Federal Reserve

Top Federal Reserve official promises major overhaul of US bank regulation

New vice-chair for supervision Michelle Bowman says she will seek changes to crucial rule over capital holding levels

Michelle Bowman: 'It is time to evaluate whether all of these [post-financial crisis] changes continue to be relevant' © Reuters

Martin Arnold in New York

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The Federal Reserve's new financial supervision chief has promised a significant overhaul of US banking rules, vowing to address industry concerns that regulations imposed after the 2008 financial crisis are too onerous.

Michelle Bowman, who was confirmed by the Senate this week as the Fed's vice-chair for supervision, used her debut speech to set out plans for a broad rethink of crucial regulations.

Bowman, who has long been critical of stricter capital rules, said the regulations introduced after the financial crisis have been "pushing foundational banking activities out of the regulated banking system into the less regulated corners of the financial system".

"With well over a decade of change in the banking system now behind us post-implementation, it is time to evaluate whether all of these changes continue to be relevant," she said.

Her comments were welcomed by bank lobbyists. "Bowman highlighted the significant impact of banking regulations on all Americans, extending far beyond the banking sector," said Barbara Hagenbaugh, chief communications officer at the Financial Services Forum, which represents the biggest US banks. "These requirements can raise costs for consumers, small businesses, and others, stifling economic growth."

The Fed and other regulators would "in the near future" present proposals to reform one of the main rules determining how much capital the biggest US banks need to have — the so-called enhanced supplementary leverage ratio, Bowman said.

This rule requires big lenders to have a preset amount of high-quality capital against their total leverage including assets such as loans and off-balance sheet exposures such as derivatives.

Bowman, echoing recent complaints by Wall Street executives, said the rule means "banks are less inclined to engage in low-risk activities like Treasury market intermediation and revise their business activities in a way that is neither justified nor responsive to their customer needs".

Indicating that wider reforms to the capital framework were also likely, Bowman said the Fed would host a conference "to examine whether capital requirements as currently structured and calibrated are operating as intended — in a complementary fashion".

"Driving all risk out of the banking system is at odds with the fundamental nature of the business of banking," she said. "Banks must be able to earn a profit and grow while also managing their risks."

She promised to "tailor" regulation so it is adjusted to the characteristics of each bank and to remove "any outdated or overly burdensome regulations". Bowman also said she would seek to change how the secret "supervisory" ratings used by the central bank — which limits the ability of two-thirds of the biggest banks to expand — function.

The Fed has already responded to legal threats by the banking sector with a commitment to reform its annual stress testing programme, which acts as the binding constraint on capital levels for many of the biggest US lenders. Bowman strongly supported reforming the exercise.

"While stress testing is an important supervisory tool, its implementation, outcomes, and processes have raised significant questions and concerns about its effectiveness in identifying systemic weakness," she said.

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