Statement of

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Chairman Shelby, Ranking Member Brown, and members of the Committee, thank you for the opportunity to discuss the OCC's experience with section 165 of the Dodd-Frank Act and our approach to tailoring our regulatory and supervisory expectations to the size and complexity of the individual institutions we supervise.

Because the focus of section 165, as it applies to the banking sector, is on bank holding companies, almost all of the authorities under this section are assigned to the Federal Reserve System. The only area in which the OCC has direct rulemaking authority involves the mandated company-run stress tests for banks with consolidated assets of more than $10 billion. To the extent permitted by the statute, we tailored our requirements to distinguish between those that apply to banks with assets between $10 and $50 billion and those with assets in excess of $50 billion. Otherwise, the OCC's role in section 165 is limited to a consultative one on matters affecting national banks.

However, national banks typically comprise a substantial majority of the assets held by bank holding companies with consolidated assets of $50 billion or more, and the national bank is typically the dominant legal entity within each company. Consequently, I would like to focus my remarks on how we use our existing supervisory tools that are similar to the provisions of section 165 in our prudential oversight of national banks and federal savings associations.

It's very important that the OCC retain the ability to tailor and apply our supervisory and regulatory requirements to reflect the complexity and risk of individual banks. As my written testimony describes, we have taken a number of initiatives to ensure that banks that pose heightened risks to the financial system are subject to much higher requirements than those with lower risk profiles.

While a bank's asset size is often a starting point in our assessment of appropriate standards, it is rarely, if ever, the sole determinant. For example, while most banks in our midsize portfolio fall into the $8 to $50 billion range, this portfolio also includes several banks that exceed $50 billion. These banks have business models, corporate structures, and risk profiles that are very different from other institutions in our large bank portfolio, which typically have national or global operations, complex corporate structures, or extensive exposures in the wholesale funding and capital markets. This flexible approach, which considers both size and risk profiles, allows us to transition and adjust the intensity of our supervision and our supervisory expectations as a bank's profile changes.

Our approach of tailoring requirements to different types of institutions can also be seen in our implementation of capital, liquidity and risk management standards for the banks we supervise. While our standards are separate from the enhanced prudential standards that the Federal Reserve issues under section 165, we believe they are consistent with the statute's intent and provisions.

For example, the interagency capital requirements applicable to national banks – including those related to market and operational risks and the enhanced leverage ratio requirements – generally apply only to the largest banks that have significant trading activities and complex operations. The capital rules, however, also allow the OCC to require additional capital based on an individual bank's circumstances, regardless of its size. This ability to require an individual bank to maintain capital levels above regulatory minimums is especially important when we encounter banks that have significant concentrations in certain loan products or market segments. We regularly exercise this discretion.

For our largest banks, generally those over $50 billion, we have also developed a set of heightened standards for risk management and corporate governance that reflect the greater size, complexity, and risk that these institutions represent. For example, these standards focus on the need for an engaged board of directors that is capable of providing an independent perspective and a credible challenge to management. The standards also address the need for a robust audit function and a compensation structure that does not encourage excessive risk taking.

Finally, let me reiterate that there are very considerable differences, not just between community banks and large institutions, but among the large banks themselves. Our approach recognizes the differences in size, complexity, and risk among the large banks and thrifts we supervise, and it ensures that the appropriate degree of supervisory rigor is targeted to each institution.

Thank you. I look forward to your questions.