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February 11, 2020

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chairman Powell:

I write concerning recent remarks by Vice Chair for Supervision Randal Quarles regarding the use of Matters Requiring Attention (MRAs) in the Federal Reserve's (Fed's) supervision of banking organizations. MRAs are critical tools that bank examiners use to communicate violations of law and other areas of risk to a financial institution. In the past, these MRA's have been used to address issues such as broad problems with sales practices across the industry that became apparent in the wake of the Wells Fargo scandal¹, and cybersecurity risks to financial institutions.² But in a recent speech, Vice Chair Quarles suggested that Fed bank supervisors use of MRAs should be limited and that they should only be permitted to "to violations of law, violations of regulation, and material safety and soundness issues"³ -- a severe narrowing of the Fed's authority. Vice Chair Quarles' troublesome comments strongly suggest that the Fed intends to severely undermine the effectiveness of its examination program, which is one of its most potent tools to ensure the safe operation of banks and the protection of the consumers they serve.

The Fed has multiple avenues to promote "a safe, sound, and stable financial system that supports the growth and stability of the U.S. economy," and ensure compliance with banking laws.⁴ It can draft regulations to implement laws passed by Congress, and it can take public

¹ American Banker, "Wells Fargo not alone: OCC finds sales abuses at other banks," Kevin Wack, June 5, 2008, <https://www.americanbanker.com/news/not-just-wells-fargo-occ-finds-sales-practice-abuses-at-other-banks>.

² Office of the Comptroller of the Currency, "Semiannual Risk Perspective," Fall 2019, <https://www.occ.treas.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-fall-2019.pdf>.

³ Federal Reserve Vice Chair for Supervision Randal K. Quarles, "Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision," January 17, 2020, <https://www.federalreserve.gov/newsevents/speech/quarles20200117a.htm>.

⁴ Federal Reserve Board of Governors, "Meet the Economists: Supervision and Regulation," February 10, 2020, <https://www.federalreserve.gov/econres/bsrpd-staff.htm>.

formal or informal enforcement actions against the entities when those regulations are violated.⁵⁶ But most of the day-to-day work of ensuring that bank holding companies are safe is done by bank examiners through the supervision process. During supervisory bank examinations, bank examiners review institutions' business portfolios to proactively ensure compliance with applicable laws and regulations.⁷ Examiners can ask questions, flag potential compliance issues, and work with the institution to solve the issues before they become a risk to the banking system or customers.⁸

MRAs are one of the primary tools that examiners use to communicate their findings to institutions, particularly for issues "that are important and that the Federal Reserve is expecting a banking organization to address."⁹ If the bank is unable to resolve a MRA, these matters can transition into public enforcement actions, and are considered by examiners when assigning a bank's supervisory rating.¹⁰ In addition to regular MRAs, examiners can also include Matters Requiring Immediate Attention (MRIAs) in their written communications to a banking organization for issues that present time-sensitive concerns.¹¹ MRAs are substantially more common than enforcement actions and play an outsized role in ensuring compliance with the law. For example, while the Fed does not publicly disclose similar statistics, the Office of the Comptroller of the Currency (OCC) issued nearly 4,000 MRAs in 2018, but only 216 enforcement actions.¹² In addition, because MRA's are generally sent directly to a bank's Board of Directors, they help ensure that Board members, in addition to top executives of financial institutions, are aware of and held accountable for problems identified by Fed examiners.¹³

In a speech on January 17, 2020, Vice Chair Quarles suggested that the use MRAs should be limited only "to violations of law, violations of regulation, and material safety and soundness issues"¹⁴ This troubling proposal is misguided. MRAs serve as an important early warning system, ensuring that banks and their boards are aware of emerging problems in time to mitigate them. Curtailing their use would severely limit the ability of the Fed to address serious issues that could pose substantial harm to consumers even if they do not yet rise to the level of a

⁵ Board of Governors of the Federal Reserve System, "The Federal Reserve System Purposes & Functions: Supervising and Regulation Financial Institutions and Activities," 2016, https://www.federalreserve.gov/aboutthefed/files/pf_5.pdf.

⁶ Some examples of enforcement actions are cease and desist orders, written agreements, prompt corrective action directives, removal and prohibition orders, and orders assessing civil money penalties.

⁷ Federal Reserve Bank of Kansas City, "How Will I Be Supervised?," <https://www.kansascityfed.org/banking/membership/statememberbanks/how-will-i-be-supervised-smb>.

⁸ *Id.*

⁹ Federal Reserve Board of Governors, "Supervisory Considerations for the Communication of Supervisory Findings," <https://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf>.

