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Reflections on the Economy and Bank Regulation

Remarks by

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I would like to thank the Florida Bankers Association and your new President and CEO, Kathy Kraninger, for the invitation to share my thoughts with you today.[1] It is really a pleasure to join you here in Florida to discuss current trends in bank regulation, and to learn the issues on your mind, especially about the path of regulatory reform, and your views on local banking and economic conditions in the communities you serve. I find great value in spending time outside of Washington, D.C. These conversations provide valuable insights to inform my work at the Federal Reserve—both for my understanding of the economy and the banking environment.

Before discussing bank regulation, I would like to briefly touch on the economy and monetary policy.

Monetary Policy

Over the past two years, the Federal Open Market Committee has significantly tightened the stance of monetary policy to address high inflation. At our most recent meeting in January, we voted to continue to hold the federal funds rate target range at 5¼ to 5½ percent and to continue to reduce the Federal Reserve's securities holdings.

We have seen progress on inflation over the past year, with the 12-month readings through December of total and core personal consumption expenditures (PCE) inflation both below 3 percent for the first time since the spring of 2021. However, the latest consumer price index (CPI) and producer price index (PPI) inflation data through January suggest slower progress in bringing inflation down toward our 2 percent target. Throughout this time, economic activity has remained strong with ongoing strength in consumer spending. We had also seen signs of the labor market coming into better balance, but recent strong jobs reports—including

[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

upward revisions to employment growth—show a continued tight labor market. Last year, the average pace of job gains slowed and the labor force participation rate rose through November, with the unemployment rate edging up to 3.7 percent. In recent months, however, job growth has rebounded and the labor force participation rate declined, retracing some of its earlier gains.

At its current setting, our monetary policy stance is restrictive and appears to be appropriately calibrated to reduce inflationary pressures. As I've noted recently, my baseline outlook continues to be that inflation will decline further with the policy rate held steady, but I still see a number of upside inflation risks that affect my outlook. These include risks from geopolitical developments, including the risk of spillovers from geopolitical conflicts and the extent to which food and energy markets and supply chains remain exposed to these influences. There is also the risk that a loosening in financial conditions and additional fiscal stimulus could add momentum to demand, stalling any further progress or even causing inflation to reaccelerate. Finally, there is a risk that continued labor market tightness could lead to persistently high core services inflation, as illustrated by the uptick in 12-month core services CPI inflation in January. Recent labor market data suggest ongoing elevated wage growth as some businesses continue to report above-average wage increases to compensate for elevated prices and high inflation.

Given these risks, and the general uncertainty regarding the economic outlook, I will continue to watch the data closely as I assess the appropriate path of monetary policy. The frequency and extent of data revisions over the past few years, as seen in the most recent employment report, make the task of assessing the current state of the economy as well as predicting how the economy will evolve even more challenging, and I will remain cautious in my approach to considering future changes in the stance of policy. Should the incoming data continue to indicate that inflation is moving sustainably toward our 2 percent goal, it will

eventually become appropriate to gradually lower our policy rate to prevent monetary policy from becoming overly restrictive. In my view, we are not yet at that point. Reducing our policy rate too soon could result in requiring further future policy rate increases to return inflation to 2 percent in the longer run.

It is important to note that monetary policy is not on a preset course. My colleagues and I will make our decisions at each meeting based on the incoming data and the implications for the outlook. While the current stance of monetary policy appears to be at a restrictive level that will bring inflation down to 2 percent over time, I remain willing to raise the federal funds rate at a future meeting should the incoming data indicate that progress on inflation has stalled or reversed. Restoring price stability is essential for achieving maximum employment and stable prices over the longer run.

Notable Developments in Bank Regulation

Turning back to bank regulation and supervision, as I look at the bank regulatory framework agenda, I am struck by the sheer volume of matters that have recently been completed, that have been proposed, and that are in the pipeline. These reforms touch on a wide range of topics that directly or indirectly impact banks of all sizes. I expect that the regulatory agenda will remain very active for the foreseeable future, adding further to the already significant collection of rules, guidance, and supervisory changes made to date. While I supported some of these recent changes, the vast number of finalized, proposed, and potential changes suggest a lack of prioritization—whether we have effectively identified actual risks to the banking system and devoted resources to the most pressing of these issues. The significant volume of revisions also poses a real problem for banks that must review, provide feedback, and implement changes.

