



SINCE 1902

CONFERENCE OF STATE BANK SUPERVISORS

November 7, 2013

The Honorable Denis McDonough
Chief of Staff
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. McDonough:

As the Administration undertakes the critical task of filling vacancies on the Board of Governors of the Federal Reserve (the “Board”), I am writing on behalf of the Conference of State Bank Supervisors (“CSBS”),¹ to stress the importance of including on the Board individuals with an in-depth understanding of bank supervision.

Recently, CSBS undertook a project to look at the history of the Federal Reserve that culminated in the recent release of a [White Paper](#) and [Infographic](#).² That work revealed two key trends: Congress’s continuing efforts to ensure the composition of the Board is representative of the country’s economic diversity and the Board’s expanding supervisory role.

Throughout the Federal Reserve’s 100-year history, diversity has been hallmark of the Board’s composition. The law expressly requires geographic diversity on the Board and the law directs the president to give “due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country” when making Board selections.³ However, in recent years, the Board has come to be dominated by academics. While academic experience is a crucial ingredient, it should be one of several attributes making up the Board’s composition.

Our historical look at the Federal Reserve’s supervisory role shows a clear expansion and heightened emphasis on the central bank’s supervisory authority. Today, the Federal Reserve is responsible for regulating bank holding companies, thrift holding companies, state-chartered banks, the U.S. operations of foreign banks, and non-bank systemically important financial institutions. Importantly, with the recent Dodd-Frank Wall Street Reform and Consumer

¹ CSBS is the professional membership organization for state banking regulators from all fifty States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands. Our members supervise banks of all sizes, including most of the small community banks in the United States. For more information, see www.csbs.org.

² The White Paper can be accessed at [http://www.csbs.org/news/csbswhitepapers/Documents/Final%20CSBS%20White%20Paper%20on%20Federal%20Reserve%20Board%20Composition%20\(Oct%2023%202013\).pdf](http://www.csbs.org/news/csbswhitepapers/Documents/Final%20CSBS%20White%20Paper%20on%20Federal%20Reserve%20Board%20Composition%20(Oct%2023%202013).pdf) and the Infographic can be accessed at <http://goo.gl/eCKVrS>.

³ 12 USC § 241.

Protection Act (Dodd-Frank Act), Congress not only affirmed the Federal Reserve's role as a bank supervisor, but also created the new Board role of Vice Chairman of Supervision, a clear directive from Congress to focus on its expanded supervisory role.

The Federal Reserve's responsibilities for setting monetary policy and as a lender of last resort must be informed by bank supervision. Congress has recognized this connection in how it has structured the Federal Reserve and the Federal Reserve System. This approach reflects an appreciation for the centrality of banks to our economy. Furthermore, as we have seen in times of stress, the Federal Reserve's role as a lender of last resort can only be carried out if it is informed by knowledge of the condition of recipient institutions.

State banking regulators charter and regulate the 5,230 state chartered banks throughout the nation. In this role, the Federal Reserve is an important regulatory partner. CSBS believes that our members' supervisory responsibilities and the financial sector as a whole are better served by a Federal Reserve Board that includes individuals with significant experience in and/or knowledge of bank supervision.

I welcome the chance to discuss this issue with you or your staff. Please contact me (jryan@csbs.org or 202.728.5724) or my colleague Margaret Liu (mliu@csbs.org or 202.728.5749).

Sincerely,



John W. Ryan
President and CEO

cc:

David Agnew
Deputy Assistant to the President and Director of Intergovernmental Affairs

Jonathan McBride
Special Assistant to the President and Director of Presidential Personnel

Adrian Saenz
Office of Intergovernmental Affairs