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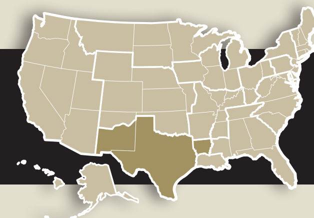

View from the District
An Eleventh District Perspective — Dallas

Understanding How Culture Drives a Bank's Mission*

by Robert L. Triplett III, Senior Vice President, Banking Supervision, Federal Reserve Bank of Dallas

As the officer in charge of banking supervision for the Federal Reserve Bank of Dallas, I need to be aware of banking conditions and challenges facing community banks in the Eleventh Federal Reserve District. I spend a considerable portion of my time reaching out to community bankers, and they routinely talk about a variety of topics that are also at the top of my mind, including pressure on margins and earnings, regulatory burden, fintech's potential impact, succession management, and a host of other issues. One topic that is not regularly mentioned — at least overtly — is corporate culture.

Robert L. Triplett III

Although corporate culture may not come up directly in my discussions with bankers, it is nonetheless a critical component of a bank's operations that influences decisions and actions taken in response to the challenges and opportunities a bank faces. Recent enforcement actions, such as the penalties levied against Wells Fargo for its sales practices and the Environmental Protection Agency's consent decrees with Volkswagen for emissions testing violations, highlight the importance of culture in an organization. In both cases, evidence points to fundamental cultural issues that drove underlying behavior, resulting in undesired outcomes. Maintaining a strong, positive culture aligned with the organization's mission is critical for achieving long-term success and for avoiding missteps that can damage an organization's reputation or result in financial loss. As a bank supervisor, it is my view that aligning culture with mission is one of the most important areas of focus for a community bank.

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*This article was also published in *Consumer Compliance Outlook* (First Issue 2018), a Federal Reserve System publication dedicated to consumer compliance topics.

INSIDE

Inside the Fed's Revisions to Risk Management Guidance

by Allison Lamb, Manager, Supervisory Oversight, Board of Governors of the Federal Reserve System; Margaret Angeloff, Supervisory Financial Analyst, Board of Governors of the Federal Reserve System; Richard Wilson, Principal Examiner, Federal Reserve Bank of Cleveland; and Lori Calhoun, Senior Examiner, Federal Reserve Bank of Cleveland

Supervision and Regulation (SR) letter 16-11, "Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less Than $50 Billion," was issued on June 8, 2016, and is applicable for all examinations and inspections of community banking organizations. This article provides an overview of SR letter 16-11 in a question-and-answer format to provide institutions with additional perspective on the Federal Reserve's update of this guidance, which was previously issued under SR letter 95-51, "Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies."

SR letter 16-11 updates the Federal Reserve's supervisory guidance for assessing risk management at supervised institutions with less than $50 billion in total consolidated assets, and it more clearly establishes applicability to savings and loan holding companies (SLHCs) and the U.S. operations of foreign banking organizations (FBOs). The SR letter also reaffirms the Federal Reserve's long-standing supervisory approach that emphasizes the importance of prudent risk management and an institution's ability to identify, measure, monitor, and control the risk of its activities. Moreover, the SR letter updates risk categories and clarifies risk management principles outlined in SR letter 95-51. Principles of sound management should apply to the entire spectrum of risks facing an institution, including, but not limited to, credit, market, liquidity, operational, compliance, and legal risks.

Why did the Federal Reserve update its risk management guidance?

The Federal Reserve periodically reviews its existing supervisory guidance to assess whether the guidance is still relevant and effective. The Board of Governors of the Federal Reserve System (Board) completed a policy review of the supervision programs for community and regional banking organizations to make sure that these programs and related supervisory guidance reflect current banking practices and risks. The policy review noted that the risk management principles presented in SR letter 95-51 remain fundamentally sound and applicable, but updates were needed to reflect industry and regulatory changes to primary risk definitions and nomenclature since the guidance was issued over 20 years ago.

To which institutions does SR letter 16-11 apply?

SR letter 16-11 applies to financial institutions supervised by

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the Federal Reserve with total consolidated assets of less than $50 billion. This includes state member banks; bank holding companies; SLHCs, including insurance and commercial SLHCs; and FBOs with combined U.S. assets of less than $50 billion. This represents a change from SR letter 95-51, which did not limit applicability based on asset size and did not explicitly cover SHLCs and FBOs. SR letter 16-11 partially supersedes SR letter 95-51, which remains applicable to state member banks and bank holding companies with $50 billion or more in total consolidated assets until superseding guidance is issued for these institutions. As a result, SR letter 95-51 no longer applies to institutions with total consolidated assets of less than $50 billion.

