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Statement Required by 12. U.S.C. Section 250:
The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

I am pleased to testify before the Committee on Financial Services to discuss the Office of the Comptroller of the Currency's (OCC) engagements with international forums to advance the Agency's mission to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. I am Grovetta N. Gardineer, and I serve as the Senior Deputy Comptroller for Bank Supervision Policy. In this role, I oversee several of the agency's policy units including those that participate in issues related to international banking. My testimony today discusses the OCC's engagements with international forums and the benefits these engagements provide to the U.S. banking system.

The OCC charters, supervises, and regulates more than 1,000 national banks, federal savings associations, and federal branches and agencies of foreign banks (collectively, "banks"). These institutions range in size from very small community banks to the largest banks operating in the United States. The vast majority of the institutions we supervise have less than \$1 billion in assets, while 55 have greater than \$10 billion in assets. Together, OCC-supervised institutions hold more than \$15 trillion in assets, representing nearly 65 percent of all the assets held in commercial U.S. banks.

Several banks under OCC supervision operate on a global basis, as do the U.S. affiliates of foreign banks. It is important in our role as a prudential supervisor to understand the full scope of the risks that these global operations present in order to assess the effectiveness of the banks' risk management policies and programs. Meeting and working with foreign counterparts is critical to achieving that understanding.

Key financial markets, and many of the OCC-supervised banks that operate in them, cross multiple jurisdictions. International organizations provide forums for regulators and

supervisors to exchange knowledge around issues of shared concern and, where appropriate, to discuss common standards, practices, and policies that assist members in addressing those concerns while fulfilling their individual supervisory mandates, strengthening their respective banking systems and supporting the integrity of global financial markets.

OCC Participation in International Forums

The OCC is a member of several international forums or their subgroups, including those described below.

The Basel Committee on Banking Supervision (BCBS) has existed for nearly fifty years as an organization that develops international prudential regulatory standards for consideration by national authorities, provides a forum for exchanges of information, and facilitates cooperation on bank supervisory matters. It currently has members from 28 jurisdictions and it holds regular meetings a few times a year. It is composed of various subgroups that focus on specific issues. For example, the Supervisory Cooperation Group enables participants to share information on effective supervisory practices, and the Anti-Money Laundering Expert Group enables the sharing of experience and knowledge relating to compliance with anti-money laundering (AML)/countering the financing of terrorism (CFT) laws and regulations. The Financial Technology Group explores specific technologies such as distributed ledger technologies, artificial intelligence, and open banking, and works to identify trends around these technologies.

The Financial Stability Board (FSB) was established in 2009 after the global financial crisis and coordinates across the different financial market sectors including banking, insurance, and securities to promote strong regulatory, supervisory, and other relevant policies. Its

membership includes the central banks, treasury departments or ministries of finance, and securities regulators from 24 jurisdictions as well as representatives from other international forums such as the BCBS. The FSB also has a number of subcommittees and working groups. While the OCC is not a member of the FSB, the U.S. Treasury Department invites the agency's participation in FSB groups when our expertise is relevant to the topic under consideration. For example, the OCC participates in a working group formed by the FSB to help address the challenges of high cost, low speed, limited access, and insufficient transparency in cross-border payments.

The OCC is also a member of the U.S. delegation to the Financial Action Task Force (FATF) established by the G7 in 1989 to develop and implement an international framework for combatting money laundering, terrorist financing, and most recently, proliferation financing. The U.S. is actively involved in the work of the FATF under the leadership of the U.S. Department of the Treasury. As the world's largest economy, the U.S. is susceptible to threats and vulnerabilities emanating from outside its borders and our involvement advances national security interests, preserves the integrity of the financial system, and supports our development of guardrails for the exposure of the banks we supervise to money laundering, terrorist financing, and other illicit financial activity risks. Our participation in the FATF is aligned with Section 6112 of the Anti-Money Laundering Act of 2020, which calls on the Treasury Secretary to work with several multilateral organizations including the FATF and the BCBS to promote stronger AML frameworks and enforcement of AML laws.

The Network for Greening the Financial System (NGFS) was established in 2017 to enable financial regulatory authorities to share knowledge on best practices related to climate

risk management in the financial sector. The OCC has been a member since 2021 in order to exchange information about climate-related financial risk management practices.

