

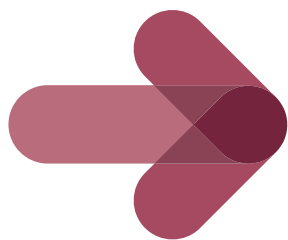
Global Leadership

Insights from Conversations with U.S. Banking Regulators: **Implications for Bank Directors**

Jack O'Kelley, III, CEO and Board Services Practice, Russell Reynolds Associates | June 2014

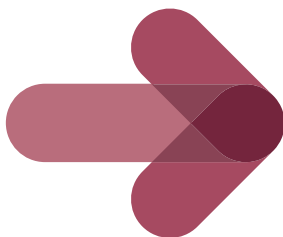
What is on the Horizon for Bank Directors?*

Our interviews included:

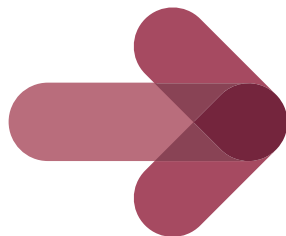


- The Federal Reserve Board
- The Office of the Comptroller of the Currency
- The Federal Deposit Insurance Corporation
- The New York State Department of Financial Services
- The U.S. Department of Justice

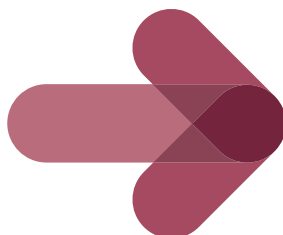
Before the end of 2014, the Federal Reserve will issue new regulations and will likely place greater emphasis on:



- The expectations of bank directors
- The culture of a bank's board of directors
- The board's collective skills and expertise
- Duties related to executive succession (long-term planning and emergency succession across key roles)



A goal of the forthcoming Federal Reserve regulations is “working toward convergence with the agencies” to harmonize the separate actions of various key regulators

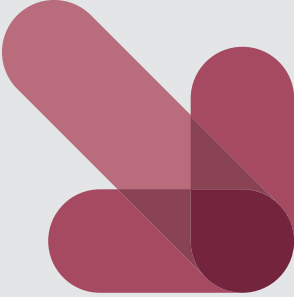


There will be continued focus on risk management and compliance. The guidelines will be refined to ensure that bank boards are not being asked to cross the line into management

**We use “bank” to signify bank holding companies or banks given the various federal and state regulatory agencies looking at governance. Agencies are specified where appropriate.*


Expanding Expectations for Bank Directors

What Regulators Are Saying and Doing...



- While not yet formally changing regulatory requirements, the OCC is clarifying the meaning of “heightened expectations”
- The mindset of regulators is that “bank boards are different and have a higher standard of care”
- They are not looking to be rigid and are more flexible with their approach to governance
- In some banks, Fed examiners are conducting one-on-one meetings with each director to gauge their understanding of issues and individual director contributions
- The Fed and OCC are looking more closely at director contributions to their board
- There is greater dialogue and coordination on governance issues across the agencies

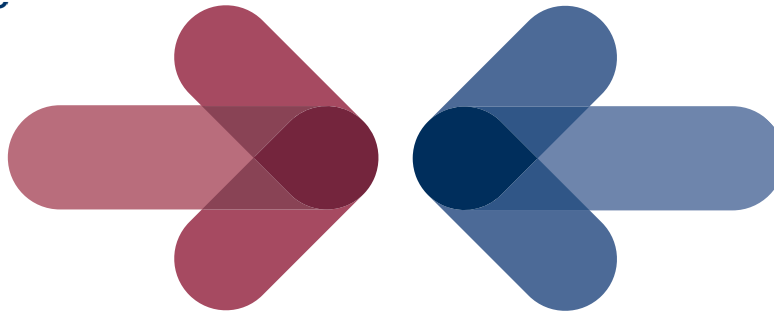
That Said, Regulators Are Generally More Focused On...