The primary goal of prudential bank regulation and supervision is to promote a safe and sound banking system. Although policymakers may agree on this shared objective, we sometimes disagree on the best path to achieve it. As we consider modifications to our regulatory framework, an important question arises about *how* we identify and implement areas for change. To be sure, we should focus on the areas of greatest risk, addressing known vulnerabilities and shoring up the framework to address emerging risks. But we also need to focus on efficiency, efficiency in how we *deliver* on our safety and soundness goals, and how regulatory reforms affect the banking market, the economy, and those who use banking services. We should also ensure, in our pursuit of reform, that our efforts result in a bank framework that is appropriately tailored and calibrated.

So today, I will offer my reflections on bank regulation, focusing on notable recent developments. As I have said in the past, more is not always better when it comes to the rules, guidance, expectations, and supervisory standards that apply to banks.[2] In many ways, more can be counterproductive and harmful when it comes to regulatory reform. When reforms are disproportionate to risk or fail to promote safety and soundness in an efficient way, those changes can harm the competitiveness of the U.S. banking system, impede the ability of banks to manage their risks, and even result in the allocation of capital by regulators instead of by bank management. Even if the consequences of reforms are unintended, we must consider those consequences and how they may shape the future of the banking system.

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[2] *See* Michelle W. Bowman, *The Path Forward for Bank Capital Reform*, (speech at Protect Main Street, sponsored by the Center for Capital Markets at the U.S. Chamber of Commerce, Washington, D.C., January 17, 2024), https://www.federalreserve.gov/newsevents/speech/files/bowman20240117a.pdf.

Recently, we have seen many rule revisions, proposals, and ideas for reform, including supervisory reform. I expect that this activity will continue to feature prominently in the coming months.

Capital Reform

Starting with the proposed changes to bank capital requirements, as you all know, the federal banking agencies have published several proposed reforms to the capital framework. These include proposals to implement Basel III "endgame" capital reforms, to reform the G-SIB surcharge, and to introduce new long-term debt requirements for all banks with over $100 billion in assets. These reforms pose real challenges in striking the right balance between safety and soundness on the one hand, and efficiency and fairness on the other. Capital plays a critical role in promoting the safe and sound operation of banks and supporting confidence in the broader banking system. Higher levels of capital improve a bank's resilience to stress and increases the capacity of a bank to absorb losses, protecting depositors, the deposit insurance fund, and other creditors.

At the same time, capital has a cost, and regulatory capital requirements apply to all banks, not just to those that fail. Higher capital requirements generally are passed through to customers in the form of increased costs for financial services, or ultimately reduced availability of these services in the market. The cost of bank capital also influences whether activities occur within the banking system or in non-bank entities outside the banking system.

So, the question then becomes, what's next? The Basel comment period has closed, as has the comment period for submission of information for the quantitative impact study. The agencies continue to review the extensive stakeholder feedback and identify key areas of concern. This deliberative process should help regulators better understand the implications of

the proposed capital changes—both the scale of the proposed change in capital requirements and the tradeoffs between the benefits of increased safety and soundness compared to the intended and unintended consequences.

Since the proposal was published, the agencies received numerous comments identifying elements of the proposal that will have significant downstream effects on consumers, businesses, and the broader economy. Therefore, regulators need to thoroughly understand these consequences in a comprehensive way before moving forward with changes of the scope and materiality contemplated in the proposal. The agencies also have an obligation to consider changes to enhanced risk-based capital rules in the broader context of other existing and contemplated regulatory requirements, which requires a clear understanding of the cumulative impacts and the implications for U.S. economic activity, the structure of the financial system, and financial stability, and whether any reforms are consistent with our requirement to tailor regulation.

My hope is that policymakers will take this opportunity to make significant revisions to the proposal to address the concerns raised by the public, and that I will be able to support the next step on Basel capital reforms.

Community Reinvestment Act

Shifting away from capital, last year, the federal bank regulators adopted a new final rule to implement the Community Reinvestment Act. Unfortunately, I was not able to support the final rule. While the final rule included several positive changes from the proposal, those changes ultimately did not outweigh the rule's extensive shortcomings. The final rule is unnecessarily complex, overly prescriptive, and directs outcomes that result in disproportionately greater costs than benefits, adding significantly greater regulatory burden for all banks, but

especially for community banks. Even the foundational question—are banks doing enough to support their communities?—is left unanswered in the final rule, perhaps because there is no evidence to support the agencies' assumption that banks are falling short.