¹⁰ *Id.*

¹¹ *Id.*

¹² Office of the Comptroller of the Currency, "2018 Annual Report," 25-26, <https://www.occ.gov/publications-and-resources/publications/annual-report/files/2018-annual-report.html>.

¹³ Federal Reserve Board of Governors, "Supervisory Considerations for the Communication of Supervisory Findings," <https://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf>.

¹⁴ Federal Reserve Vice Chair for Supervision Randal K. Quarles, "Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision," January 17, 2020, <https://www.federalreserve.gov/newsevents/speech/quarles20200117a.htm>.

violation of the law or a material impact on the bank's financial condition. Vice Chair Quarles' proposal was particularly troubling because it appears to almost directly mirror a proposal from the Bank Policy Institute – suggesting that the Fed is responding to the deregulatory desires of the banking industry rather than the needs of the American public and that regulators are letting banking industry lobbyists define how it should meet its mandate to ensure “a safe, sound and stable financial system.”¹⁵

In the weeks since Vice Chairman Quarles unveiled his proposal, the Fed has provided almost no additional information publicly about how it plans to implement this significant change. In 2017, I wrote to then-Chair Yellen when the Fed proposed guidance that would weaken the supervision of banks by limiting the information that is directed to a bank's Board.¹⁶ That the Fed now appears to be going even further in weakening the bank supervision process signals an abdication of its responsibility to ensure a safe and sound banking system. I urge you to immediately halt any efforts to implement this proposal. And to better understand how the Fed intends to proceed, I ask for a response to the following questions by February 25, 2020.

Sincerely,



Elizabeth Warren
United States Senator

¹⁵ Federal Reserve Board of Governors, “Meet the Economists: Supervision and Regulation,” February 10, 2020, <https://www.federalreserve.gov/econres/bsrpd-staff.htm>.

¹⁶ Letter from Senator Elizabeth Warren to Federal Reserve Chair Janet Yellen, August 16, 2017, https://www.warren.senate.gov/files/documents/2017_08_16_Fed_Followup_WellsFargo.pdf.

1. Does the Fed have any plans to alter the process, standards, and requirements under which MRAs and/or MRIAs are issued? If so, when do you expect to formally announce those changes?
 - a. How will you be announcing these changes?
 - b. Will you put in place a formal notice and comment process so that outside experts and consumer advocates can review and comment on any proposal?
 - c. When do you anticipate implementing these changes?
2. The 2013 guidance states, that standardization of the terms MRAs or MRIAs “facilitates the Federal Reserve’s national systems of record for information related to examination and inspection issues” and “enables the Federal Reserve to access information about supervisory issues and remediation efforts and aids in the identification of systemic and programmatic challenges facing banking organizations supervised by the Federal Reserve.”¹⁷ If, as proposed, certain supervisory findings will no longer be categorized as MRAs, how will this impact the Fed’s ability to access this information?
3. In his speech, Vice Chair Quarles referenced the restoration of the “supervisory observation” category that was removed in 2013.¹⁸ When the Fed used them, they were defined as “matters that are informative, advisory, or that suggest a means of improving performance or management operation of the organization.” However, senior management of financial institutions had the discretion to decide whether or not to adopt the observations.¹⁹
 - a. Does the Fed intent to restore the “supervisory observation” category based on the same definition that was used prior to 2013?
 - b. Is the Fed considering adding additional categories to describe supervisory communications?
4. Do you believe that it is possible for a bank examination to uncover an issue with a financial institution that could pose a threat to safety and soundness but does not represent a legal violation? Please describe some examples.
5. The impact of any proposed changes to MRAs is largely dependent on the definition of “material safety and soundness.” How will the Fed determine this definition?
6. How will the process for remediation differ for issues that were previously covered by MRAs but will no longer be? How will the process differ for escalating an unresolved issue to an enforcement matter?

¹⁷ Federal Reserve Vice Chair for Supervision Randal K. Quarles, “Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision,” January 17, 2020,

¹⁸ *Id.*

¹⁹ Federal Reserve Board of Governors, “Communication of Examination/Inspection Findings,” January 24, 2008

7. Certain MRAs are issued on an industry-wide basis.²⁰ How would proposed changes affect the use of these types of MRAs?

²⁰ American Banker, "Wells Fargo not alone: OCC finds sales abuses at other banks," Kevin Wack, June 5, 2008, <https://www.americanbanker.com/news/not-just-wells-fargo-occ-finds-sales-practice-abuses-at-other-banks>.