Remarks by

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Thank you, Rob, and thanks to American Banker for putting on this conference. I've looked at the agenda, and I can see you're covering a lot of ground. I was particularly pleased to see that you have a panel on cybersecurity, and that one of the panelists is Valerie Abend, the OCC's Senior Critical Infrastructure Officer. That's a new position at the OCC, and we created it precisely because the whole area has become such an important concern. I discussed cybersecurity at another conference last week, so I won't spend much time on it today, except to tell you that one of my top priorities is to make sure that we, as an agency, and the banks that we supervise are doing everything possible to guard against cyber threats. This is an area of concern that will require constant vigilance and continued efforts to improve. We'll all need to work together and honestly evaluate our security measures—as well as seek out independent assessments of our work—if we are going to succeed.

Of course, cyber threats and cybersecurity fall into the category of operational risk—risks that arise from the failure of people, processes, and systems—and it's an area that raises the issue of enterprise risk management and enterprise governance in important ways. These are issues I've spent considerable time on since taking office as

Comptroller of the Currency, and they are issues that our supervisory units have focused on very closely.

As all of you undoubtedly know, we've taken some very significant enforcement actions against our largest banks for lapses that, in the end, were the result of operational failures, lapses in risk management, and lapses in enterprise governance. Whether the issue is Bank Secrecy Act violations or problems with derivatives trading, operational risk is eclipsing credit risk as a source of losses for national banks and federal savings associations, and it is a major source of reputation risk.

At the same time, with respect to our large banks, we've raised the bar significantly. As part of this "heightened expectations" program, we are insisting that internal controls and audit be raised to the standard of "strong" and we are making it clear that satisfactory ratings are not acceptable. We expect boards of directors to be significantly engaged and to have the knowledge and focus to present a credible challenge to management. And we expect large institutions to have a rigorous process in place to ensure that they are attracting and retaining the kind of talent they need to manage their business in a safe and sound manner.

I'm sure it won't surprise you to hear that our program of heightened expectations for large banks doesn't stop there. In the years since the financial crisis, we have refined the program significantly, and we are developing specific requirements that must be met, as well as detailed guidelines for our examiners to use in assessing compliance. We intend to formalize our heightened expectations standards soon through guidelines issued under Part 30 of our regulations.

However, just as we are holding our banks to heightened expectations for governance, we have also subjected our own processes to intensive scrutiny and, where we find we have fallen short, we are taking steps to improve. The fact is, there is plenty of blame to go around for the problems we've seen in recent years, both in the run-up to the financial crisis and in its aftermath, and some of it falls squarely on the shoulders of the regulatory agencies, including the OCC.

So, while it's true, for example, that a number of large banks failed to maintain adequate anti-money laundering programs, it's also true that supervisors didn't do as well as we should have in detecting problems and ensuring that they were effectively addressed. And while it's true that many of our large banks made a mess of foreclosure processing and mortgage servicing, it's also true that the regulatory agencies, including the OCC, did not recognize the significance or scope of those operational risk problems until we ramped up our supervision of foreclosure processing and mortgage servicing, which ultimately resulted in major enforcement actions.

I don't want to overstate the problems or leave you with the impression that I think everybody did everything wrong. Our large banks worked long and hard, and with considerable success, to get through a financial crisis that in many respects was caused by nonbank financial companies. And the supervisory staff at the OCC and other agencies worked tirelessly and with great skill and professionalism to help nurse the industry back to health. In my view, the OCC is a world class bank supervisor.

But we can do better. In fact, we not only <u>can</u> do better—we <u>must</u> do better if we are to avoid future financial crises and maintain a financial system that is up to the task of supporting a modern and growing economy.

In a sense, that's a truism that we've always understood. No matter how good we are at our jobs, there is always room for improvement, and one sign of a healthy organization is its willingness to engage in a process of continual improvement. And that's one of the things that has most impressed me about the OCC. It is very much a part of the agency's culture to question the work we did yesterday and ask how we can do it better tomorrow.

With that in mind, I met "off-site"—which is to say in an undisclosed conference room at the OCC—with my executive committee last year to talk about what we needed to do to improve the quality of our work. We came up with seven strategic initiatives that cover everything from how we communicate internally to how we perform our core mission of supervising banks and thrifts.

We recently added an eighth initiative, which we refer to as our "assessing" initiative. It is intended to help us build consistent and disciplined processes for self-assessment and improvement, and it will focus on continuous improvement of all of our key processes at the OCC.

As part of that initiative, we've established a new quality assurance program. I know Quality Assurance, or QA, is not exactly a novel idea, and like most agencies and companies, we've have had QA processes in place for years at the OCC. But this is quite different from anything we've done before. It is being managed by our Enterprise Governance unit, an office in our agency that is intended to bring the same kind of controls and program reviews to our work that we would expect of the banks we supervise.

