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Banking culture: supervisory priority on “softer” measures

Key points

— FRBNY President John Williams has set bank culture reform as a supervisory priority; “hardened defenses” of the post-crisis regulatory framework are necessary to protect the stability of the financial system but insufficient without the “softer” measures of culture, conduct, and governance.

Summary

John C. Williams, the new President and Chief Executive Officer of the Federal Reserve Bank of New York (FRBNY), gave closing comments at the FRBNY’s June 2018 Governance and Culture Reform Conference, the fourth such conference hosted by the FRBNY. He titled his remarks “Now is the time for banking culture reform” and stated that he perceived an “urgent need” to focus supervisory attention on this effort. In particular, he said that supervisors should prioritize ensuring that:

— Boards and bank management are exerting strong and effective leadership with robust governance
— Boards and bank management maintain high standards with regard to culture and conduct “even when the numbers look rosy”
— Corporate values are clearly articulated and incentives are squarely aligned with the bank’s strategic goals
— Risks are identified, communicated, and mitigated in a timely and effective manner
— Employees are empowered to “raise their hands if they see wrongdoing” and comprehensive fixes are implemented as needed.

Referencing recent high-profile incidences related to reference rates, foreign exchange trading, money laundering, and retail sales practices, Mr. Williams stated, “Although we have seen marked improvements in the critical areas of capital, liquidity, and resolution, we have not yet fully addressed the root causes of many of the problems that have plagued the financial sector.” He expressed concern that the current economic environment – with “solid growth, a strong labor market, and inflation near our target” – would generate favorable financial results that could belie any underlying issues in corporate culture and distract banks from addressing potential misconduct risks. Though it is “softer” and difficult to measure, the importance of culture should not be ignored, he said; culture shapes every conversation, decision, and action within an organization and is integral to whether the organization performs in a manner consistent with its mission, or not.

For additional information, please contact Deborah Bailey, Homer Hill, or Amy Matsuo.

You might also be interested in KPMG’s Regulatory Alert on the FRBNY’s white paper, “Misconduct Risk, Culture, and Supervision,” which was published in December 2017.
Contributing authors:
Amy Matsuo, Principal and National Lead, Regulatory Insights
Karen Staines, Director, Financial Services Regulatory Insight Center
Phil MacFarlane, Associate Director, Financial Services Regulatory Insight Center

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