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Proposal and Comment Information

Title: LFI -Revisions to the Large Financial Institution Rating System and Framework for the Supervision of Insurance Organizations, OP-1868

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Submitter Information

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Federal Reserve Board Proposed Revisions to the Large Financial Institution Rating System and Framework for the Supervision of Insurance Organizations
Comments Submitted by Former Chair, Federal Deposit Insurance Corporation

Thank you for the opportunity to comment on the above referenced proposal. I agree that two years after the bankruptcy of Silicon Valley Bank Financial Group (SVBFG) and costly failure of its insured subsidiary, a reassessment of the LFI supervisory rating system is overdue. However, the problems with supervisory ratings identified in that debacle – in particular, supervisors' fixation on multiple nonmaterial management issues while failing to adequately identify and remediate material vulnerabilities with capital and liquidity - are not addressed with this proposal. They are not even mentioned. Instead, this proposal would significantly weaken, not strengthen, the LFI rating system. Indeed, if this proposal had been in effect in 2023, the SVBFG would have been rated as "well-managed" notwithstanding its tenuous position.

If the Federal Reserve Board's goal is to reorient examiners toward material financial risks and away from second guessing management on non-material matters, I would suggest the best solution is for the Board to clearly communicate this to its supervisory staff. In addition, there should be more, not less, empowerment of examiners to identify and promptly remediate material financial risks. Examiner oversight needs to be streamlined. Supervision needs to be more agile. It is burdened with too much bureaucracy, backward-looking check lists, and time consuming layers of review. Unfortunately, it's hard to see how this proposal will accomplish anything other than to make it more difficult for examiners to rate a large banking institution as "not well managed," a designation which carries with it a presumption of regulatory action and generally prohibits an institution from making acquisitions.

I would also question the Fed's mystifying prioritization of loosening regulatory and supervisory constraints on large banks, even as the community banking sector struggles with steep compliance costs, outdated reporting requirements, and higher costs of capital given their "small enough to fail" status. They continue to be subject to the full brunt of consumer compliance examinations conducted by the banking agencies, while the virtually defunct Consumer Financial Protection Bureau is rapidly lightening the load in its compliance examinations of larger banks. These are the matters that require the Board's and other agencies' priority attention.