- **Risk Management** – continued focus on management’s development of scenarios and risk management plans
- **Succession Planning** – better understanding of the succession planning process and bench strength of key positions
- **Strategy Issues** – increased understanding of how boards and management are formulating strategy and how well the board is aligned with that strategy
- **Board Composition** – review overall composition and director’s skills against the strategy and lines of business with the expectation that each line of business is well understood by one or more directors
- **Compliance** – ensure compliance policies and procedures have appropriate board oversight

Expanding Expectations for Bank Directors

“Hardware versus Software”



Board behaviors and culture (software) are now a key area of interest to regulators in addition to the review of board processes and committee structures (hardware)

Regulators are focused on the “soft aspects” (e.g., culture, engagement, perspectives) of the board’s activities:

- Multiple regulators have taken an interest in the soft aspects of how a bank board operates
- They are looking for the right mix of talent, perspectives and behaviors. Different situations require the right blend of skills and perspectives among directors
- Regulators will continue to focus on directors who have experience around:

Financial Services—product knowledge and strong general management/P&L

Risk Management—enterprise and product/line of business related

Non-Financial Services—technology, information security, customer service and strong general management

- Of interest to regulators is “the quality of information directors are receiving and then the quality of the conversation at the board level.” They are asking questions such as:

“Do they have chemistry with one another?”

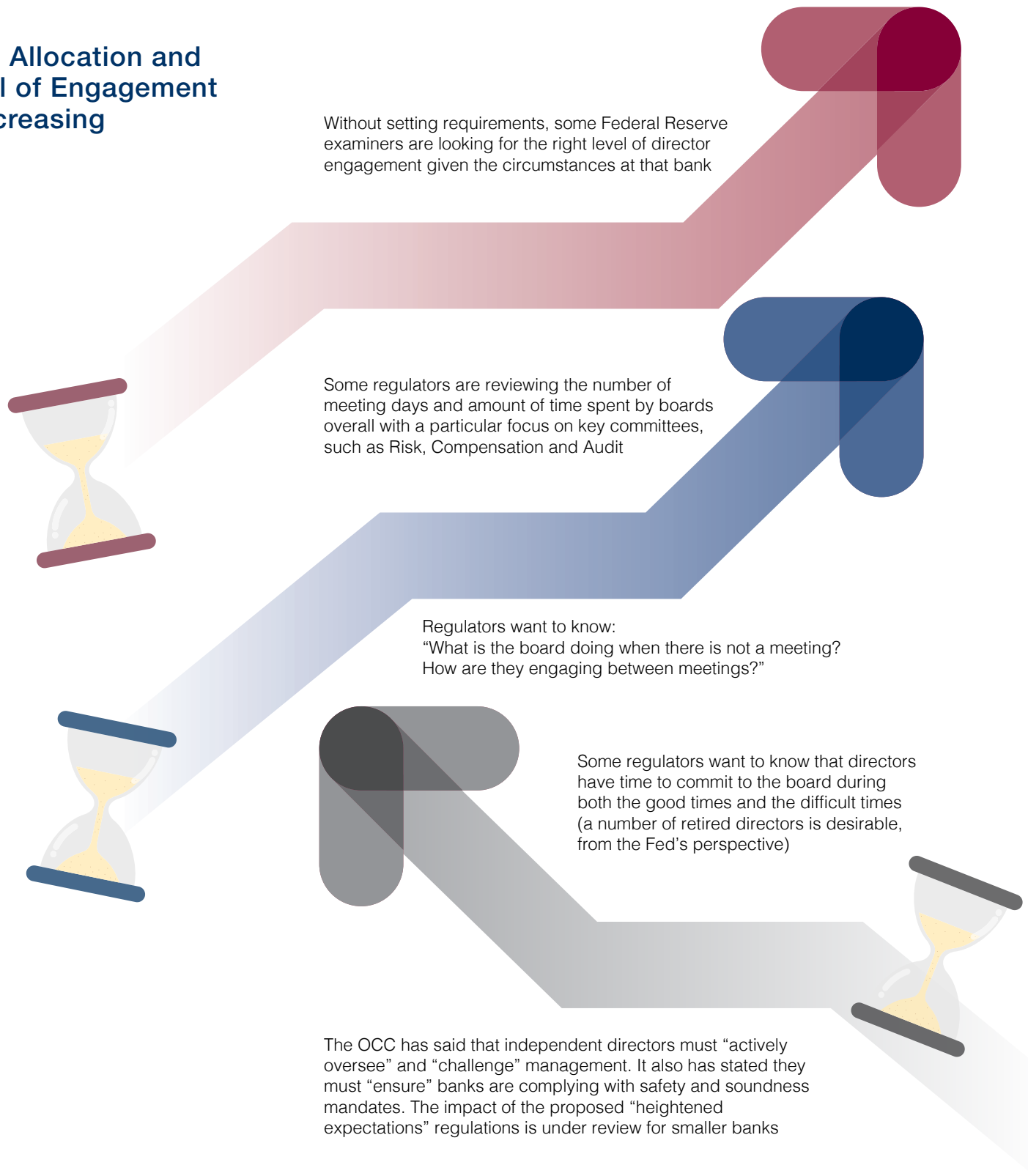
“Is there confidence in one another?”