What modifications were made to the risk categories?
With respect to risk categories, two modifications were made. Compliance risk is more clearly differentiated as a standalone core risk element and is no longer a subcategory of legal risk. Compliance risk is defined as the risk of regulatory sanctions, fines, penalties, or losses resulting from failure to comply with laws, rules, regulations, or other supervisory requirements applicable to a financial institution. This change provides a clearer distinction from legal risk, which addresses risks that arise outside the regulatory arena, such as contracts and litigation.

Reputational risk was removed as a standalone core risk category. This change recognizes that reputational risk is a secondary risk that results from control gaps in one or more of the primary risk categories. A root cause analysis can be performed to identify the underlying drivers for reputational risk and pinpoint the issue more appropriately to a primary risk category such as credit, market, liquidity, operational, compliance, or legal.

What modifications were made to the risk definitions?
SR letter 16-11 also clarifies operational, market, and legal risk definitions. The definition of operational risk was updated to more closely align with the Basel Committee's definition of operational risk. The market risk definition was updated to include risk from adverse movements in commodity prices. Last, legal risk was updated to include legal sanctions as a potential action against an institution.

Additionally, the risk rating definitions originally introduced by SR letter 95-51 are now retained in the *Commercial Bank Examination Manual*, the *Banking Holding Company Supervision Manual*, and the *Examination Manual for U.S. Branches and Agencies of Foreign Banking Organizations* from the Federal Reserve. It's important to note that, although SR letter 16-11 does not restate the Federal Reserve risk rating definitions, these definitions remain in effect.

What risk management concepts were updated?
The guidance updates risk management concepts such as noting that an institution's board of directors should establish risk tolerances for the institution's significant activities. Periodic reviews of tolerance limits should ensure that risk exposure limits align with changes in the institution's strategies, address new activities and products, and react to changes in the industry and market conditions. Moreover, the revised guidance highlights the interrelationship of risks and how institutions should employ information systems that provide a consolidated and integrated view of risk.

How does the guidance clarify responsibilities of the institution's board of directors versus senior management?
The revised guidance presents greater distinction and clarification between the roles and responsibilities of an institution's board of directors versus those of senior management. In particular, the SR letter reinforces the responsibilities of the board of directors for providing oversight and direction; senior management is responsible for risk identification and management of vulnerabilities as well as the establishment and maintenance of effective risk information systems to facilitate ongoing measurement and reporting. This is a clarification from SR letter 95-51, which previously blended risk management responsibilities of the institution's board of directors and senior management. In addition, an effective system of internal controls was clarified as the responsibility of both the institution's board of directors and senior management.

Is the guidance in SR letter 16-11 based on a company's asset size?
Consistent with SR letter 95-51 and the Federal Reserve's overall supervisory approach, the guidance in SR letter 16-11 is scalable to an institution's size and complexity. An institution's risk management processes are expected to evolve in sophistication, commensurate with the institution's asset growth, complexity, and risk. SR letter 16-11 elaborates on risk management attributes of community and regional banking organizations.

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Agricultural Lending Concentrations: Lending Well in Challenging Times

by Matthew Nankivel, Risk Team Manager, Federal Reserve Bank of Minneapolis

The ongoing impact of low commodity prices coupled with high input costs on agricultural producers and their lenders is a concern shared by bankers and supervisors and remains a key supervisory focus for the Federal Reserve System. In 2017, five Reserve Banks[1] with responsibility for the banks with the largest exposure to agricultural lending conducted a coordinated supervisory review of their agricultural banks and identified opportunities for industry guidance to help bankers strengthen their risk management programs. This article builds on guidance in Supervision and Regulation (SR) letter 11-14, "Supervisory Expectations for Risk Management of Agricultural Credit Risk," by providing an overview of several key risk management practices that are important for agricultural banks to consider.

The Importance of Federal Reserve SR Letter 11-14

SR letter 11-14 applies in all economic environments, but it is especially important in a period of economic stress because it reminds banks that "the identification of a troubled borrower does not [prohibit] a banker from working with the borrower." Many banks engaged in agricultural lending are located in communities where farming is the primary economic driver, and simply pushing every borrower with challenges out of the bank does not benefit the long-term interests of the bank or the community it serves. SR letter 11-14 provides a road map for lenders to work prudently with troubled borrowers in a way that serves the long-term interests of all stakeholders.

