

Federal Reserve System Large Bank Directors Conference
Session on Proposed Large Financial Institution Rating System and Guidance
On Board Effectiveness and on Management of Core Business Lines
and Independent Risk Management and Controls
October 11, 2018

Participants: Mary Aiken, Yuichiro Enomoto, Mike Johnson, Rick Naylor, Vaishali Sack, and Peter Stoffelen (Federal Reserve Board); Bob Coberly, Rachel Ryan, Will Trujillo, Cathy Johnson, Tina Gibson, and Melanie O’Neal (Federal Reserve Bank of Dallas); James Dow, Cynthia Goodwin, Eric Kang, John Pelick, Juan Sanchez, and Maria Smith (Federal Reserve Bank of Atlanta); Steven Fay (Federal Reserve Bank of Boston); Jenni Frazer, Steve Jenkins, and John Plazek (Federal Reserve Bank of Cleveland); Christine Gaffney, Ken Heinecke, and Diann Townsend (Federal Reserve Bank of Minneapolis); Richard Gilbert (Federal Reserve Bank of Richmond); Michael Koh (Federal Reserve Bank of New York); Christopher Koopmans and Cathryn Langlois (Federal Reserve Bank of Chicago); Lorraine Lopez and William Wisser (Federal Reserve Bank of Philadelphia); Kristen Muetzel and Richard Shershenovich (Federal Reserve Bank of San Francisco)

John Adams and William Haraf (Charles Schwab Corp.); Paget Alves (Synchrony Financial); Lizabeth Ardisana, Steven Elliott, and David Porteous (Huntington Bancshares); Ken Bacon and Mayree Clark (Ally Financial); Brent Baird (M&T Corporation); Jorge Benitez and Eileen Mallesch (Fifth Third Bancorp); Bill Bennett (TD Group U.S. Holdings); Shelaghmichael Brown, Terry Strange, and Maz Yzaguirre (BBVA Compass); Charles Cooley, H. James Daniels, Ruth Ann Gillis, and Richard Hipple (KeyCorp); John Daniels (BMO Financial Corp.); Michael Fraizer, Toby Myerson, and Dean Yoost (MUFG Americas Holding Corporation); Cynthia Glassman (Discover Financial Services); Ruth Ann Marshall (Regions Financial Corporation); Victor Matarranz and Tim Ryan (Santander Holdings USA); Linda Medler and Marty Pfinsgraff (PNC Financial Group); Nancy Mistretta, Jane Sherburne, and Thomas Whitford (HSBC); Donna Morea and Frank Scruggs (Sun Trust Banks, Inc.); Jean-Marc Moriani (BNP Paribas USA, Inc.); Jeffrey Naylor (Synchrony Financial); David O’Maley (U.S. Bancorp); Tollie Rich (BB&T Corporation); Nancy Shanik and Susan Skerritt (RBC U.S. Group Holdings); Marita Zuraitis (Citizens Financial Group)

Summary: On October 11, 2018, as part of the Federal Reserve System Large Bank Directors Conference held at the Federal Reserve Bank of Dallas, there was a session on the proposed Large Financial Institution Rating System (LFI Rating System), which also included proposed guidance on Board Effectiveness and Management of Core Business Lines and Independent Risk Management and Controls (Proposed Guidance). The conference was for independent directors of firms with assets generally above \$100 billion but not designated among the most systemically important. The session began with a presentation by Senior Associate Director Mary Aiken of the Board’s Division of Supervision and Regulation.

Ms. Aiken described the need for the proposed LFI Rating System, the components of the proposed LFI Rating System, and the scale to be used with the proposed LFI Rating System.

Ms. Aiken then described the other components of the proposed LFI Rating System and Proposed Guidance at a high level.

Breakout discussions were also held for the directors in attendance to discuss the proposed LFI Rating System and Proposed Guidance. The following questions were provided for consideration by the directors.

- How well aligned are the attributes of effective boards with how you view your responsibilities as a director?
- Are there any material differences between the Proposed Guidance's principles on management of business lines and independent risk management and the operating principles governing these functions at your firms?
- What type of training or additional information/communication would be helpful to have from the Federal Reserve concurrent with the roll out of the new LFI Rating System or Proposed Guidance?

Everyone reconvened to discuss the views shared during the breakout discussions. The following covers comments from both the discussion during Ms. Aiken's presentation and the debrief that followed the breakout discussions (some items were covered in both discussions).

Directors favored the board effectiveness section of the Proposed Guidance, feeling it gets the directors "out of the weeds" and focuses more on their real responsibilities. Some indicated the attributes cover good bank governance; however, there was concern with some of the actual language, including what is "capable" board composition and what does it look like to "hold senior management accountable." There was also a concern that if a significant problem is disclosed, the board of directors would automatically be considered ineffective. There was a strong belief that board self-evaluations should not be shared. Sharing with regulators will likely result in them being less candid and useful.

There was minimal discussion on material differences between the Proposed Guidance's principles on management of business lines and independent risk management and the operating principles of governing these functions at the firms. One director who facilitated a breakout session stated that they thought the principles were generally consistent.

Several directors asked how the four-rating-scale in the proposed LFI Rating System would map to the five-rating-scale in the current supervisory rating system (RFI/C(D)), and how the scale would work for firms with deficiencies that required multi-year remediation efforts to correct. Some directors expressed concern that the proposed LFI Rating System would be more subjective. There were questions regarding applicability of the LFI Rating System to foreign banking organizations. Concerns were raised regarding the lack of granularity in the proposed LFI Rating System versus the current RFI/C(D) rating system as well as with the lack of focus on the tone at the top and culture.

Some directors expressed concern regarding managing information flow and holding management accountable. Some directors indicated that they are frequently told that certain information must be provided to the board of directors because of Federal Reserve requirements. Directors also noted that it would be helpful to have more meetings with senior Federal Reserve management (in addition to with examiners). Directors felt there would be an increased need for training and oversight for examiners under the proposed LFI Rating System. They also mentioned the need for more communication, outreach, and coordination with the other agencies.