

Remarks by

Thomas J. Curry
Comptroller of the Currency

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Thank you, Sally. This conference has always provided a great forum to exchange ideas and discuss important issues, and I'm pleased to have another opportunity to be a part of it.

One of the real pleasures of my four years as Comptroller of the Currency has been to get out and meet our stakeholders around the country and around the world. Now, some of you may not necessarily see yourselves as OCC stakeholders because you aren't supervised by the OCC. We do view you as stakeholders in the OCC and in the federal banking system, for that matter. As a regulator, we've learned that we can't focus solely on institutions under our direct supervision and ignore the rest of the financial system. The financial world doesn't work that way today, if it ever did. What happens in one sector of the financial system—or one sector of the global economy—affects the rest. We saw that during the financial crisis, and we're seeing it again today.

There are any number of possible explanations for the current turbulence in the global financial markets. Some believe it's a harbinger of global recession. Others contend that it's a routine correction common to all financial recoveries. Still others point to supply and demand imbalances in the energy and other commodity sectors. Certainly a strong case can be made for any of these theories. But one message comes across loud and clear: financial stability isn't something we can ever take for granted.

Everything we've done as regulators since the financial crisis has been with the goal of preserving and enhancing the stability of the global financial system. We pushed for higher capital, better liquidity, more robust loss provisioning, enhanced risk management, and heightened standards for bank managers and directors, among other things. Together, these steps have added a degree of resilience that was notably lacking during the financial crisis.

We've also moved quickly to highlight areas of emerging risk and provide supervisory resources that help banks manage and mitigate those risks while they're still in a position to do so. The industry's responsiveness to our initiatives in areas such as leveraged lending, commercial real estate concentration, and energy lending has been quite gratifying. And the banks we supervise have devoted very substantial resources to the challenges associated with cybersecurity and Bank Secrecy Act compliance. This is a subject I'll return to shortly. But suffice it to say that the vast majority of the institutions we supervise have solid programs in place to manage and control BSA/AML risk.

Taking all these factors into account, the bottom line is that while there's always room for improvement, federal banks and thrifts are much better prepared for the next economic downturn than they were for the last.

Especially reassuring in this context is the accelerating pace of interaction and cooperation on cross-border issues relevant to national regulators. That cooperation and collaboration is a good thing on several levels. First we leverage each other's resources and expertise, which benefits everyone. Second, we send a reassuring message to financial markets at a time when such reassurance is particularly valuable. It's reassuring for market participants to see that national regulators respect each other's basic values and are committed to the constructive resolution of our differences. In addition, that kind of cooperation helps combat the

tendency for countries to go it alone, adopting policies intended to gain commercial advantages at other countries' expense. As history shows, this tendency to "beggar thy neighbor" leads almost invariably to disruption of normal commerce and global stability. Such policies must be resisted, and in both practical and symbolic ways, regulatory cooperation is one way we can contribute to that effort.

There's another reason I place particular emphasis on today's stepped up cooperation among national regulators. The Basel Committee has long been the focal point of international efforts to work toward common supervisory principles and standards, work that greatly accelerated in the aftermath of the financial crisis. Through the Basel Committee, member countries and agencies, including the OCC, have made significant progress developing and implementing minimum global capital and liquidity standards. This work has bolstered safety and soundness in the global financial system. Large financial institutions in particular have been made more stable and more resilient, and we've closed loopholes and limited opportunities for regulatory gamesmanship.

The work goes on: in recent months, we've achieved agreement on the global regulation of derivatives. And pending changes in the U.S. accounting standards governing loss recognition and provisioning could draw the United States closer to the practices already in use in the EU [European Union] and elsewhere.

Let me offer a quick caveat in this connection. As a participant in these efforts, I obviously support the progress on common rules and standards we've made to date. We at the OCC are strongly committed to reducing unnecessary regulatory burden. We favor simplifying the conduct of cross-border banking and encouraging the flow of capital to where it's most needed. We also believe in international comity. But we don't believe supervisory or capital and

liquidity standards should be lowered just so we can all enjoy the convenience of a common rulebook. Throughout our careers, most of us have seen what lowest-common-denominator regulation looks like and the damage it can do to safety and soundness. I don't think any of us want to relive those experiences.

The OCC will always be a committed partner in the effort to sustain the stability of the global financial system. And we'll never waver in our commitment to the high supervisory and regulatory standards needed to achieve it.