“Can they challenge one another?”

- Regulators want to understand “what directors are doing”, e.g., specific ways or measures to hold management accountable

Expanding Expectations for Bank Directors

Time Allocation and Level of Engagement is Increasing



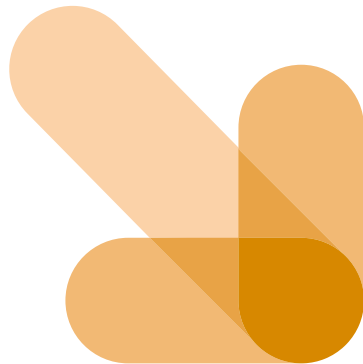
The Take-Away on Expectations for Bank Directors



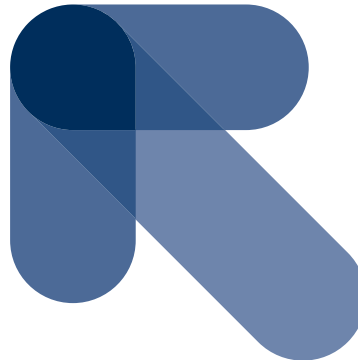
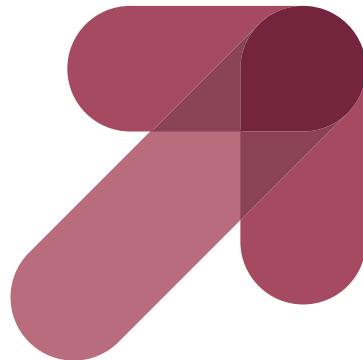
Bank holding company directors have higher expectations placed on them for their governance responsibilities



There is an expectation of a greater level of engagement and time commitment by bank directors than directors of other companies



IMPACT



For banks with capital requirement issues, the board and management should expect a greater level of scrutiny around governance issues



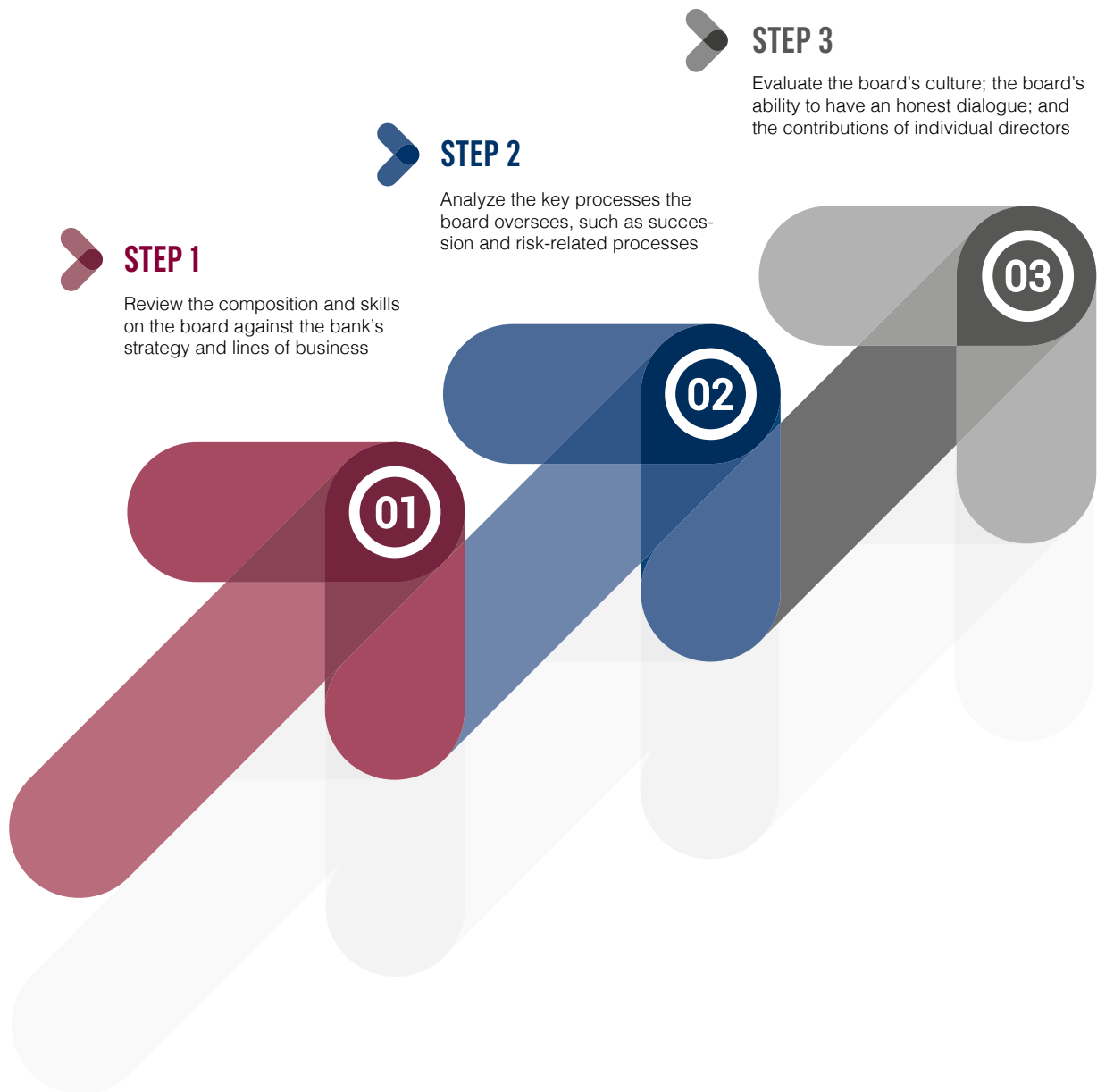
Banks with serious issues around capital levels or that have failed stress tests should not be surprised to see regulators “suggest” a governance and performance review and potentially even individual director assessments

