The Importance of the State-Federal Model for U.S. Financial Regulation

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State financial regulators have cancelled the CSBS Government Relations Fly-In, planned for the week of March 23 in Washington, D.C., out of an abundance of caution due to the COVID-19 virus outbreak. The decision was not made lightly. This annual event is an important opportunity for state regulators to interact with their federal counterparts and to meet with members of Congress and their staff to discuss important legislation and policy.

But even though the March meetings will not take place, the conversations between state and federal regulators and Hill staff are still happening. That is because the fly-in is not our only interaction with Washington policymakers. Our country has a state-federal system for U.S. financial regulation. To make it work effectively, we are in touch on a regular basis about important policy issues. We call it a network of supervision.

These open exchanges strengthen the U.S. state-federal model for financial regulation. Our nation has a network of supervision, and we each have a role. We share our ideas on the best ways to encourage innovation in financial services, leverage the strength of the state regulatory system, promote a vibrant community banking system and support our efforts to harmonize nonbank regulation. As the financial services industry rapidly evolves in the era of fast changing technology, it is especially important to state regulators that consumers continue to have broad, safe and fair access to credit and other services.

State and federal regulators talk throughout the year in a number of capacities. Regular interactions include meetings of the Financial Stability Oversight Council and the Federal
Financial Institutions Examination Council, both of which have state regulator representation. State and federal financial regulators share perspectives on emerging risks and supervision strategies in the spring at the annual CSBS State-Federal Supervisory Forum, and CSBS partners with the Federal Reserve and FDIC for an annual community banking conference. Recently, the FDIC has formed an advisory committee of state regulators to further formalize mechanisms for coordination.

We also have frequent interaction with Hill staff to share our top policy issues, and we meet with policy makers whenever there are important topics to discuss. In November, for example, we partnered with the American Association of Residential Mortgage Regulators to hold a national mortgage summit. Members of Congress, federal agency leadership, industry leaders, consumer advocates, state regulators and other policy stakeholders discussed the current state of the nonbank mortgage industry and possibilities for supervisory enhancements, including identifying integrity issues with industry data vital to effective supervision.

We interact outside of these scheduled meetings as well. We welcome our conversations as opportunities to explain our top priorities and listen to what our federal counterparts are thinking. Top issues for us currently include:

- **Encouraging the Senate to pass H.R. 241**, the Bank Service Company Examination Coordination Act, which would amend the Bank Service Company Act to facilitate coordinated state-federal supervision of third-party providers. While the current law does not bar state regulators from participating in exams with federal regulators, its failure to include them has been interpreted as a barrier to information sharing and regulatory coordination, even when those third parties provide core services to state-chartered banks. The House unanimously passed the legislation in September.

- **Strengthening the Bank Secrecy Act/Anti-Money Laundering reform proposals to ensure that state regulators are properly incorporated.** We want
to make sure that state regulators are included in legislation to ensure that state regulators are properly incorporated.

- **Filling at least one of the two open slots on the FDIC Board with a **director** who has state bank supervisory experience, as required by federal law.** It is important for someone with this experience be on the FDIC Board. It is important. In addition to being federal law, a director with state bank supervisory experience expands the FDIC board’s knowledge base to include a practitioner with direct experience of the approximately 4,400 state-chartered banks that make up 79 percent of the nation’s banking system. That is important, as the FDIC coordinates with the states to examine most of these banks.

While we are disappointed that we cannot meet for the March fly-in, we know that our network of financial supervision is strong and healthy. And we know that state financial commissioners are where they need to be – in their states, serving their citizens while leveraging the network of supervision.

We hope that this outbreak ceases soon for everybody’s benefit. In the meantime, we look forward to continuing our conversations – by phone and by video conferencing, for now.