First and foremost, the final rule applies the same regulatory expectations for small banks as it does for the largest banks. For example, a wide range of community banks—those with more than $2 billion in assets—are treated as "large banks" under the final rule, forcing these banks to comply with the same CRA evaluation standards as a bank with $2 trillion in assets. The sheer lack of recognition that these banks are fundamentally different, with different balance sheets, customers, and business models, misses an important opportunity to appropriately tailor CRA expectations to a bank's size, risk, service area, and business model. This approach is a radical departure within the regulatory framework where no other provision considers a bank with $2 billion in assets as "large."

As a result, many community banks will be subject to new and materially enhanced requirements, including a new retail lending test, significantly expanded assessment areas, and increased data and reporting obligations. This intentional blurring of commonly accepted regulatory standards for large banks and community banks is problematic as it will result in increased regulatory expectations for smaller banks and a more one-size-fits-all approach to banking regulation rather than a tailored and calibrated system. The unsupported increases in burden and cost associated with these changes are simply disproportionate when applied to community banks, in a way that will undoubtedly constrain the resources that community banks can devote to supporting their communities.

If the final rule's new standards were in place today, based on data from 2018 through 2020, there would be a nearly tenfold increase in banks with a "Needs to Improve" CRA rating.

In some ways, this highlights a fallacy underlying these rule changes: that the low number of banks with a "Needs to Improve" rating itself demonstrates that the standards of the CRA regulations have been too lax historically, ignoring the more plausible explanation that banks are committed to supporting their communities. It is unwarranted for the federal banking agencies to materially increase these requirements on banks, resulting in a downgrade of currently satisfactory performance to "Needs to Improve," without a thorough, data-supported analysis that justifies a recalibration evidenced by actual shortcomings in bank activities.

Perhaps most concerning about the CRA rule is that it may incentivize banks to reduce their support for certain communities, forcing them to pare back lending in areas where there is a need for credit accessibility. The addition of retail lending assessment areas and outside retail lending areas, coupled with a new requirement for large banks to include an entire county instead of a partial county as an assessment area, may ultimately incentivize firms to pull back lending or even to close branches.

I am confident that banks will attempt to make the best of this new rule, and I am certain that they will continue to support their communities regardless of the rule's requirements. But I regret that this new final rule may complicate, and in some instances frustrate, the important goals of the CRA.

Regulation II and Debit Card Interchange Fees

Alongside the rule changes to the CRA, one of the other most significant proposals this past year would significantly lower the debit card interchange fee cap under Regulation II.[3] The Dodd-Frank Act mandates that the Federal Reserve establish a cap on debit interchange fees that

[3] Debit Card Interchange Fees and Routing, 88 Fed. Reg. 78,100-132 (November 14, 2023), https://www.govinfo.gov/content/pkg/FR-2023-11-14/pdf/2023-24034.pdf.

is reasonable and proportional to the cost incurred by the issuer with respect to debit transactions.[4] I am concerned about the data underpinning this proposal, and the potential unintended consequences of moving forward with such a change, including the proposal to automatically adjust the cap every two years based on an incomplete formula that may not account for all of the relevant variables.

As published, the Board's proposal was based on survey data collected by the Board.[5] I remain concerned that the analysis underpinning this rulemaking overlooks gaps in the reported data and ignores the broader context—the wide range of business models and sizes of issuers subject to the rule, the potential effect of the rule on bank capital and earnings, the benefits and costs to consumers, and the cumulative effect of regulatory changes, particularly those that affect the pricing and availability to consumers of low-cost or no-cost debit card programs. The data also does not take into account recent revisions to Regulation II, revisions that may have the unintended consequence of *increasing* the incidence of fraud in bank debit card programs, trends that are not reflected in the data due to the timing of the change, and also would not be taken into account in calibrating the new debit interchange fee cap.[6] As proposed, the rule would also adopt a "rough justice" approach by establishing a single cap that applies to all issuers, which will leave nearly one third of issuers unable to recover even the subset of costs that are taken into account in calculating the debit interchange fee.

On January 22, 2024, the Board announced that the comment period on the proposed revisions to Regulation II has been extended until May 12, 2024, and concurrently published

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[4] 15 U.S.C. § 1693o-2.

