Remarks by

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Good afternoon. It's a pleasure to be here with you on the west coast and to have this time to discuss some of the important issues facing the industry. While my job is based in Washington, I enjoy the opportunities I have to get outside of the Capital and hear directly from bankers about their concerns. In fact, I consider it a vital part of the job.

As you might know, I spent the day yesterday hosting a meeting here in Los Angeles on our ongoing effort to identify regulations that are unnecessarily burdensome and fashion recommendations for reducing those burdens. This effort goes under the catchy name, EGRPRA, which is an acronym for the law that mandates the periodic review.

EGRPRA may not be the most graceful of words, and frankly, it's amazing that we even figured out how to pronounce the acronym. But yesterday's exercise was very useful, and some of the comments we heard from community bankers at the meeting will prove very helpful in the process. Regulations, by their nature, are burdensome, but we owe it to the industry and to the communities banks serve to do everything possible to minimize that burden. I'm very hopeful that we'll come out of this exercise with some concrete and meaningful recommendations for reducing unnecessary regulatory burden.

You might also know that I was in Japan two weeks ago to address the NIKKIN Special Seminar on International Finance. I hope the audience enjoyed the speech, but I have to say that the most enjoyable part for me was the question and answer period that followed. We had quite a good exchange, and I'm hoping for more of the same today. So, in anticipation of your questions, I'm going to keep these remarks short and focus on a couple of issues of special concern.

Let me start by outlining very briefly our supervisory philosophy. At the OCC, we believe every bank or thrift is unique and so we don't apply a one-size-fits-all approach to the institutions we supervise. Instead, we take account of each individual institution's own business strategy and market. Large banks are very different from small institutions, and our approach to each is quite different. A community bank in the farm belt is very different from a mutual savings association in New England. There are some fundamentals of credit underwriting and compliance policy that apply to each, and the principles of risk-based supervision apply across the board. But our examiners know that savings associations will have larger portfolios of mortgage loans than commercial banks, and that an agricultural bank will have more significant exposures to commodity prices than an urban institution.

The foreign branches and agencies we supervise are different still. While a branch or agency of a foreign bank may conduct a full range of banking activities, we recognize that some are more limited in purpose or scale, requiring a different set of supervision resources and scope for our examinations. As an example, we oversee branches that are engaged primarily in corporate markets, and others that provide a full gamut of retail, corporate, and capital markets services competing directly with U.S. headquartered institutions. Our supervision is tailored to the strategic purpose of the individual branch or agency.

This program is managed by a unit within our Large Bank Supervision department and is based in New York, where the vast majority of foreign branches and agencies in the United States are located. However, local examiners around the country supplement the work of the New York-based unit.

We apply a supervision-by-risk approach to all entities we supervise, whether they are national banks or branches of foreign institutions. This approach requires an in-depth understanding of the operations of each branch or agency, and specifically addresses the institution's unique size, scope of operations, complexity, and the risks presented by its business. In the case of foreign banks with multiple federal branches and agencies, we develop a consolidated risk profile and supervisory strategy for the U.S.-based organization. We strive to examine these branches and agencies simultaneously to ensure our risk assessment is comprehensive and to reduce burden.

We collaborate with the Federal Reserve to complete an annual Strength of Support Assessment that provides a framework for evaluating the financial and managerial support available from the home office, as well as the potential impact of environmental factors. The OCC also maintains ongoing communication with home country regulators to gather information to aid in our supervision of the federal branch or agency.

Communication with home country regulators and home offices serves other purposes as well. A key difference between U.S.-based banks and thrifts and the federal branches and agencies of foreign institutions relates to resolution policy. Since uninsured branches and thrifts do not participate in the U.S. deposit insurance program, the OCC would be responsible for their resolution should the need arise. In that regard, we emphasize the elimination of complexity in the branch or agency's organizational structure. We also work in a collaborative way with home jurisdictions and the parent organization to understand strategy, structure, and resources. We maintain an ongoing dialogue with home country supervisors so that both sides have a clear understanding of what to expect should the need for a resolution arise.

But while federal branches and agencies are different in many ways from full-service banks or thrifts, they face many of the same challenges. One is the growing threat of cyber-attacks, and that is a concern that has been very much on our minds at the OCC.

Cybersecurity is a topic that's been very much in the headlines lately. We've seen a number of attacks on banks and large retailers that have caused problems not just for those companies, but for their customers as well. In the case of the retailers, the card numbers and other information from millions of customers were stolen, and that has caused no end of worry for the affected consumers. In an age of identity theft and cyber crime, people fear their financial security could be jeopardized in one of these breaches.

Several of the large retailers have suffered a loss of reputation, and they've paid a price in terms of lost business. I want national banks and thrifts, and indeed all financial institutions, to take a lesson from their experience. The banking industry was built on confidence, but trust can be eroded very quickly. We've seen that with abusive practices, but it could prove especially true if financial institutions experience intrusions that expose confidential customer information.

We've done quite a lot at the OCC to help in this process, particularly with respect to the support we provide to community banks and thrifts. The Federal Financial Institutions Examination Council, which represents all of the regulators, has also been particularly engaged.

I currently serve as chair of the FFIEC, and I believe it can serve as a focal point for supporting smaller institutions in this effort.