Carryover Debt

The Reserve Banks' review provided examiners with helpful insights into a bank's management of carryover debt. For the purposes of this article, carryover debt is the remaining debt on an operating line after all inventory on hand is sold. This definition does not include cash shortfalls caused by prepaid expenses or short-term extensions secured by grain in the bin. Carryover debt discussed in this article is an operating loss that must be appropriately secured and termed out in a way that meets the borrower's needs and is also in the bank's best interest.

The Reserve Banks' review also revealed that more than four-fifths of agricultural banks included in the review had some level of carryover debt on their books, a figure that is expected to grow during the 2018 operating cycle. The loan structure of the carryover debt varied, but it was often amortized over three to seven years, with the bank taking additional collateral. However, it was not uncommon for banks to term out the debt as a refinance of the farmland, which allows for a much longer amortization period. This is a prudent approach as long as the borrower's equity in the land is earned (that is, not tied to market gain) and the structure of the new note is within the bank's lending guidelines. Many banks were able to obtain Farm Service Agency guarantees for these borrowers, which helped to mitigate the overall risk of loss, and a few banks required borrowers to sell noninventory assets to cover the operating shortfall.

Do Reserve Bank examiners view all borrowers with carryover debt caused by an operating loss as adversely classified borrowers? The answer is no. If the carryover portion of the borrower's debt is adequately collateralized and appropriately amortized, and if the borrower's financial condition is sound and within the bank's policy parameters, the borrower's debt often does not warrant adverse classification. Lenders with good risk management practices segregate carryover debt, secure it with additional collateral if possible, and amortize it over a reasonable term that is consistent with the borrower's repayment capacity and collateral pledged. However, if the borrower does not have the financial capacity to prudently amortize the carryover debt, in addition to normal credit needs, or the borrower lacks sufficient equity to adequately collateralize the loan, then the borrower may warrant adverse classification for at least the portion of the debt that is carried over. Bank management should also assess whether the debt restructuring efforts warrant a Troubled Debt Restructure designation.

[1] The Federal Reserve Banks of Minneapolis, Kansas City, Chicago, St. Louis, and Dallas conducted the review.

The guidance in SR letter 11-14 addresses risk management practices for carryover debt and for mitigating the risk of loss from troubled borrowers, thereby minimizing classified loans. Following the approaches discussed in SR letter 11-14, the Reserve Banks' review noted that although most banks had a few borrowers with carryover debt, nearly half of the banks did not adequately address carryover debt in their loan policies, and many banks did not have formal guidelines. A loan policy for carryover debt should address acceptable types of collateral, loan-to-value limits, and acceptable amortization requirements, including whether a bank is willing to refinance farmland to provide longer amortization periods for carryover debt. Additionally, the loan policy should address requirements for monitoring loans with carryover debt, including requirements for determining when the bank should consider a formal action plan. An action plan often covers borrower commitments to reduce costs, control family living expenses, bring in additional off-farm income, sell assets, and possibly incorporate a loan covenant to prioritize repayment of the carryover debt. Above all else, an action plan should be realistic and prudent for the circumstances and repayment ability of the borrower and should be actively monitored by the lender.

Capital Planning

Managing an asset concentration is a fundamental aspect of strategic risk assessment and capital planning. Most banks that are highly concentrated in agricultural lending are making loans based on the needs of the local market. Often, they do not have easy ways to diversify the concentration risk without engaging in out-of-area lending, which carries its own risks. Whether a bank chooses this type of diversification is a decision for the bank's board and senior management, but capital planning should aid the bank in managing its concentration risk and lending strategy. Regardless of whether agricultural banks diversify, a significant portion of the portfolio remains directly or indirectly tied to the health of the local and regional agricultural economy, and, therefore, sufficient capital coverage for this risk is necessary.

A number of banks reviewed were not formally considering the agricultural credit risk concentration in their capital planning processes. Discussions related to capital planning often considered long-term projections and contingency plans. These aspects are necessary to the long-term planning process, but in the case of agricultural credit risk, it is also important to discuss capital planning in real time. Most important, before declaring dividends, the bank should consider whether its allowance for loan and lease losses and capital levels will adequately insulate the bank against expected and unexpected losses. Bank management should not only consider expected and potential losses on adversely classified credits but also account for overall growth in operating lines from carryover debt and credit concentrations.

