

## Cabinet News and Views

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### FRB Governor Bowman Speaks on Financial Stability



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Last week, Federal Reserve Board (“FRB”) Governor Michelle Bowman gave a speech entitled [Financial Stability in Uncertain Times](#), focusing on the “financial stability risks and vulnerabilities” she is most focused on.

Gov. Bowman started her remarks on risk with the banking sector and that while the banking sector experienced stress this spring “the events of earlier this year have underscored the strength and resilience of the overall U.S. banking system.” Gov. Bowman noted that the interest rate environment does create some stresses, but noted that all banks subject to this year’s stress tests passed. Gov. Bowman also noted that commercial real estate values following the COVID-19 pandemic is a risk the regulators are watching closely. She also noted that she is “also closely watching other financial stability vulnerabilities posed by large nonbank financial institutions” and risks to the smooth functioning of the U.S. Treasury markets.

Gov. Bowman went on to note that “not all of the financial stability risks and vulnerabilities that I have highlighted require policy changes. In fact, it is possible that an overreaction in adjusting policies in light of recent stresses could worsen conditions rather than ameliorate them.” She went on to note that there’s a proper balance between supervision of individual institutions and regulation of the entire banking section and that “bank supervision cannot simply rely on pinpointing compliance issues, failed processes, or rule violations. It must go further to examine a bank’s risk exposures while prioritizing core safety and soundness issues in the context of the bank’s financial condition.” In terms of that balance, Gov. Bowman said “[t]he vast majority of improvements to supervisory functions could be accomplished without broad changes to the regulatory framework.”

Gov. Bowman cautioned policymakers to “carefully consider whether the contemplated significant increases in capital requirements in the United States related to the finalization of Basel III capital standards meet [the] standard for being efficient and appropriately targeted.”

These comments from Gov. Bowman seem to suggest she continues to be skeptical of the [Basel III Endgame proposal](#) in which she [dissented](#), and suggests a strong preference for tailored supervision rather than a wholesale regulatory approach to promote financial stability.

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