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INFORMED OPINION

Fed Board Needs an Experienced Bank Supervisor

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The Conference of State Bank Supervisors released a white paper and accompanying infographic last month on the evolving composition of the Federal Reserve Board over its 100-year history. At this critical point in time, one particular aspect of the Board's composition deserves more attention: it must have a governor with a perspective of traditional banking supervision. Throughout the Fed's history, Congress has consistently confirmed and expanded the Fed's role in supervision. This enhanced role is essential for the board to effectuate its economic mandates.

In addition to supervising state-member banks, Congress has acted at key moments in our nation's financial history and granted the Fed supervisory authority over bank holding companies, foreign banking organizations and nonbank financial companies designated as systemically important by the Financial Stability Oversight Council. Most recently, Congress demonstrated the importance of supervision to the Fed's overall mandate by creating the new board position of vice chairman of supervision through the Dodd-Frank Act. By establishing this position, Congress acknowledged the Fed's heightened and necessary emphasis on bank supervision at the board level.

The Fed is responsible for setting monetary policy and functioning as a lender of last resort. The Fed must have the ability to make sound and timely decisions given the rapidly changing economic environment, coupled with the need to provide liquidity to financial institutions during times of financial stress. To perform these functions efficaciously, the Board of Governors must have the expertise to understand the operations and condition of financial institutions.

The Fed has benefited from the supervisory experience of Gov. Sarah Bloom Raskin and the banking background of Gov. Elizabeth Duke. Each of them provided pertinent financial supervisory insight as members of the board, and they were deeply involved in ensuring the

Fed made appropriate decisions in the aftermath of the crisis. With Duke's retirement and Raskin's nomination to be deputy Treasury secretary, the Board should add a governor with knowledge of the banking industry and bank supervision.

As President Obama considers qualified candidates to nominate to the Federal Reserve Board, I strongly urge him to consider individuals with a supervisory background. The Board's supervisory responsibility and monetary policy function will benefit from a Board of Governors comprised of diverse professional backgrounds, including experience and knowledge of financial supervision. These diverse perspectives will encourage critical thinking, challenge groupthink and lead us to a more stable financial system.

Charles A. Vice is the commissioner of the Kentucky Department of Financial Institutions and the chairman of the Conference of State Bank Supervisors.