Liquidity Considerations

For agricultural banks, liquidity risks are interwoven with the loan portfolio's credit quality. Because agricultural producers often are both loan and deposit customers, when commodities peak, bank deposits rise and operating loan demand falls, leaving the bank with excess deposits. In the current environment of low commodity prices and high input costs, the opposite is true, and many banks seek funding outside of their local deposit base. In addition to seasonal fluctuations in funding needs, this economic cyclicality has caused an increased reliance on wholesale funding. Because banks in this position often find it difficult to maintain a healthy level of unencumbered liquid assets, the best option is to employ strong risk management practices against the increased level of liquidity risk. At a bank with tight liquidity, management should also consider the need to restrict discretionary lending to limit loan growth.

The Reserve Banks found that banks were often not adequately linking agricultural concentrations to the liquidity planning process and that assumptions were sometimes inconsistent. For example, bank cash flow projections under adverse business conditions typically incorporated assumptions for increased carryover debt but held deposits constant. This approach fails to recognize the full impact of borrowers' financial stress on the bank. When preparing cash flow forecasts and stressed cash flow projections for contingency funding plans, a bank should consider the unique risks posed by agricultural lending concentrations as agricultural borrowers typically hold deposits at the bank. Therefore, a bank has to consider the effect that these customer relationships have on both the bank's assets and liabilities and the potential liquidity constraints.

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Understanding How Culture Drives a Bank's Mission

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What Is Culture?
A review of academic and business literature reveals no shortage of definitions of culture. The definitions vary and emphasize different aspects of culture, but a common theme across the definitions is the importance of an organization's values. An organization's values are often formed over time as its members encounter and resolve problems that arise from member interactions as well as operating in the business environment. The manner in which leadership responds to conflict often becomes the expected norm, and these norms are typically passed on to new members through immersion and teaching. Values are simply what is most important to the organization, and they define expectations for internal conduct and for interactions with customers and others outside the organization. Therefore, at its core, an organization's culture evolves from the set of values that guide decision-making and behavior.

"Having regular dialogue within the bank about culture is important for establishing the bank's current core values and shaping future values."

Decisions and the resulting actions often reflect a bank's culture. The prevailing culture in an organization may result from intentional thought and reinforcement, or it may simply reflect the aggregation of decisions and actions taken over time. Regardless, every organization will possess a distinct culture. Observed over time, the decisions made by an organization's leaders and the actions of its employees reveal its underlying values, which define the culture.

Why Is Culture Important?
Do not underestimate the importance of culture to a company's day-to-day functions. Employees are constantly evaluating how decisions are made, what is important to the leaders, and how they should respond and behave. Essentially, employees look to management to set the tone for how the company will operate. Do your employees understand how they should interact with customers? Have you clearly articulated the ethics and principles by which your bank will operate? Does the bank's senior management set the tone by demonstrating the strong, positive values that should be emulated by the bank's employees? Some of these questions will be answered explicitly through the bank's mission statement or other corporate declarations; however, follow-through by senior leadership is necessary for continued success. Because culture drives behavior, culture has significant implications for all critical aspects of a community bank's operations, including the way the bank will lend, how it will treat its customers, and the bank's role in the communities that it serves.

Culture will evolve, especially as a bank faces new challenges. It is important that the bank's leaders often communicate the desired values and behaviors, such that the culture does not devolve into a conflicting set of norms or reflect an entirely different set of values. If guided by well-established values, decisions and actions that align with and reinforce established values will sustain the culture.

How Does a Bank Instill Culture?
To help ensure that a bank's culture aligns with its mission, core values should be thoughtfully considered and support the business objectives that allow the bank to fulfill its mission. Once established, the bank's core values should be communicated throughout the organization. A bank's culture should be instilled, rather than imposed. Simple platitudes cannot produce a desired culture, especially if actions are inconsistent with the expressed cultural values. Instead, values should be consistently reinforced and demonstrated through senior leaders' actions.

