**Remarks by**

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Thank you for the invitation to speak here this afternoon. The list of topics and speakers at today's event is rather impressive, and I welcome the opportunity to engage and share my views.

To say that the financial system is interconnected on a global scale would be an understatement. The largest U.S. banks operate in well over a hundred countries, while many foreign banks operate in the United States, often through regulated, FDIC-insured depository institutions. These foreign banking organizations provide financial services across a range of business lines and products in the U.S., from consumer lending to small business lending to financing infrastructure projects. While this extensive cross-border activity presents certain challenges, especially when it comes to potential resolutions, it also provides meaningful benefits to U.S.

consumers and businesses and to the broader U.S. economy. Our regulatory framework should be responsive to this reality.

Today, I'm going to discuss a few issues that we have been working on at the FDIC that might be relevant for the audience today, starting with the Volcker Rule.

**Volcker Rule**

The Volcker Rule was passed as part of the Dodd-Frank Act in 2010. While we may all have our own views on the underlying concept, the Volcker Rule is the law of the land, and as a result we must faithfully implement its provisions as the statute requires.

The rule was finalized five years ago, in December 2013, by five agencies – the FDIC, Federal Reserve, Office of the Comptroller of the Currency ("OCC"), Securities and Exchange Commission, and the Commodity Futures Trading Commission. Compliance with the rule has been challenging, to say the least, with many requirements that are extremely complex and overly subjective. While we may not all agree on the ultimate destination, there seems to be broad consensus that changes and adjustments to the rule are needed.

Personally, I have witnessed first-hand the challenges of implementing the Volcker Rule: first as a staffer on the Senate Banking Committee as the agencies drafted the rule, and subsequently as general counsel of a regional U.S. bank. As the agencies were promulgating the rule, it became clear that navigating the potential for unintended consequences would be akin to walking through a mine field. As the general counsel, I encountered that mine field when the bank was looking to invest in clean energy credits: a team of two dozen employees from various departments within the bank *and* an outside counsel invested hours in making sure that

investment would be structured in compliance with the Volcker Rule. I suspect that the drafters of the provision were not thinking about clean energy credits when they wrote the rule.

As I joined the FDIC, I pondered – now with my regulatory hat on – how can we structure the Volcker Rule in a way that satisfies its intended statutory requirements while sparing another general counsel from the labyrinth I had to navigate. Incidentally, that work had already begun at the regulatory agencies prior to my arrival.

In the summer of 2017, the OCC issued an Advanced Notice of Proposed Rulemaking asking for feedback on ways to revise the Volcker Rule. Last spring, while I was still shepherding clean energy credits through the Volcker labyrinth, the five agencies issued a Notice of Proposed Rulemaking that proposed significant changes to the trading and compliance elements of the rule and asked a number of questions regarding the covered funds provisions, which became referred to by the industry as "Volcker 2.0." For the record – and the reporters in the room – the regulatory agencies are still calling it "a proposal" … because that is exactly what it is.

While I appreciate all the work that has been done by the regulatory agencies prior to my arrival at the FDIC – as those of you who had an opportunity to interact with me know or should know – I take rulemakings very seriously, including their intended impact and potential consequences, especially when it comes to a rule this impactful. After considering the proposal, reviewing the comment letters, and hearing from stakeholders, it is clear that with respect to certain elements of the rule and the proposal, the agencies still have work to do. I believe we can get this right and do so promptly.

As we revise the rule, my first principal is that the rule has to work. And when I say "has to work" I do not mean navigating a labyrinth or stepping through a minefield. What I mean is that

we have to provide more certainty to regulated entities and improve how we define what types of trading are prohibited and what types of funds are within the scope of the rule so that both bankers and supervisors have clear rules of the road.

The regulators also need to be mindful of actual and potential disruptions to market activities that have been or could be caused by the rule. Ideally, providing more clarity around what is covered by the rule will help reduce or eliminate such disruptions.

The rule also needs to be appropriately tailored so that the requirements are commensurate with the size and scope of an institution's activities covered by the rule. Our regulatory regime should reflect the fact that the overwhelming majority of activity covered by the rule is conducted by relatively few banks. Last year, Congress exempted community banks from the requirements of the rule, which was a good start.

We also need to be mindful of the effects the Volcker Rule can have on banks engaged in international activity, including activities conducted overseas by foreign banks that have a U.S. presence. The agencies tried in the existing rule to limit the Volcker Rule's extraterritorial reach, but the result was overly complex and has not worked as intended. We need to right size the rule's extraterritorial scope while also minimizing competitive inequities between U.S. banking entities and their foreign counterparts.

To give one example, the Volcker Rule's extraterritorial reach should not prohibit activities that are clearly not governed by U.S. rules. This should help to provide a level playing field between domestic and foreign banks when the activity has no implications for the banking system, insured depositors, or taxpayers here in the United States.

Of particular interest for the audience today might be the rule's scope and requirements for foreign funds. For various types of foreign funds, the current rule is overly complex and, frankly, impractical to implement. We will consider the options available for funds in non-U.S. jurisdictions and the operational burdens under the existing rule's requirements.

It is clear to me that the Volcker Rule needs to be simplified, that the burden of complying should be reduced, that U.S. rules should not unnecessarily extend abroad, and that we need to complete this work as quickly as we can. While the agencies have a heavy workload, we are prioritizing getting the Volcker Rule right… or at least as close to right as we can get within the statutory framework given to us.