[5] Debit Card Interchange Fees and Routing, 88 Fed. Reg. 78,105-6; Form FR 3064a, FR 3064b.

[6] See dissenting statement, "Statement on Final Amendments to Regulation II to Clarify the Prohibition on Network Exclusivity by Governor Michelle W. Bowman," news release, October 3, 2022, https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20221003.htm.

additional data to inform the public about the basis for the proposal.[7] I look forward to reviewing the comments and hearing feedback from stakeholders on this proposal, specifically as it relates to identifying any issues or concerns with the data that informed the original calibration of the proposal, and any potential gaps in this data or the supporting analysis. I remain concerned about the unintended consequences of this proposal.

Without question, an ongoing, permanent decrease in debit card interchange fees will have consequences for banks of all sizes, and more importantly, for their customers that rely on debit card products for payments. Banks may be reluctant to discontinue their retail debit card programs, even with revisions to the interchange fee cap. However, I think it is likely that if this proposal is finalized, banks may need to make some tough decisions about the path forward. Will they need to recover the lost income by imposing higher borrowing costs on bank customers, or where possible increasing other fees? To the extent banks are relying on fee income to support debit card programs, will this be a long-term, sustainable source of revenue if the banking agencies continue to target other fees for elimination? How will this change impact low- and moderate-income (LMI) individuals and families? For example, will banks be forced to discontinue their lowest margin products that target underserved populations, and what will the cost of such changes mean for financial inclusion? How would this change impact the success of financial inclusion efforts encouraged by federal banking agencies, such as Bank On programs?

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[7] Board of Governors of the Federal Reserve System, "Federal Reserve Board announces it will extend the comment period on its interchange fee proposal until May 12, 2024 and published additional related data," news release, January 22, 2024, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240122a.htm.

The pain here will likely be felt broadly by banks and their customers, and will continue to trickle down to smaller institutions, including community banks, even if those banks are not directly subject to the interchange fee cap. The consequences for bank debit card programs, and the customers who rely on those programs, may be significant.

Bank Mergers and Acquisitions

Another policy area where I expect to see ongoing federal regulatory attention is in the bank merger application process. Some policymakers and the Department of Justice have strongly signaled an intent to revisit and significantly tighten the existing standards and the related economic analysis used in that process. This ongoing scrutiny of mergers has encouraged a growing public focus on the role of federal banking regulators in reviewing merger applications, and sparked a concern about whether that process is fair, transparent, and consistent with the applicable statutory requirements. This public scrutiny is increasing in light of the growing interest of bank regulators in revisiting standards and processes for approval.[8]

The past year certainly has not improved the outlook for the bank merger process. While the idiosyncratic features of each bank merger transaction can make it difficult to predict how long the regulatory approval process may take, I remain concerned about delays in average processing times and that subsequent regulatory actions could lead to further delays. The reported data on merger processing timelines may also understate the true timeline for processing, particularly to the extent reported data may not reflect preliminary discussions with regulators, pre-filings with regulators, and may not reflect technical agency "acceptance" of an

[8] See, e.g., Office of the Comptroller of the Currency, "Business Combinations Under the Bank Merger Act: Notice of Proposed Rulemaking," OCC Bulletin 2024-4, January 29, 2024, https://occ.gov/news-issuances/bulletins/2024/bulletin-2024-4.html.

application—thereby triggering the regulatory processing clock—until well after an application has been received by the agency.[9]

As all bankers know, application processing delays can be quite harmful, resulting in greater operational risk, increased expenses due in part to contract delays, reputational risk, and staff attrition due to the prolonged uncertainty. In the broader context, reducing the efficiency of bank mergers and acquisitions may also act as a deterrent to a healthy evolution of the banking system. Taken together, reducing merger or acquisition activity could have the consequence of prohibiting transactions that may preserve the presence of banks in rural or underserved areas; transactions that may further prudent growth strategies or that may result in increased competition with larger peers.

And yet, there has been little discussion or recognition of how the regulatory process can be enhanced to improve the speed and timeliness of regulatory decision-making on these applications. In my view, the regulators would be well-served by evaluating the merger review process with the goal of promoting efficiency and fairness. Stakeholders who are concerned about the current bank merger review procedures and policies should consider direct engagement with regulators on these issues, including the recently launched mandatory review of regulatory burden under the Economic Growth and Regulatory Paperwork Reduction Act of 1996.[10]

Climate Change

Banks face many well-known, material risks, including credit risk, interest rate risk, liquidity risk, cyber risk, and many others. New risks continue to emerge as the banking system,

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[9] See, e.g., Hurry v. FDIC, 589 F. Supp. 3d 100 (D.D.C. 2022).