Benefits of the OCC's Participation in International Forums

Engagement in international bodies is beneficial to the U.S. banking system, the U.S. government, the OCC, and the financial system as a whole in several ways, including:

- Exercising U.S. leadership and promoting U.S. policy interests: Participation in international committees provides U.S. agencies the opportunity to help shape standards that may be adopted by various jurisdictions around the world in a manner consistent with expectations that U.S. banking supervisors maintain for U.S. banks. For example, U.S. leadership resulted in the development of a leverage ratio for international jurisdictions, which was included in international capital reforms after the 2008 financial crisis. In the U.S., banks had long been subject to a leverage ratio, which preceded and was later complemented by risk-based capital ratios. U.S. regulators successfully persuaded other jurisdictions through the BCBS to incorporate a leverage ratio into international standards. This promotes international financial stability and ensures that regulated institutions around the globe are subject to a non-risk-based measure that serves as a backstop to their risk-based capital requirements.
- Advancing U.S. national security and foreign policy interests: The OCC takes U.S. national security very seriously. The OCC's membership and participation in the FATF allows the agency to exert significant influence on the development, revision, and implementation of the FATF's AML/CFT framework to strengthen AML/CFT regimes worldwide. Strong AML/CFT regimes worldwide reduce the exposure of U.S. banks to

money laundering and terrorist financing risks, preserving the integrity of the U.S. financial system, and supporting the achievement of national security goals. FATF membership allows agencies to identify threats and vulnerabilities on a timely basis and engage with international counterparts in developing effective responses.

- Establishing a global baseline and level playing field: The baseline standards that organizations produce through collaboration establish a global minimum reference for financial services regulation. Such standards help to provide a floor – and support a level playing field – to minimize the possibility that another country’s lax regulatory regime could give its banks a competitive cost advantage over U.S. banks, or attract banking or other financial services operations from other jurisdictions. For example, international standards set by the FATF have helped to increase the security of financial regulatory systems in nations around the globe, which in turn has enabled U.S. banks to more safely engage in international financial transactions. Weaker standards can have long-term adverse consequences for U.S. global institutions, financial markets, or consumers in the form of international banking crises or large foreign bank failures. In fact, the BCBS was founded in 1974 to address the cross-border issues raised by the collapse of a German bank that roiled international foreign exchange markets and left many New York-based banks with foreign exchange losses.
- Increasing consistency of international standards: If international regulators do not communicate with each other, regulatory standards can diverge and result in unintended consequences. The effectiveness of regulatory standards increases when global banks are

not subject to multiple, differing – and possibly contradictory – regulatory regimes. More consistent rules at a global level makes it easier for internationally active U.S. banks to understand what to expect in various operating environments. For example, the FSB is engaged in efforts to develop a common cybersecurity lexicon, which would support more efficient dialogue and incident response across affected global institutions and regulators.

- Facilitating knowledge sharing: International forums provide a venue for sharing supervisory and regulatory principles, practices, and perspectives. This can be especially helpful to educate members about developing issues in other parts of the world that might affect U.S. markets. Sharing knowledge around innovative topics such as crypto-assets, tokenization, generative artificial intelligence, and other developing technologies is particularly helpful today as these products and technologies do not recognize international borders. The relationships that develop as a byproduct of participation in these international forums also help facilitate cooperation, particularly under difficult circumstances and timeframes.

OCC Rulemaking Process

As a U.S. federal regulator, the OCC maintains its independence. While international consistency is valuable, the OCC's priority is the safety, soundness, and fairness of the U.S. financial system. Standards developed by the international forums in which the OCC participates may inform OCC rulemakings but are not applicable to federally-supervised banks without further action. If and when the OCC proposes rules that would apply to its regulated entities, it

does so in accordance with federal law, consistent with its mission, and reflecting the particularities of the U.S. banking and financial system. The OCC follows the Administrative Procedure Act when it engages in a rulemaking, and any final outcome is subject to legal accountability. This process includes inviting public comment on all rulemakings and carefully considering the comments received.

Where features of the U.S. market would mitigate particular risks embodied in international standards, the OCC proposes requirements that accurately reflect the operations of OCC-supervised institutions. An example of such customization is the U.S. federal banking agencies' 2020 rule on the treatment of counterparty credit risk in derivative transactions. International standards included a conservative multiplier applied to derivatives to address counterparty credit risk. It was unnecessary in the U.S. to apply a capital charge that would increase hedging costs and potentially reduce the ability of U.S. commercial end-users to enter into derivative contracts. In the U.S., therefore, the banking agencies did not include this conservative multiplier for derivative transactions with commercial end-users. The agencies recognized that in most cases, transactions with such end-users already included sufficient credit risk mitigants.

Conclusion

The OCC's engagement in international forums promotes a safe, sound, and fair U.S. banking system and supports U.S. bank competitiveness. The OCC participates in international forums to further U.S. interests and priorities, gain a better understanding of global developments in the financial industry, move the international regulatory framework toward more consistently high and appropriate standards, and strengthen our relationships with foreign counterparts.