**Tailoring**

From time to time I encounter a question on deregulation. And every time I get that question, I ponder how best to respond to it given that I did not assume my duties at the FDIC with a view to deregulate, but with an open mind of assessing our regulatory framework and seeing what is working and what could be done better.

Strengthening capital and liquidity requirements at our nations' largest, most systemically important banks was an essential post-crisis response. Strongly capitalized banks with sufficient liquidity buffers are better able to serve their customers and withstand financial and economic headwinds. At the same time, it is essential that the agencies periodically evaluate regulations to make sure that these goals are achieved efficiently and effectively.

In May, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"). The Act raised the asset threshold for the application of enhanced prudential

standards under Dodd-Frank to $250 billion, while giving the Federal Reserve Board the authority to apply enhanced standards to firms with total consolidated assets between $100 billion and $250 billion under certain conditions.

The banking agencies in the U.S. recently proposed to implement the Act by more finely tailoring the application of regulatory capital and liquidity requirements for domestic banks based on the size, risk profile, and systemic footprint of the banks, with plans to issue a similar proposal for foreign banks in the near future. Under the recently-issued proposal, our largest, most systemically important banks would continue to be subject to the most rigorous standards, and their smaller, less systemically important peers would be subject to standards tailored to their risk profile. All of these institutions would continue to be subject to robust capital requirements. The cumulative expected decrease in capital among banks with total consolidated assets above $100 billion is less than 1 percent.

This thoughtful approach to tailoring the application of prudential standards within the banking industry is something that we should continue to explore for banks of all sizes and risk profiles.

**Fintech**

Another key issue the FDIC has been thinking about is innovation, both at the agency and in the banking industry. Investment in technology is critical to keep pace with competition, including competitive pressure on banks coming from nonbank fintechs. Whether alone or in partnership with financial institutions, these fintechs are using new technology to change the way customers find and access financial products.

Many of these new fintech products exist outside supervised institutions – without prudential oversight from federal regulators. I have concerns about the risks some of these new products could pose to consumers and the overall health of the financial system.

The United States' fragmented regulatory scheme can make investing in cutting edge technology difficult for regulated banks. The risk of disapproval from regulators also can deter banks from making such investments. While some banks have spent substantial sums on new technology, and others have partnered with fintechs to expand their products and services, many banks – especially smaller banks – have been reluctant, or simply unable, to invest.

These are among the reasons why I am so excited about the FDIC Tech Lab that will be opening soon. We released our first vacancy announcements for the Tech Lab today, and as we close in on the ribbon cutting, I get increasingly excited about the role the Tech Lab can play in promoting innovation in the industry.

FDIC Tech Lab's goal will be to enable and facilitate the deployment of new technology in the banking industry. The Lab will work to eliminate regulatory uncertainty and unnecessary restrictions that might otherwise prevent banks from fielding new technologies by working with innovators both in the banking sector and outside of it. These partnerships will help the FDIC better understand the products and their potential impact on consumers, while also enabling banks to innovate in a manner that will improve customer experience and reduce risk. Through a better shared understanding of these products, the FDIC will be able to identify unnecessary regulatory friction that could prevent the adoption of new, stable, and safe products and services.

Our efforts will require coordination across the regulatory environment in the United States – at the federal and state level. And, ultimately, we will need to work with our international partners to ensure that technology can be safely deployed in an international marketplace.

**International Coordination**

This brings me to the fourth topic for today – building strong relationships with our international counterparts. Given the interconnectedness of the global financial system, we need these relationships to be strong not only because regulators are nice people but because we should not work at cross-purposes.

For many years, the FDIC, the Bank of England, the European Commission, the Single Resolution Board, and the Swiss Financial Market Supervisory Authority ("FINMA") – to name a few – have worked closely on a range of issues, perhaps the most significant being resolution planning for internationally active banks. We host annual crisis-management group meetings that bring together home and host authorities to discuss resolution planning for the large, internationally active U.S. banks, and we participate in similar meetings for large foreign banks operating in the United States.

We have developed information sharing arrangements and have engaged in a number of international operational exercises to test and improve our readiness. We also regularly coordinate with foreign jurisdictions through multilateral venues, and we have built a solid foundation for cooperation and planning with resolution authorities around the world.

Much of the current bilateral and multilateral work focuses on cross-border planning for operational readiness, such as the positioning of cross-border resources, approaches to the wind-

down of cross-border derivatives portfolios, and facilitating continued access to financial-market infrastructures. This reflects a progression from policymaking to implementation as work on resolution planning matures. I expect this approach will gain momentum as we continue to build the cooperative relationships that underpin our operational readiness.

**Conclusion**

The topics I have discussed today represent just a few of the many issues we are currently working on at the FDIC. We continue to review our supervisory process and regulatory regime, and expect to propose two major interagency rulemakings very soon. The first proposes to tailor the application of capital and liquidity requirements for foreign banks, and the second would tailor the Dodd-Frank resolution planning requirements. Separately, the FDIC also expects to issue an Advanced Notice of Proposed Rulemaking soon to revise the resolution planning requirements for insured depository institutions.

Thank you again for the invitation to speak today.