe from cyber intrusion. On an interagency basis, we created a Cybersecurity and Critical Infrastructure Working Group to increase cybersecurity awareness, promote best practices in the banking industry, and strengthen regulatory oversight of cybersecurity readiness. Drawing on a 2014 joint pilot assessment of cybersecurity preparedness at more than 500 institutions, we released a Cybersecurity Assessment Tool in June 2015, to help banks evaluate their cybersecurity risk profile and preparedness. It will also assist bank examiners gain a more complete understanding of an institution's inherent risk, risk management practices, and controls related to cybersecurity. I should add that we are holding a webinar next week for managers of OCC-supervised banks on the use and application of the new tool. Our National BankNet Web site, which is available exclusively to national banks and federal savings associations, provides registration information for this webinar.

While self-assessments and supervisory oversight are essential to keeping institutions safe from cyber threats, there is a third component of equal importance: information sharing. In dealing with a complex, evolving issue like cybersecurity, cooperation and collaboration across companies—regardless of how large or well-resourced—and across industries, are every bit as vital.

That's why we emphasize the need for banks to exchange information about known and emerging threats and best practices for meeting those threats. We strongly recommend, for example, that financial institutions of all sizes participate in the Financial Services Information Sharing and Analysis Center, a non-profit information-sharing forum established by financial services industry participants to facilitate the sharing of physical and cyber threat and vulnerability information. Such information sharing is critical to our cybersecurity defenses across the entire economy. I am encouraged that a number of proposals that support information sharing on cybersecurity are now pending before Congress.

Collaboration can be a game-changer in other ways as well. I am thinking specifically about its potential benefits to community bankers. There's been a fair amount of speculation about the future of community banks, some of which is decidedly pessimistic. I don't accept that view. I believe that community banks have advantages, including their close familiarity with their customers, that larger institutions will always be hard pressed to match.

Having said that, one cannot deny that community banks face challenges on several fronts. I have already spoken about how taxing it can be for these institutions to meet today's higher regulatory expectations. Community banks need to provide the competitive products and services their customers demand if they are to retain those customers. They must strive to achieve economies of scale without, of course, sacrificing the qualities that make community banks valued and special.

Needless to say, this is a tall order. And while collaboration is no panacea for all the challenges they face, community banks that work with each other can help unlock opportunities that have the potential to make a real difference in their success.

Earlier this year, the OCC released a paper on this very subject. It explores the ways in which community banks can, and already do, pool resources to achieve cost efficiencies and leverage specialized expertise. It discusses the benefits of collaboration, outlines how community banks can structure collaborative arrangements with effective oversight, and lays out areas of opportunity for community bank collaboration.

The potential benefits of collaboration are many, and they are by no means limited to financial institutions. I would venture the guess that everyone seated in this room can think of multiple areas in which collaboration with other providers would make sense. I applaud the work of the New England Council in helping to bring these opportunities to light. By promoting the discovery of common interests and common responses to the risks that you face in your businesses and we all face together, you provide an invaluable service to New England and to the United States.

I thank you once again for inviting me to share these thoughts with you today. I'd be happy to take your questions.