



BETTER MARKETS

October 12, 2021

James P. Sheesley
Assistant Executive Secretary
Attention: Comments RIN 3064-ZA27
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Request for Information and Comments Regarding the FDIC's Supervisory Approach to Examinations during the Pandemic (Docket No. 2021-17230; RIN 3064-ZA27)

Dear Ladies and Gentlemen:

Although the request for information (“RFI”)¹ captioned above issued by the Federal Deposit Insurance Corporation (“FDIC”) primarily seeks information and comments from “financial institutions for which the FDIC is the primary Federal regulator,” Better Markets² appreciates the opportunity to submit comments based on the RFI. As is made clear in the RFI, the FDIC is looking to more permanently conduct supervisory examination activities off-site rather than on-site, at least generally – if not specifically – in accordance with the procedures established in response to the Coronavirus Disease 2019 (COVID-19) pandemic (“pandemic”), and is seeking feedback from the banks it supervises on which procedures worked well and where there could be improvement.

Better Markets appreciates the FDIC’s goals stated in the RFI of making supervisory examinations more “efficient” and to “reduce burden” on banks undergoing supervisory examinations. However, efficiency must not be gained at the expense of effectiveness. While some supervisory activities indeed may be at least equally effective but more efficient for both examiners and banks when conducted off-site, it seems such activities already were being conducted off-site prior to the pandemic, as noted in the Background Information section of the

¹ 86 FR 44364

² Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies— including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system, one that protects and promotes Americans’ jobs, savings, retirements, and more.

RFI. It is only natural that as technology develops, efficiencies that can be gained in the examination process will be gained over time. Simply because the pandemic forced all activities to be conducted remotely should not be reason in itself to rush into consideration of speeding along the natural process. As examinations are able to return to their normal course, they should return to their normal course, and any evolution of the examination process should occur over time and with very careful consideration of the tradeoffs.

The most significant and obvious tradeoff is the opportunity for more in-depth and meaningful interactions with bank personnel. For example, an examiner may be more likely to ask a question or follow up on a point in person than over a phone or video call, as there is an increased level of engagement when meeting in person. Also, despite technological advances, an examiner can learn more about a bank's processes and procedures in person since that is more conducive to having an interactive demonstration as opposed to a virtual setting. Furthermore, conducting too many examination activities off-site can lead to a sense of complacency by banks' risk management and compliance functions and even perhaps by the examiners themselves.

Rather than seeking to gain efficiencies in the examination process, the FDIC should be seeking to determine which examination activities *must* be conducted on-site and accordingly set on-site examination *requirements*. Currently, the FDIC's Risk Management Supervision (RMS) Manual of Examination Policies instructs the Examiner in Charge (EIC) to make the determination regarding which examination activities are most appropriate for on-site vs. off-site execution, outside of certain activities that are *expected* to be conducted on-site. Leaving discretion for the EIC and the examination team on which aspects of an examination are better suited for off-site execution is important. Such a model generally makes sense, as examiners have the best sense of the strengths and weaknesses of each bank, and so their discretion should matter. However, it is important that certain activities should be required to be conducted on-site, especially when there is a new examination team or there have been changes to a bank's business.

Better Markets urges the FDIC to be thoughtful as it moves forward in its determination of future on-site vs. off-site examination activities. It should consider that comments received from the industry based on the questions posed in the RFI are likely to be biased. Banks have every incentive to comment on their preference between on-site and off-site activities based on which combination provides them with the greatest advantage in performing well in their examinations.

The FDIC should use this opportunity and information collection to focus on strengthening their supervisory activities rather than weakening them under the guise of "efficiency." The American people have heard too much over the last four years about increasing efficiency in bank supervision. It is time they hear more about increasing effectiveness in bank supervision.

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Sincerely,

A handwritten signature in black ink, appearing to read "PGB". The letters are stylized and connected, with a large "P" and "G" and a smaller "B".

Phillip G. Basil
Director of Banking Policy

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