As chairman of the Council, I called for – and the Council concurred in – creation of the Cybersecurity and Critical Infrastructure Working Group. The working group has been quite active, and was responsible for alerts on the "Heartbleed" and "Shellshock" vulnerabilities, and statements addressing cyber attacks on automated teller machines, among other issuances. The Council also sponsored a webinar for community bankers on cyber issues that was very well attended.

One important initiative launched this summer by the Council's member agencies was the Cybersecurity Assessment, involving the pilot of a new cybersecurity examination work program at more than 500 community institutions. The results were instructive. They will help member agencies make informed decisions about ways to enhance the effectiveness of cybersecurity-related supervisory programs, guidance, and examiner training. The findings from the assessment will also help supervisors and bankers alike identify actions that can strengthen the industry's overall level of preparedness and its ability to address the growing level and ever-evolving nature of threats to systems and data.

We released an overview of the findings from the assessment, and at the same time we encouraged financial institutions to join FS-ISAC – the Financial Services Information Security and Analysis Center. In the current environment of cyber threats, access to information is critically important to your data security, and I would encourage each of you to join FS-ISAC or, if your parent company belongs, to make sure you are taking advantage of the intelligence provided by this important public-private sector partnership.

Cybersecurity reminds us how interconnected our world is today. Hackers can launch attacks on banks here in the United States from almost anywhere in the world, and so it's vital that banks be alert not just to weaknesses in their systems, but to vulnerabilities in the systems used by third parties they employ to manage one aspect of their business or another. It's easy to believe that third-party vendors, particularly in the area of information technology, are completely reliable, but in fact we have already taken an enforcement action against one major third-party service provider for its slow response to outages after Super Storm Sandy. And while it's true that we do examine these technology service providers, it's still important that you conduct your own due diligence. Ultimately, we are holding banks accountable for the security of their systems and their vendors.

That sounds like a tall order, and it is. However, in today's world, cybersecurity is one of the most critical aspects of a financial institution's risk management. We're doing everything we can to provide support to the institutions we supervise, including the webinars and advisories I mentioned a few moments ago.

We look at risk management broadly and try to provide guidance that we think the banks and thrifts we supervise will find helpful. One example is our Semiannual Risk Perspective, which provides an overview of the risk areas that we think are most critical. Our last report, published in June, highlighted cybersecurity, but it also noted concerns in several areas, including lending. After several years of improved credit metrics and underwriting, we are beginning to see signs of weakness in credit standards as lenders compete for a shrinking pool of quality borrowers. In particular, we're seeing loosening underwriting standards in the areas of indirect auto and leveraged lending. We also saw relaxed underwriting standards and increased risk layering in commercial credit.

One other risk area that was highlighted in the report involves compliance with the Bank Secrecy Act and Anti-Money Laundering laws, which we usually abbreviate as BSA/AML. The risk remains high, given rapidly changing techniques in the world of money laundering, and the growth in the volume and sophistication of electronic banking fraud. In the realm of community banking, we saw increases in the number of higher-risk, cash-intensive customers and internationally oriented transactions. In addition, we found that BSA programs at some banks have failed to evolve or to incorporate appropriate controls into new products and services. Some institutions compounded these problems by failing to devote adequate resources and expertise to BSA/AML compliance.

BSA/AML compliance serves a number of important goals, including helping law enforcement in the battle against drug trafficking and other illicit activity, and compliance breakdowns have been the source of considerable pain for some institutions, both here and abroad. So I would encourage each of you to make compliance a priority and ensure that it gets the resources it needs.

While the risk perspective report is intended to provide banks, thrifts, and other financial institutions with a snapshot of the risks we believe are most important, it is also a means of establishing accountability for the OCC. If we identify an area of risk, such as the avalanche of home equity lines of credit that are nearing their end-of-draw period, then it is fair for the public, including Congress, to ask what we did, as regulators, to manage that risk. In this case, our actions, coupled with initiatives taken by many major banks, reduced those risks considerably, and we have seen decreases in the volume of loans that will amortize in the coming years.

Accountability is important for the industry, and it's important for the regulators as well. In that regard, I'll mention one other initiative that we undertook to hold ourselves to higher standards – our Supervisory Peer Review project. Reflecting upon the experience of the financial crisis, we thought it important that we do everything possible to identify weaknesses in our supervisory process and fix them. We asked senior supervisory officials from three countries – Australia, Canada, and Singapore – to conduct an intensive review of our supervisory procedures and offer recommendations. The group worked under the leadership of Jonathan Fiechter, who has served in senior positions at the OCC, the Office of Thrift Supervision, and the International Monetary Fund, among other agencies. Its findings were instructive, covering everything from our strategic goals to our use of lead experts.

I've talked about this initiative a number of times in public speeches, so I won't spend any more time on the report's recommendations today. However, I would like to note that the process demonstrates the value and importance of international cooperation and collaboration. If we are to avoid another financial crisis, then we need to work better together to identify and address risk to the system early in the process, when it is still manageable. That means, among other things, that we need to be able to communicate with each other. That was one of the reasons I was so pleased to have this opportunity to speak to an important group of international banks with a presence in the United States, and the reason I am looking forward to your questions.

Thank you for giving me this time with you today.