Having regular dialogue within the bank about culture is important for establishing the bank's current core values and shaping future values. Most community bankers who I have met would broadly describe their bank's mission as fairly and profitably meeting the financial service needs of the communities that they serve. To help achieve its mission, a bank may list providing superior customer service as one of its core values. However, front-line employees' experiences may reveal that the culture instead is driven by the value of speed — handling the highest volume of transactions in the least amount of time — or in a way that generates the greatest profit. Thus, instead of consistently delivering superior customer service, employees may often do what is expedient during peak business hours, which could mean employees may not follow established procedures but take shortcuts instead.

Certainly, taking shortcuts can be a detriment to providing superior customer service. Depending on the nature of the transaction, failure to follow established procedures could expose the bank to financial loss. Further, at the extreme, this could result in mistreatment of customers and violations of consumer protection laws and regulations. For example, certain required disclosures might not be provided to consumers or, in the absence of following established procedures designed to promote equitable treatment, employee biases — overt or not — could drive less favorable treatment of customers on a prohibited basis.

In this instance, employee behavior would not be consistent with the bank's articulated core values. This example is not meant to suggest that superior customer service and efficiency are at odds; what it does mean is that it is insufficient to simply espouse a value and expect it to stick. Rather, a bank's core values must be supported by strong policies, procedures, training, and an incentive structure that is aligned with and reinforces those values. In my example, expectations for what constitutes superior customer service in the context of any particular job should be defined. Decisions about transaction volume goals and staffing during peak business hours should be realistic and established consistently with the customer service value in mind. Only then will the values, culture, and mission align.

How Is Culture Maintained?

Even if values have been effectively communicated and embedded in the bank's operations, the culture supported by these values must be reinforced. As I mentioned earlier, while values will drive behavior, culture ultimately is a reflection of actual behaviors, not desired behaviors.

It is necessary for senior bank leaders to clearly articulate and reinforce in their communications to employees the bank's core values, but doing this alone is insufficient to maintain a culture. If behaviors at odds with core values are allowed to persist, such communications will not matter. Senior leaders in the organization must consistently exhibit behavior consistent with the bank's core values. In other words, they must "walk the talk." Additionally, behaviors throughout the organization that do not align with the culture must be identified and corrected. Often, such behaviors can be identified through established processes for evaluating management and employee performance. Correction may take the form of revising procedures that promote misaligned behavior, providing additional training to an employee, or, at the extreme, taking proportionate disciplinary action.

Open dialogue can be a powerful means for management and staff to speak about the bank's culture and how it contributes to meeting the bank's mission. Such dialogue can also be a means to identify barriers to values-driven behaviors or examples of values-inconsistent behaviors. In some cases, it may be difficult for an employee to openly discuss concerns about behaviors he or she witnesses, especially if such behaviors cross ethical or legal boundaries. For that reason, banks should strongly consider making available to employees a means to voice such concerns anonymously, such as a hotline. In the end, organizations, including community banks, need multiple avenues to collect and identify information to aid in maintaining and improving corporate culture.

Conclusion

I would like to close with a message specifically to community bank chief executive officers (CEOs). Someone once told me, "Leaders cast long shadows." This person meant that employees look to their leaders for inspiration and direction, particularly when a potentially controversial or ethical decision must be made. Bank employees will observe how decisions or actions are handled by management and whether matters are handled in a way that is consistent with cultural norms. Deviating from well-established norms or making decisions that erode the culture will chip away at a CEO's credibility as an individual and a leader. Much like the referees in a football game, employees are keeping a watchful eye on the CEO's performance. Employees may not literally throw a flag, but once the CEO commits a culture infraction, he or she can expect to be penalized, and it is tough to earn back the employees' respect and trust. To ensure the success of the team and fulfill the bank's mission, as its leader, a CEO must champion a strong, positive culture by showing up every day with a focus on demonstrating and reinforcing the bank's core values. I believe that the deep, values-based connections formed among bank leaders, employees, and their customers are essential for the continued success of community banking. ■

Inside the Fed's Revisions to Risk Management Guidance

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Will the scope of supervisory inspections or examinations change as a result of SR letter 16-11?
SR letter 16-11 does not substantially change the scope of supervisory reviews. The SR letter does not materially change the principles of SR letter 95-51 or the approach to inspections and examinations. Therefore, modifications to inspection or examination procedures will be limited to highlighting compliance risk as a core risk category, distinguishing the roles and responsibilities of an institution's board of directors and senior management, and more clearly evaluating risk tolerances, the interrelationship of risks and risk categories, and consolidated risk reporting.