The increased expectations for bank directors apply to the directors of U.S. subsidiaries of foreign banks

What to do Next

What Should Bank Boards Be Doing to Prepare for the Coming Changes?

Boards of directors need to proactively review their composition and “software” related to governance in order to be able to have a constructive dialogue with regulators



Leadership, Succession and Search | Russell Reynolds Associates is a global leader in assessment, recruitment and succession planning for Chief Executive Officers, boards of directors, and key roles within the C-suite. With more than 300 consultants in 44 offices around the world, we work closely with both public and private organizations across all industries and regions. We help our clients build boards and executive teams that can meet the challenges and opportunities presented by the digital, economic, environmental and political trends that are reshaping the global business environment. www.russellreynolds.com. Follow us on Twitter: [@RRALeadership](https://twitter.com/RRALeadership)

Americas

Atlanta

1180 Peachtree St., NE
Suite 2250
Atlanta, GA 30309-3521
United States of America
Tel: +1-404-577-3000

Boston

One Federal Street, 26th Floor
Boston, MA 02110-1007
United States of America
Tel: +1-617-523-1111

Buenos Aires

Buenos Aires Plaza
Manuela Sáenz 323
Seventh Floor, Suites 14 and 15
C1107BPA, Buenos Aires
Argentina
Tel: +54-11-4118-8900

Calgary

Suite 750, Ernst & Young Tower
440-2nd Avenue SW
Calgary, Alberta T2P 5E9
Canada
Tel: +1-403-776-4192

Chicago

155 North Wacker Drive
Suite 4100
Chicago, IL 60606-1732
United States of America
Tel: +1-312-993-9696

Dallas

200 Crescent Court, Suite 1000
Dallas, TX 75201-1834
United States of America
Tel: +1-214-220-2033

Houston

600 Travis Street, Suite 2200
Houston, TX 77002-2910
United States of America
Tel: +1-713-754-5995

Los Angeles

11100 Santa Monica Blvd.
Suite 350
Los Angeles, CA 90025-3384
United States of America
Tel: +1-310-775-8940

Mexico City

Torre Reforma
Paseo de la Reforma
115-1502
Lomas de Chapultepec
11000 México, D.F.
México
Tel: +52-55-5249-5130

Minneapolis/St. Paul

225 South Sixth Street, Suite 2550
Minneapolis, MN 55402-3900
United States of America
Tel: +1-612-332-6966

New York

200 Park Avenue
Suite 2300
New York, NY 10166-0002
United States of America
Tel: +1-212-351-2000

Palo Alto

260 Homer Avenue, Suite 202
Palo Alto, CA 94301-2777
United States of America
Tel: +1-650-233-2400

San Francisco

101 California Street
Suite 2900
San Francisco, CA 94111-5829
United States of America
Tel: +1-415-352-3300

São Paulo

Edifício Eldorado Business Tower
Av. Nações Unidas, 8.501 11°
05425-070 São Paulo
Brazil
Tel: +55-11-3566-2400

Stamford

301 Tresser Boulevard
Suite 1210
Stamford, CT 06901-3250
United States of America
Tel: +1-203-905-3341

Toronto

Scotia Plaza, Suite 3410
40 King Street West
Toronto, ON
M5H 3Y2
Canada
Tel: +1-416-364-3355

Washington, D.C.