[10] Statement by Governor Michelle W. Bowman, "Federal Bank Regulatory Agencies Seek Comment on Interagency Effort to Reduce Regulatory Burden," news release, February 6, 2024, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240206a1.htm.

technology, and customer preferences evolve. In the aftermath of the bank failures last spring, both bank management and bank regulators have refocused their efforts related to managing material risks to improve early identification and to facilitate prompt actions to mitigate the buildup of risks.

Last October, following on an earlier proposal in 2022, the agencies issued principles for climate-related financial risk management for large institutions.[11] While climate change is a public policy issue in the U.S. and globally, the unique focus on this particular risk could lead one to believe that *financial risk* associated with climate change is a key risk facing the banking industry, or that somehow banks with exposures to these risks have not been appropriately considering climate-related financial risks in managing their material risks. The supporting documents published in connection with the principles do not support this view, however, and raise questions about whether they further the goal of appropriate risk management at regulated institutions.

Banks of all sizes have long been expected to manage all material risks associated with their activities. Bankers know that their risks vary based on their business models and loan portfolios, among other things—banks that make loans in drought or flood-prone areas, or tornado-prone areas, or areas that experience wildfires, take those risks into consideration in the underwriting and ongoing monitoring of loans and loan portfolios. Risk management as applied to weather-related financial risks is not new, and this recent approach misses the larger context of how banks manage all material risks.

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[11] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, "Agencies issue principles for climate-related financial risk management for large financial institutions," joint press release, October 24, 2023, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231024b.htm.

Specifically, the prescription to address this perceived deficiency in risk management, rather than providing clarity and concrete expectations, creates unclear expectations and, as a result, gives examiners almost unlimited supervisory discretion to interpret what expectations are appropriate for regulated institutions. We will need to be vigilant to ensure these expectations are appropriate and proportionate.

Under the guidance, banks are expected to monitor and measure climate-related risks over indefinite time horizons—or put another way, engage in expensive, ongoing data collection and speculate about very uncertain effects far into the future—in the context of their lending activities. Banks are also expected to engage in scenario analysis, without a clear roadmap as to what such an analysis should consider. This will likely lead to detrimental impacts on low- and moderate-income communities by increasing the cost of or reducing the availability of credit in those communities. I think we can all agree that examiners should not criticize banks for prudent lending in LMI communities. I am concerned that the net effect of this guidance will be increased costs for banks subject to it, creating further differences between banks and non-bank lenders engaged in the same activities.

The effects of this guidance—and follow-on efforts by other regulators—could be material even for banks that are not directly subject to the rules. The principles themselves note that "all financial institutions, *regardless of size*, may have material exposures to climate-related financial risks…."[12] Notwithstanding the carveout in the principles for institutions with less than $100 billion in assets, I suspect banks may take little comfort from this nominal carveout in light of the language in the principles, and other government agencies focused on escalating climate risk above many other more material and present-tense risks. For example, the U.S. Treasury

[12] 88 Fed. Reg. 74,183-184 (October 30, 2023).

has published principles for net-zero financing and investment that focus on *indirect* greenhouse gas emissions included in a creditor company's "value chain."[13] While these principles are described as wholly voluntary, they too could exert significant pressure on banks to reprioritize their risk management function, prioritizing climate change risks that may be immaterial to a bank over more pressing risks.

The Federal Housing Finance Agency (FHFA) has also published a report that suggests Federal Home Loan Banks (FHLB) must assess risks related to climate and natural disasters "on the FHLBanks' businesses, their members, and the communities they serve."[14] The vast majority of FHLB member banks fall well below the $100 billion threshold, but now may fall within FHLB's climate assessment requirements, even while being excluded from the scope of their primary regulator's climate guidance. In the context of these many competing directives, banks may be puzzled about supervisory expectations, particularly when a "carveout" in supervisory guidance from a bank's primary banking regulator seems to be at odds with the guidance itself, and with expectations from other government agencies.

