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Statement by
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before the
Committee on Banking, Housing, and Urban Affairs
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Chairman Crapo, Ranking Member Brown, members of the committee, thank you for the opportunity to testify today on the Federal Reserve’s supervisory activities in the context of the ongoing pandemic.

My last appearance, in May, followed a period of historic financial stress.¹ The emergence of COVID-19, and the measures taken in response (together, the “COVID event”), added a deep strain of uncertainty to financial markets. It prompted a sharp and global flight from riskier, more volatile asset classes, and a retreat to the safety of cash. That retreat demanded immediate, extraordinary, and concerted public intervention, to ensure stability, restore calm, and see the nation through an unfolding crisis.

For the Federal Reserve, that intervention spanned a wide range of financial intermediaries and markets, including the banking sector.² Strengthened by a decade of improvements in capital, liquidity, and risk management, including the refinement and recalibration of the last three years, banking organizations became an important shelter from financial distress. Our goal was to ensure this shelter stood fast—that banks could respond to the emergency, and address consumer, business, and community needs, without jeopardizing their own safety and soundness.

The report accompanying my testimony lists these actions in detail, and we have extended several of them as the COVID event has continued.³ They range from temporary

¹ Randal K. Quarles, “Supervision and Regulation Report” (testimony before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C., May 12, 2020), <https://www.federalreserve.gov/newsevents/testimony/quarles20200512a.htm>.

² I have recently spoken on the broader strains in the financial system and the significant efforts made to address them. See Randal K. Quarles, “What Happened? What Have We Learned From It? Lessons from COVID-19 Stress on the Financial System” (speech at the Institute of International Finance, Washington, D.C. (via webcast), October 15, 2020), <https://www.federalreserve.gov/newsevents/speech/quarles20201015a.htm>. My remarks today principally describe interventions focused on the banking sector.

³ For a full list of such actions, see Board of Governors of the Federal Reserve System, “Supervision and Regulation Report,” November 2020, <https://www.federalreserve.gov/publications/files/202011-supervision-and-regulation-report.pdf>.

adjustments to capital and reserve measures, to temporary changes in compliance requirements, to temporary shifts toward off-site examination activities, to temporary delays in the implementation of new standards. They include specific guidance on the use of capital and liquidity buffers. They clarify, beyond doubt, that safety and soundness are no impediment to working constructively with customers, including borrowers, in a time of strain.

Together with monetary, financial stability, and fiscal actions, these measures helped calm the waters. The initial wave of market stress has passed, and the recovery has begun much sooner than expected. This speaks to the country's tenacity, ingenuity, and spirit in responding to even the greatest of shocks.

The challenge we face now is distinct, formidable, and complex. The surprise of the COVID event is gone, replaced by a clearer view of its economic consequences. The burdens facing households and businesses are better understood, but they are no less significant, and they are not evenly borne. I am confident that we will work through them together, support those hardest hit, and ensure that our economic wounds do not become scars.

The Federal Reserve remains committed to using our full range of tools to support the economy for as long as needed, and a strong, resilient banking system is an essential element of such support. A durable recovery demands banks that lend actively, confront gains and losses honestly, withstand unexpected shocks, and help customers rebuild and adapt to the new landscape. Our task, as supervisors, is to ensure the country's banks continue to meet that exacting standard.

The Federal Reserve's earliest COVID-related guidance, encouraging banks to work constructively with borrowers, was an important step toward this goal. Since then, working with our colleagues in other financial regulatory agencies, we have taken several others:

- We published a set of key principles to guide COVID-related credit accommodations, in ways that meet customer needs while preserving safety and soundness.⁴
- We offered new guidance on bank examinations during the COVID event, ensuring they consider the unique, evolving, and potentially long-term issues that institutions face.⁵
- We clarified our approach to COVID-event-related activity under the Community Reinvestment Act (CRA), and to granting consideration for investments that protect public health and safety.⁶
- And building on targeted, temporary changes to capital requirements this spring, such as temporarily removing reserves and treasuries from the denominator of the supplementary leverage ratio, we supported banks' ability to address customer needs by easing their path to participate in emergency programs—to issue loans in the Paycheck Protection Program, underwrite loans in the Main Street Lending Program, and act as counterparties in several other facilities.⁷

⁴ Board of Governors of the Federal Reserve System, SR 20-18 / CA 20-13: "Joint Statement on Additional Loan Accommodations Related to COVID-19," <https://www.federalreserve.gov/supervisionreg/srletters/SR2018.htm>.

⁵ Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, National Credit Union Administration, and State Financial Regulators, "Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions," June 2020, <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200623a1.pdf>.

⁶ Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, "Community Reinvestment Act (CRA) Consideration for Activities in Response to the Coronavirus Frequently Asked Questions (FAQs)," May 27, 2020, <https://www.federalreserve.gov/supervisionreg/caletters/CA%2020-10%20Attachment%20CRA%20Consideration%20for%20Activities%20in%20Response%20to%20COVID-19%20FAQs%20-%20Final.pdf>.