Does SR letter 16-11 result in any changes to supervisory ratings?
The issuance of SR letter 16-11 does not result in any changes to supervisory ratings and is consistently aligned with existing applicable supervisory rating frameworks, including CAMELS/C(R), RFI/C(D), and ROCA. CAMELS/C(R) stands for capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk, which are factors used to rate financial institutions. C(R) indicates composite/risk management. RFI/C(D) indicates risk management, financial condition, impact/composite (depository institution). ROCA is a system used to rate risk management, operational controls, compliance, and asset quality.

What is the effective date of SR letter 16-11?
SR letter 16-11 was effective on the date of issue, which was June 8, 2016.

In summary, SR letter 16-11 reflects the Federal Reserve's emphasis on the importance of prudent risk management and provides updated guidance to align with current industry practices and the Federal Reserve's supervisory approach for institutions with total consolidated assets less than $50 billion. ■

Agricultural Lending Concentrations: Lending Well in Challenging Times

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A bank's liquidity planning process should include thorough accounting for off-balance-sheet commitments, consideration of the impact of reduced deposits on the bank's cash flow, assessment of the funding needs for loan growth derived from seasonal swings and carryover debt, and consideration of how rising interest rates will affect weaker borrowers. The bank should also establish monitoring frameworks for managing liquidity risk, including limits on wholesale funding tied to loan demand, so that when a bank exceeds those limits, it triggers appropriate action from management.

Looking Ahead
Robust risk management is always foundational to managing concentration risk. During times of increased risk, strong risk management practices are even more critical to maintaining a healthy bank that has the necessary resources to serve its customers and community. The guidance provided in SR letter 11-14 outlines the elements of a risk management framework an agricultural bank should have in place to successfully underwrite agricultural borrowers, including borrowers with carryover debt. ■

Supervision & Regulation (SR) & Consumer Affairs (CA) Letters

The following SR and CA letters that have been published since the last issue (and are listed by most current) apply to community banking organizations. Letters that contain confidential supervisory information are not included. All SR letters are available by year at www.federalreserve.gov/supervisionreg/srletters/srletters.htm and by topic at www.federalreserve.gov/supervisionreg/topics/topics.htm. A complete list of CA letters can be found at www.federalreserve.gov/supervisionreg/caletters/caletters.htm.

CA Letter 18-6	"Statement on the Implementation of the Economic Growth, Regulatory Relief, and Consumer Protection Act Amendments to the Home Mortgage Disclosure Act"
SR Letter 18-4/ CA Letter 18-5	"Policy Statement on Interagency Notification of Formal Enforcement Actions"
CA Letter 18-4	"Restoration of the Protecting Tenants at Foreclosure Act"
SR Letter 18-3	"Federal Financial Institutions Examination Council Examination Procedures on Customer Due Diligence and Beneficial Ownership Rule"
CA Letter 18-3	"Revised Interagency Examination Procedures for Regulation X and Regulation Z"
SR Letter 18-2	"Interagency Statement on Accounting and Reporting Implications of the New Tax Law"
CA Letter 18-2	"Revised 'A Guide to HMDA Reporting: Getting It Right!'"
CA Letter 18-1	"CRA Consideration for Community Development Activities in the U.S. Virgin Islands and Puerto Rico Following Hurricane Maria"
SR Letter 17-14	"Interagency Supervisory Examiner Guidance for Institutions Affected by a Major Disaster"
SR Letter 17-10	"Temporary Exceptions to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) Appraisal Requirements in Areas Affected by Severe Storms and Flooding Related to Hurricanes Harvey, Irma, and Maria"
SR Letter 17-9	"Supervisory Guidance for Examining Compliance with the Qualified Thrift Lender Test"
CA Letter 17-4	"Expectations for Supervised Institutions Regarding Amended Regulation C"
CA Letter 17-3	"Designated Home Mortgage Disclosure Act Key Data Fields"

Governor Lael Brainard gave a speech at the Forecasters Club of New York in New York on May 31, 2018. Her speech on "Sustaining Full Employment and Inflation Around Target" is available at www.federalreserve.gov/newsevents/speech/brainard20180531a.htm.

Governor Lael Brainard gave a speech at the Association of Neighborhood and Housing Development's Eighth Annual Community Development Conference, Build.Community.Power, in New York on May 18, 2018. Her speech on "Keeping Community at the Heart of the Community Reinvestment Act" is available at www.federalreserve.gov/newsevents/speech/brainard20180518a.htm.