In that regard, I'd like to highlight two areas that demand a comprehensive, cross-agency, cross-border response: cybersecurity and the fight to prevent money laundering. Just in the last few years, new collaborative mechanisms have been created, both here in the United States and abroad, to promote improved defenses against cyber threats, including information sharing. The OCC and other U.S. financial regulators have worked through a number of government bodies to step up monitoring of U.S. banks and assess their readiness to deal with cyber attacks. Among them are the Financial and Banking Infrastructure Committee of the President's Working Group on Financial Markets; the Financial Stability Oversight Council; and the Federal Financial Institutions Examination Council, or FFIEC. Moreover, the OCC issued guidance to help banks manage risks associated with third-party service providers, especially those providers with access to banks' information systems. The Comprehensive National Cybersecurity Initiative recently announced by President Obama promises to elevate cybersecurity as a national priority and provide additional resources to confront emerging threats to our nation's information infrastructure.

The OCC is also intimately involved with international agencies that study, organize, and implement anti-money laundering practices for banks and the closely related issue of preventing

terrorist financing. We are a member of the U.S. delegation to the Financial Action Task Force, or FATF, the inter-governmental body that sets standards for combating money laundering, financing of terrorism, and other related threats to the integrity of the international financial system. The FATF 40 Recommendations that were last updated in 2012 provide for consistent, coordinated responses to these threats. The FATF framework established by the Recommendations allows countries a measure of flexibility in implementing these standards within their particular legal frameworks, most notably in connection with the national laws that govern data protection and privacy.

Just last month, building on the FATF Recommendations and FATF guidance, the Basel Committee, again with OCC participation, issued its revised guide to account opening as an annex to its guidance on the sound management of risks related to money laundering and terrorist financing. Together, these steps have made the global financial system safer and more resistant to incursion.

Let me now turn to a related subject. In my remarks to you last year, I touched on the issue of risk re-evaluation. This process, which is sometimes referred to as “de-risking,” refers to the way banks evaluate the BSA/AML risk posed by their customer relationships, including risks posed by the activities of foreign correspondent banks. These re-evaluations have led banks to terminate some of these relationships, typically because of concerns about the host country’s ability to supervise AML risk and doubts that the potential financial benefits of the relationship would offset the cost of managing the BSA compliance risk associated with the relationship.

These are legitimate concerns. But decisions to terminate relationships can have regrettable consequences. Longstanding business relationships may be disrupted. Transactions that would have taken place legally and transparently may be driven underground. Customers

whose banking relationships are terminated and who cannot make alternate banking arrangements elsewhere may effectively be cut off from the regulated financial system altogether. And there have been many instances of real human hardship that results when customers find themselves unable to transmit funds to family members in troubled countries. Such stories remind us how profoundly banking can affect people's lives.

As I regularly note, the OCC generally does not direct the financial institutions we supervise to either maintain or sever account relationships. The decision to exit a line of business or to terminate a banking relationship with a customer resides solely with the bank, not with the OCC. Institutions must make their own choice about whether to enter into or maintain a business relationship based on their own particular business objectives; their own evaluation of the risks associated with the particular products or services; and their own capacity to effectively manage those risks.

Nonetheless, both hard and anecdotal data show that many such relationships have been terminated, particularly those with foreign correspondent banks. This data has compelled the OCC to take a deeper look at how banks conduct risk re-evaluation. We looked at how the institutions we supervise develop and implement policies and procedures for evaluating customer risks as part of their BSA/AML programs and for making risk-based determinations to close customer accounts. Our goal is to identify current practices and possible gaps in existing policies and procedures for conducting periodic client risk re-evaluations and for making account termination decisions. Through our supervisory process, we've been looking at whether banks have explicit policies on risk re-evaluation and who is involved in making the decision to terminate a relationship. We are also looking at whether banks use oversight committees to review these decisions, whether the decisions are reported to the Board of Directors or senior

management, and whether correspondents have an opportunity to address concerns before the relationship is terminated.

We're in the process of gathering data and other information to get a better picture of current risk re-evaluation practices. Once we've digested this information, it may be that we'll find it appropriate to issue guidance to OCC-supervised institutions to better communicate what we've learned.

In the meantime, let me say that host country practices matter. Strong national AML regimes may give OCC-supervised institutions a greater degree of confidence about retaining existing relationships with foreign correspondent banks. It might also inspire them to develop new correspondent relationships.

Likewise, foreign correspondent banks might have expectations for a transparent, effective, and comprehensive supervisory AML framework in the United States which is exactly what we at the OCC have tried to achieve. As I've said before, if U.S.-chartered financial institutions have a clear understanding of the risks associated with their respondent banking clients and the jurisdictions in which they are located, they may be more comfortable providing banking services, even those services that may have historically had higher risk.

Preventing money laundering and terrorist financing is obviously an important goal. But it cannot be our only goal. A banking system that's truly safe and sound is also one that meets the legitimate needs of its customers and communities. Ensuring fair access to financial services while also combating threats to the system's integrity is surely one of the great challenges that regulators and financial institutions face today. The OCC is committed to achieving both of those goals.

Thank you.