BANKING & FINANCE

Bank Regulation Updates, Upcoming Events Discussed in New "ViewPoint"

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As the final quarter of 2015 begins, it's hard to believe how quickly the year has passed! Although by several measures the economy continues to improve and industry performance has rebounded to precrisis levels, uncertainty seems to prevail in the general economic environment. As I write this, the markets are adjusting to the Federal Open Market Committee's decision to hold the course on short-term interest rates, commodity prices remain volatile, and reports of economic stress in China and events in Europe are causing concern. This backdrop provides a challenging landscape for decision making. How do we cope with this uncertainty and continue to improve? Part of the answer rests with forward-looking risk management strategies. This quarter in "ViewPoint," we will take a look at two topics: cybersecurity and commercial real estate, and we will consider approaches to mitigating risk in these areas. Our articles on these topics will appear in the coming weeks. First, however, we review recent banking trends in our recurring State of the District section.

State of the District

The second quarter reflected continued overall improvement in financial conditions for the industry. On a median basis, return on average assets (ROAA) was 0.85 percent, a 3 basis point improvement from the prior year. In the Sixth District, earnings are once again allowing for significant accretion to capital. Asset quality remains stable. However, although asset quality measures are good and earnings are positive, many banks continue to search for sustainable ways to generate targeted rates of return, a challenging task given persistently low rates and increasing competition for loans. This scenario raises concern about the potential to stretch credit risk standards. The State of the District section features more about current banking conditions.

FFIEC cybersecurity assessment tool (CAT)

As we all know, cybersecurity is a top risk-management priority for the industry and banking supervisors. The volume and sophistication of cyber threats continue to increase. In response, the Federal Financial Institutions Examination Council (FFIEC) has developed a cybersecurity assessment tool (CAT). Firms that use the tool can identify potential weaknesses in their cybersecurity framework and develop strategies to bridge gaps. The Federal Reserve plans to use these types of self-assessments as we review cybersecurity preparedness in information technology and safety and soundness examinations and inspections beginning in late 2015 or early 2016. Our first Spotlight article features an overview of the CAT.

Commercial real estate

Though recent reports indicate that the real estate industry has bounced back, uncertainties persist about exactly where we are in the cycle and how best to employ lessons learned in the crisis in response to current conditions. Our second forthcoming Spotlight article focuses on commercial real estate—the past, present, and future of the sector—and factors to consider in mitigating credit risk in the current environment.

Regulatory update

Dodd-Frank implementation is progressing. The risk retention rule for mortgage backed security sponsors takes effect on December 24, 2015. Efforts continue to address the systemic risk posed by the largest players in the financial system. In July, the Board adopted enhanced prudential standards for General Electric Capital Corporation, a nonbank systemically important financial institution (SIFI). The standards generally align with bank holding company requirements. Work continues on standards for other nonbank SIFIs. A graduated risk-based capital surcharge for global systemically important banks (GSIBs) was adopted on July 20, including a methodology for identifying GSIBs. Once identified, firms will have to maintain a capital surcharge based on their risk profile. Requirements will be phased in beginning on January 1, 2016, and will be fully implemented by January 1, 2019.

Upcoming events

Please plan to join us on October 7 for our third ViewPoint Live webcast. In addition to providing a general update on banking conditions, we will discuss commercial real estate and interest rate risk. Afterward, webcast participants will have the opportunity to ask questions in real time via email. Registration is now available.

Next year on February 25, we'll once again host our Banking Outlook Conference, which will include a discussion of "Evolving Risk Management Practices", featuring Chief Risk Officers from three Sixth District bank holding companies, and a regulatory panel with representatives from the Fed, the FDIC's Atlanta Regional Office and the OCC's Southern District Office. Registration information will be available on the Atlanta Fed's website later this year.

As always, I welcome your comments or questions. Please share your feedback with me at ViewPoint@atl.frb.org.

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