Governor Lael Brainard gave a speech at the Decoding Digital Currency Conference, sponsored by the Federal Reserve Bank of San Francisco, in San Francisco on May 15, 2018. Her speech on "Cryptocurrencies, Digital Currencies, and Distributed Ledger Technologies: What Are We Learning?" is available at www.federalreserve.gov/newsevents/speech/brainard20180515a.htm.

Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles gave his semiannual Supervision and Regulation Testimony before the U.S. House of Representatives Committee on Financial Services in Washington, D.C., on April 17, 2018. His testimony is available at www.federalreserve.gov/newsevents/testimony/quarles20180417a.htm. Vice Chairman for Supervision Quarles submitted identical remarks to the U.S. Senate Committee on Banking, Housing, and Urban Affairs on April 19, 2018.

The federal banking agencies proposed a revision to their regulatory capital rules to address and provide an option to phase in the regulatory capital effects of the new accounting standard for credit losses, known as the current expected credit losses (CECL) methodology. The proposal addresses the regulatory capital treatment of credit loss allowances under the CECL methodology and would allow banking organizations to phase in the day-one regulatory capital effects of CECL adoption over three years. The proposal would revise the agencies' regulatory capital rules and other rules to take into consideration differences between the new accounting standard and existing U.S. generally accepted accounting principles. The press release, which was issued on April 17, 2018, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20180417a.htm.

Federal Reserve Board Chairman Jerome H. Powell gave a speech at the Economic Club of Chicago in Chicago on April 6, 2018. His speech on "The Outlook for the U.S. Economy" is available at www.federalreserve.gov/newsevents/speech/powell20180406a.htm.

John C. Williams was named the president and CEO of the Federal Reserve Bank of New York. His appointment by the eligible members of the New York Reserve Bank's board of directors was approved by the Board of Governors of the Federal Reserve System. Williams began his appointment on June 18, 2018. He succeeded William C. Dudley as president and CEO of the Federal Reserve Bank of New York. Williams was previously the president and chief executive officer of the Federal Reserve Bank of San Francisco, a role he had served in since March 1, 2011, when he succeeded former Federal Reserve Board Chair Janet Yellen. The press release, which was issued on April 3, 2018, is available at www.newyorkfed.org/newsevents/news/aboutthefed/2018/oa180403.

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued a final rule that increases the threshold for commercial real estate transactions requiring an appraisal from $250,000 to $500,000. The final rule responds, in part, to concerns financial industry representatives raised that the current threshold level had not kept pace with price appreciation in the commercial real estate market in the 24 years since the threshold was established. Further, the issue of appraisal regulatory burden was raised by the industry during the Economic Growth and Regulatory Paperwork Reduction Act review process completed in March 2017. The press release, which was issued on April 2, 2018, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20180402a.htm.

Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles gave a speech at the HOPE Global

Forums Annual Meeting in Atlanta on March 26, 2018. His speech on "The Roles of Consumer Protection and Small Business Access to Credit in Financial Inclusion" is available at www.federalreserve.gov/newsevents/speech/quarles20180326a.htm.

Federal Reserve Board Chairman Jerome H. Powell gave his semiannual Monetary Policy Report to the Congress before the U.S. House of Representatives Committee on Financial Services in Washington, D.C., on February 27, 2018. The report is available at www.federalreserve.gov/newsevents/testimony/powell20180226a.htm. Chairman Powell submitted identical remarks to the U.S. Senate Committee on Banking, Housing, and Urban Affairs on March 1, 2018.

Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles offered his thoughts at the Financial Services Roundtable 2018 Spring Conference in Washington, D.C., on February 26, 2018. His remarks, titled "Brief Thoughts on the Financial Regulatory System and Cybersecurity," are available at www.federalreserve.gov/newsevents/speech/quarles20180226b.htm.

Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles gave a speech at the 26th International Financial Symposium, "10 Years After the Global Financial Crisis: How Has the World Economy Changed and Where Will It Go," sponsored by the Institute for International Monetary Affairs, in Tokyo on February 22, 2018. His speech on "The U.S. Economy After the Global Financial Crisis" is available at www.federalreserve.gov/newsevents/speech/quarles20180222a.htm.