Banks of all sizes are likely to continue facing regulatory pressure to collect increasing amounts of data. While it is imperative that banks manage all material risks that they face, focusing on climate risk—independent of the many other risks banks must manage in successfully running their businesses—could force banks to reallocate resources to meet unclear and confusing regulatory expectations related to perceived nebulous climate-related financial

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[13] "Principles for Net-Zero Financing & Investment," U.S. Department of the Treasury, September 2023, https://home.treasury.gov/system/files/136/NetZeroPrinciples.pdf.

[14] "FHLBank System at 100: Focusing on the Future," Federal Housing Finance Agency, p. 38, https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHLBank-System-at-100-Report.pdf.

risks. This approach has the potential to undermine safety and soundness, creating an expensive distraction from more pressing areas of concern.

Liquidity

Following the bank failures last spring, significant attention has been paid to the alleged "lessons learned" creating a path for regulatory reform efforts. This has generated discussion among both policymakers and the public on how to think about liquidity regulation: Should these requirements be expanded to a broader range of institutions? Should the calibration or operation of liquidity requirements like the Liquidity Coverage Ratio (LCR), and Net Stable Funding Ratio (NSFR) be modified? Should we consider new liquidity requirements, and if so, what form should they take?

While these are important policy questions, and are certainly worthy of discussion, it is important to identify exactly what problem we are trying to solve. To those ready to march steadily forward without fully considering the cumulative impacts of change currently being considered, this may seem like a step backwards in the policymaking process. But it is not prudent policymaking to create solutions to solve perceived problems that have not been identified, researched, and supported with evidence and data. We must clearly understand and agree upon the problem before seriously proposing and considering solutions.

Answering this question has been complicated by the long shadow of the banking stress last spring, and the hurried and incomplete analyses prepared in the aftermath of those failures. These early efforts—efforts that relied on admittedly incomplete analyses and limited perspective—have generated many policy prescriptions, without fully diagnosing the problem.

As a threshold matter, we must recognize that liquidity regulation alone is not a panacea. Liquidity regulation does not result in more focused and nimble supervision. Liquidity

regulation alone does not improve the risk management at regulated institutions. Liquidity regulation also has the potential to impose significant costs and limit the lending capacity and business operations of banks, which we must recognize and take into account before imposing any new requirements.

But even with these caveats, liquidity regulation should be part of the overall reform discussion. We must think about liquidity broadly, including the sources and uses of liquidity that institutions use today, including the Federal Reserve's Discount Window and its role as lender of last resort, advances from the FHLBs, and other sources that may be available in the market. In this context, we must be honest about the capability and capacity of these resources, and the challenges and limits of these tools. For example, in considering the effective operations of the Fed's Discount Window, recent anecdotes from bankers suggest there is significant room for improving the efficiency of Discount Window operations. We must acknowledge and address such shortcomings if we are truly committed to effective solutions. This requires humility and deference from policymakers, and a willingness to listen to those with a practical understanding of and familiarity with these tools in the context of managing banks.

Revisions to the liquidity framework must also be coordinated, to ensure that reform efforts are complementary and can support the banking system's liquidity needs. When considering new liquidity requirements, we must think about not only calibration and scope, but also the unintended consequences of any such requirements, and whether these measures will be effective during stressed conditions. We may not know whether aggregate reforms to the liquidity framework are effective until they are tested under stress, but before that point, we can improve the effectiveness of liquidity reforms by following a serious, methodical approach.

Closing Thoughts

As bankers focused on ensuring your business continues to support your customers and local economy, it may be tempting to distance yourself from this relatively recent wave of regulatory reforms. And frankly, I wouldn't blame you if your initial reaction is to focus on your bank and hope that this regulatory tidal wave passes by. But I urge you to resist that temptation.

Policymakers cannot fulfill the responsibility of promoting a safe and sound banking system if we ignore efficiency, tailoring, and appropriate calibration of requirements in the reform agenda. These tenets should be central to the reform process. But to ensure that we appropriately prioritize these goals, policymakers must have the benefit of your engagement and feedback about what is working, what is not, and what are the consequences of regulations that do not support safety and soundness in an efficient and fair way.

Your engagement identifies and clarifies the real-world consequences of these far-reaching proposals, enabling us to pursue data-driven reforms, those directed at the most salient risks and issues facing the banking system. Thank you for your engagement, the engagement of your banking associations, and for working to ensure a thriving banking system in the great state of Florida.

Thank you, and I look forward to our conversation.