1701 Pennsylvania Avenue, NW
Suite 400
Washington, DC 20006-5810
United States of America
Tel: +1-202-654-7800

Asia/Pacific

Beijing

Unit 3422 China World Tower 1
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China
Tel: +86-10-6535-1188

Hong Kong

Room 1801, Alexandra House
18 Chater Road Central
Hong Kong
China
Tel: +852-2523-9123

Melbourne

Level 51, Rialto Towers
525 Collins Street
Melbourne, VIC 3000
Australia
Tel: +61-3-9603-1300

Mumbai

63, 3rd North Avenue,
Maker Maxity
Bandra Kurla Complex
Bandra (East), Mumbai 400 051
India
Tel: +91-22-6733-2222

New Delhi

203, Eros Corporate Tower
Nehru Place
New Delhi 110 019
India
Tel: +91-11-4603-4600

Seoul

16F West Tower
Mirae Asset Centre 1 Building
26 Eulji-ro 5-gil, Jung-gu
Seoul 100-210
Korea
Tel: +82-2-6030-3200

Shanghai

Room 4504, Jin Mao Tower
88 Century Avenue
Pudong, Shanghai 200121
China
Tel: +86-21-6163-0888

Singapore

12 Marina View
#18-01 Asia Square Tower 2
Singapore 018961
Singapore
Tel: +65-6225-1811

Sydney

Level 40 Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
Tel: +61-2-9258-3100

Tokyo

Izumi Garden Tower 14F
1-6-1 Roppongi
Minato-ku, Tokyo 106-6014
Japan
Tel: +81-3-5114-3700

Europe

Amsterdam

World Trade Center,
Tower H, 18th Floor
Zuidplein 148
1077 XV Amsterdam
The Netherlands
Tel: +31-20-305-7630

Barcelona

Edificio Prisma
Avda. Diagonal, 613, 2ªA
08028 Barcelona
Spain
Tel: +34-93-494-9400

Brussels

Boulevard St. Michel 27
B-1040 Brussels
Belgium
Tel: +32-2-743-12-20

Copenhagen

Kongens Nytorv 3
DK-1050 Copenhagen K
Denmark
Tel: +45-33-69-23-20

Frankfurt

Openturm
60306 Frankfurt am Main
Germany
Tel: +49-69-75-60-90-0

Hamburg

Stadthausbrücke
1-3/Fleethof
20355 Hamburg
Germany
Tel: +49-40-48-06-61-0

Helsinki

Unioninkatu 22
00130 Helsinki
Finland
Tel: +358-9-6226-7000

Istanbul

Cumhuriyet Cad. No 48
Kat: 4/B Pegasus Evi
Elmadag 34367 Şişli
Istanbul / Türkiye
Tel: +90-212-705-3550

London

Almack House
28 King Street
London SW1Y 6QW
United Kingdom
Tel: +44-20-7839-7788

Madrid

Calle Miguel Angel, 11, 7°
28010 Madrid
Spain
Tel: +34-91-319-7100

Milan

Via Mascheroni, 5
20123 Milan
Italy
Tel: +39-02-430-015-1

Munich

Maximilianstraße 12-14
80539 München
Germany
Tel: +49-89-24-89-81-3

Oslo

Haakon VII's Gata 1
NO-0161 Oslo
Norway
Tel: +47-2203-8010

Paris

20 rue de la Paix
75002 Paris
France
Tel: +33-1-49-26-13-00

Stockholm

Hamngatan 27
SE-111 47 Stockholm
Sweden
Tel: +46-8-545-074-40

Warsaw

Belvedere Plaza
ul. Belwederska 23
00-761 Warsaw
Poland
Tel: +48-22-851-68-38

Zürich

Löwenstrasse 28
CH-8001 Zurich
Switzerland
Tel: +41-44-447-30-30