⁷ Deliberate outreach to community development financial institutions (CDFIs) and minority depository institutions (MDIs) has been a key aspect of these efforts. See Lael Brainard, "Modernizing and Strengthening CRA Regulations: A Conversation with Minority Depository Institutions" (speech at the National Bankers Association (via webcast), October 15, 2020), <https://www.federalreserve.gov/newsevents/speech/brainard20201015a.htm> (noting preliminary data showing CDFIs, MDIs, and other community banks as source of 73 percent of all Paycheck Protection Program loans to minority-owned businesses); see also Board of Governors of the Federal Reserve System, "Federal Reserve Board updates frequently asked questions to clarify the Board and Department of Treasury's expectations regarding lender underwriting for the Main Street Lending Program," news release, September 18, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200918a.htm>; Board of Governors of the Federal Reserve System, "Federal Reserve Board announces extension of rule change to bolster effectiveness of the Small Business Administration's Paycheck Protection Program," news release, July 15, 2020,

We also used the flexibility in our stress-testing apparatus to better understand the effects of the COVID-event shock.⁸ This framework, like the data associated with it, has long been a key part of day-to-day banking supervision. However, it was born in and built for a crisis, to cut through panic, clarify the health of the largest financial firms, and provide the certainty needed to restore confidence.⁹ In that spirit, and under the constraints of a fast-moving market event, we conducted and published a “sensitivity analysis,” examining how institutions would fare in a prolonged downturn. The banking system remained well capitalized in the downside scenarios we examined. But in light of continuing uncertainty, we took several steps to preserve bank capital—and with it, banks’ role as a source of economic strength.¹⁰ We are conducting a second round of stress tests toward that same goal, with results announced before the end of this year.

As our report shows, that strength is still intact. Liquidity and capital remain high and, indeed, have increased at our largest banks over the course of the COVID event. Firms have sharply increased their reserves, setting aside resources today against losses they may incur

<https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200715a.htm>; and Board of Governors of the Federal Reserve System, “Federal Reserve Board announces expansion of counterparties in the Term Asset-Backed Securities Loan Facility, Secondary Market Corporate Credit Facility, and Commercial Paper Funding Facility,” news release, July 23, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200723a.htm>; see also, e.g., Board of Governors of the Federal Reserve System, “Federal Reserve Board announces temporary change to its supplementary leverage ratio rule to ease strains in the Treasury market resulting from the coronavirus and increase banking organizations’ ability to provide credit to households and businesses,” news release, April 1, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200401a.htm>; and Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, “Agencies announce changes to the community bank leverage ratio,” news release, April 6, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200406a.htm>.

⁸ Randal K. Quarles, “The Adaptability of Stress Testing” (speech at Women in Housing and Finance, Washington, D.C., June 19, 2020), <https://www.federalreserve.gov/newsevents/speech/quarles20200619a.htm>.

⁹ Randal K. Quarles, “Stress Testing: A Decade of Continuity and Change” (speech at “Stress Testing: A Discussion and Review,” a research conference sponsored by the Federal Reserve Bank of Boston, Boston, MA, July 9, 2019), <https://www.federalreserve.gov/newsevents/speech/quarles20190709a.htm>.

¹⁰ Board of Governors of the Federal Reserve System, “Federal Reserve Board releases results of stress tests for 2020 and additional sensitivity analyses conducted in light of the coronavirus event,” news release, June 25, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625c.htm>; and Board of Governors of the Federal Reserve System, “Federal Reserve Board announces it will extend for an additional quarter several measures to ensure that large banks maintain a high level of capital resilience,” news release, September 30, 2020, available at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200930b.htm>.

tomorrow. Banks are well positioned to serve as a bulwark against broader financial and economic stress.

It is worth recognizing how things might have been different. This foundation would not exist, after a once-in-a-century shock, if not for a decade of work by officials and the banks themselves to make banks stronger and more stable, and to make banking supervision fairer, more efficient, and more transparent. Those values are not contingent, fit only for an economic boom. They represent an ethic and a commitment—to addressing the most pressing supervisory and regulatory issues in the most effective ways—that are even more critical during a crisis.

That ethic has steered the Federal Reserve through the last seven months, and it will continue to guide us through the recovery. It applies to our efforts to complete the implementation of Basel III reforms like the net stable funding ratio, tailoring them to the activities and risks of different institutions. It applies to our recent work to streamline the Volcker rule and swap margin rule.¹¹ It applies to our assessment of the lessons of the COVID-event shock, understanding which parts of our regulatory framework functioned well and which need improvement.¹² It applies to our international engagement, to ensure that global financial rules do not splinter and fragment as we gradually return to normal.¹³

¹¹ Board of Governors of the Federal Reserve System, Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Securities and Exchange Commission, “Financial regulators modify Volcker rule,” news release, June 25, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625a.htm>; and Board of Governors of the Federal Reserve System, Farm Credit Administration, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, and Office of the Comptroller of the Currency, “Agencies finalize amendments to swap margin rule,” news release, June 25, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625b.htm>.

¹² See Quarles, note 2.

¹³ Randal K. Quarles, “Global in Life and Orderly in Death: Post-Crisis Reforms and the Too-Big-to-Fail Question” (speech at the Exchequer Club, Washington, D.C. (via webcast), July 7, 2020), <https://www.federalreserve.gov/newsevents/speech/quarles20200707a.htm>.

COVID-19 changed many aspects of the Federal Reserve's work. It also affirmed the values and priorities that remain the same—those that will continue to guide us in our support for the financial system, the economy, and the country, long after the COVID event has passed.

Thank you for your time. I look forward to answering your questions.