Enterprise governance will conduct independent reviews of each line of business at the OCC, fulfilling a role that is somewhat analogous to the internal audit programs that each of our banks maintains. These reviews will come on top of existing processes, including the quality assurance programs that each of our units already maintain.

The process will be structured very much like a bank exam, starting with engagement letters to spell out the scope of the review and an opening meeting with the department head to discuss it. Preliminary conclusions will be discussed, much as an EIC discusses findings with bank management, and that will be followed by exit meetings, management responses and, perhaps most important, tracking of progress made on findings.

Larry Hattix, our senior deputy Comptroller for Enterprise Governance, will have considerable authority. If his unit finds deficiencies, he will issue MRAs—the same kind of Matters Requiring Attention that we issue when we find problems in a bank or thrift exam that require board attention. These MRAs must be cured—no ifs, ands, or buts. As Comptroller, it is my intention to hold the senior leadership of the agency accountable, and I expect they will hold their staffs equally accountable.

We'll also be taking a hard look at our supervision of national banks and federal savings associations, with an eye toward how we can improve. Failed banks almost always offer an object lesson in where we have room for improvement, and so we study very closely the material loss reviews conducted by our Inspector General.

However, we also conduct our own internal reviews as well. Bringing the eye of an experienced examiner to bear on the supervisory history that ultimately led to a failure provides a different and very useful perspective. So every failure of a national bank or federal savings association is scrutinized closely by our Enterprise Governance unit, which includes seasoned examiners among its staff. The work Enterprise Governance does helps us identify ways to improve our supervision.

All of this is important, but in the critical area of supervision, I thought—and the agency's executive leadership agreed—that more is needed. We thought we should go a step further to bring an independent view of the work that's being done by the examiners on the ground across the country, including the teams we have in place at our large and midsize banks. To do that, we are launching a new initiative that I think is quite different from anything we've done before.

We have arranged for senior supervisory personnel from three countries that exhibited great resilience during the financial crisis—Australia, Singapore and Canada—to participate in an independent peer review of the process we use for the supervision of large banks and thrifts, including the very largest institutions in our midsize group.

We've engaged Jonathan Fiechter to manage the process. I think Jonathan is a well-known name to most of you. He's worked at the OCC on two separate tours, including a stint as Senior Deputy Comptroller for Economic Policy and International Affairs, and he served as acting Director of the Office of Thrift Supervision from 1992 to 1996. More recently, he was at the International Monetary Fund, in that organization's Monetary and Financial Systems department, where he was head of the financial supervision and crisis management unit.

I could go on, but suffice it to say that Jonathan is extremely knowledgeable about bank and thrift supervision both here in the United States and worldwide. I'm very glad we were able to entice Jonathan to conduct this project for us, and I'm grateful to our counterparts in Australia, Singapore, and Canada for agreeing to put the time into this effort. At the end of the day, though, I believe they stand to learn as much as we will from this exercise – and I think we stand to learn quite a lot.

This initiative will involve a very broad review of how we go about the business of supervision. We'll be looking at everything from agency culture to our approach to risk identification, and we'll be looking for gaps in the system that might have led us to miss problems in the past. We're only just now getting underway, so I won't get into the details about how we plan to conduct it.

I will say, though, that while this is an exciting project that promises important benefits for our supervision, it will be both difficult and demanding. Honest self-evaluation can be uncomfortable at best, and evaluation by others, especially by one's counterparts from other agencies, can be frankly painful. And yet, the senior executives in OCC Supervision have embraced this project in the same way they undertake every challenge—with determination, enthusiasm and a resolve to succeed. I think this is extraordinary, and it speaks volumes about the high standards that the men and women at the OCC set for themselves, that so many are willing to do everything possible to assess their weaknesses and strengths, and learn from past mistakes while building on our successes.

In an era of stress tests, enhanced data analytics, and expanded capital and liquidity requirements, some of you might be wondering why we are placing so much emphasis upon old-fashioned supervision. The answer is, that for all the value that these new tools add, there's no substitute for supervisory boots on the ground.

Seasoned examiners inside a bank or thrift not only bring judgment to the job, but they are in a position to sample credit portfolios and engage in face-to-face talks with bank management. They can identify problems long before they show up in the data, and they can move quickly to help cure them. Just as importantly, they are in a position to help bank management improve, particularly in community institutions. So we need to do everything possible to refine our supervisory processes, including taking steps to address problems that were brought to light by the financial crisis.

When I look at the OCC's cadre of examiners, I see smart, high-caliber professionals with a strong work ethic and a deep and abiding concern for the national banking system and the nation itself. But I also see men and women who have the same high expectations for themselves that they hold for the institutions they supervise, and who understand that they must continue to improve every day to keep up with an evolving financial system. As Comptroller, I intend to do everything I can to support them in that.

Thank you. I'd be happy to take some of your questions now.