Jerome H. Powell was sworn in as Chairman of the Board of Governors of the Federal Reserve System on February 5, 2018. He succeeded Janet L. Yellen as Chair. The oath was administered by Vice Chairman for Supervision Randal K. Quarles in the Board Room. The video and transcript from the swearing-in are available at www.federalreserve.gov/newsevents/pressreleases/other20180205a.htm. Chairman Powell also participated in a ceremonial swearing-in event in the atrium of the Board's main building in Washington, D.C., on February 13, 2018. The press release on the ceremonial swearing-in is available at www.federalreserve.gov/newsevents/pressreleases/other20180213a.htm, and his remarks from the ceremonial swearing-in are available at www.federalreserve.gov/newsevents/speech/powell20180213a.htm.

The federal bank regulatory agencies announced that they will give favorable consideration under Community Reinvestment Act (CRA) regulations to institutions that are located outside of the U.S. Virgin Islands and Puerto Rico, which were designated as major disaster areas in the aftermath of Hurricane Maria, for bank activities that help to revitalize or stabilize these areas. The press release, which was issued on January 25, 2018, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20180125a.htm.

Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles gave a speech at the American Bar Association Banking Law Committee Annual Meeting in Washington, D.C., on January 19, 2018. His speech on "Early Observations on Improving the Effectiveness of Post-crisis Regulation" is available at www.federalreserve.gov/newsevents/speech/quarles20180119a.htm.

The Federal Reserve Board announced the finalization of a rule adjusting the Board's maximum civil money penalties, as required by law. In November 2015, a law was passed that requires all federal agencies to adjust their maximum civil money penalty limits annually for inflation, rather than every four years as previously required. The final rule increases the maximum civil money penalty limits for 2018. The new penalty amounts have been published in the *Federal Register* and apply as of January 10, 2018. The press release, which was issued on January 12, 2018, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20180112a.htm.

For recent Board press releases, speeches, and testimonies, visit www.federalreserve.gov/newsevents.htm.

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What banking topics concern you most? What aspects of the supervisory process or the rules and guidance that apply to community banks would you like to see clarified? What topics would you like to see covered in upcoming issues of *Community Banking Connections*?

With each issue of *Community Banking Connections*, we aim to highlight the supervisory and regulatory matters that affect you and your banking institution the most, providing examples from the field, explanations of supervisory policies and guidance, and more. We encourage you to contact us with any ideas for articles so that we can continue to provide you with topical and valuable information.

Please direct any comments and suggestions to www.cbcfrs.org/feedback.cfm, or send an e-mail to editor@communitybankingconnections.org.

CECL Corner

In June 2016, the Financial Accounting Standards Board issued a new expected credit loss accounting standard. The new accounting standard introduces the current expected credit losses (CECL) methodology for estimating allowances for credit losses. Do you know how CECL will affect you? Specific questions can be sent to editor@communitybankingconnections.org, and we will try to address them in upcoming issues. Here are several resources to get you started.

- Ask the Regulators: Webinar: CECL Q&A Session (July 30, 2018); download a copy of the presentation or a transcript of the conversation at www.webcaster4.com/Webcast/Page/583/26144.
- Federal Register, Proposed Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations, available at www.federalregister.gov/documents/2018/05/14/2018-08999/regulatory-capital-rules-implementation-and-transition-of-the-current-expected-credit-losses.
- Ask the Regulators: CECL Webinar for Bankers: Practical Examples of How Smaller, Less Complex Community Banks Can Implement CECL (February 27, 2018); download a copy of the presentation or a transcript of the conversation at www.webcaster4.com/Webcast/Page/583/24368.
- SR Letter 17-8, "Frequently Asked Questions on the Current Expected Credit Losses Methodology (CECL)," available at www.federalreserve.gov/supervisionreg/srletters/sr1708.htm.
- Joanne Wakim, Lara Lylozian, and Matt Kincaid, *FedPerspectives:* CECL Update: Current Supervisory Views (October 5, 2016), available at https://bsr.stlouisfed.org/perspectives/final_fedperspectives_cecl_10_5_16.pdf.
- Supervision and Regulation (SR) Letter 16-12, "Interagency Guidance on the New Accounting Standard on Financial Instruments — Credit Losses," available at www.federalreserve.gov/supervisionreg/srletters/sr1612.htm.
- Financial Accounting Standards Board, "FASB Accounting Standards Update: Financial Instruments — Credit Losses (Topic 326)," FASB ASU No. 2016-13, available at https://tinyurl.com/yd63b8hp.

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