April 2022

Supervision in Brief

A Regulator's Perspective on Issues Facing Twelfth District Banks

Dear Colleagues,

As we come out of more than two years of weathering the effects of the pandemic, Twelfth District banking and economic conditions continue to show signs of recovery. However, we are monitoring financial conditions as the economy normalizes while noting a changing interest rate environment and potential headwinds from geopolitical tensions and uncertainty around the ultimate impact of fading government stimulus. You can read more about banking conditions through the 2021 fourth quarter in the current issue of First Glance 12L.

In other areas of our focus, **cyber threats remain top of mind**. Given recent geopolitical developments, we are imploring financial institutions to maintain heightened awareness and vigilance of cyber threats. Please familiarize yourself with and utilize the cybersecurity advisories released by the Cybersecurity and Infrastructure Security Agency (CISA). This federal government agency leads the national effort to understand, manage, and reduce risk to our cyber and physical infrastructure across the public and private sectors. CISA has published multiple joint cybersecurity advisories in 2022 to address Russian state-sponsored actors' operations and maintain these releases on a Russia threat and advisory overview page.

Additionally, the Federal Reserve System and other federal banking agencies issued a final rule in November 2021 that requires banks to notify their primary federal regulator of any significant computer incident within 36 hours of its occurrence. Notification is required for incidents that have materially affected, or are reasonably likely to materially affect, the viability of a banking organization's operations, its ability to deliver products and services, or the stability of the financial sector. The rule will become effective April 1, 2022, so we encourage you to be prepared to provide information on incidents as outlined by the final rule. Refer to SR 22-4 / CA 22-3 for the Federal Reserve System contact information.

As a follow-up to our past communications regarding **Current Expected Credit Losses (CECL)**, I encourage you to utilize the Federal Reserve System's CECL Resource Center for questions related to their implementation of the accounting standard for Current Expected Credit Losses, or CECL. This website provides easy access to the latest CECL news, developments, supervisory guidance, and links to "Ask the Regulators" webinars.

The website also includes information about *Scaled CECL Allowance for Losses Estimator* (SCALE), a tool designed by Federal Reserve staff to support the implementation of CECL by smaller community banks (total assets under $1 billion). The tool was developed in recognition of public concerns about operational difficulties in implementing CECL, and with consideration that CECL is flexible and scalable to banks of all sizes, and that complex methods for estimating credit losses are not necessary.

Recently, Ana De Sousa, Assistant Vice President of our Financial Technology Practice, briefed the Atlanta Fed's annual **Banking Outlook Conference on cryptocurrency**. A key takeaway is the demand for cryptoassets among consumers is growing and expected to persist. We see accelerated adoption among younger consumers combined with a strong interest in managing crypto investments through existing banking relationships. We expect that more financial institutions will explore ways to meet this demand. The Federal Reserve Board is collaborating with the FDIC and the OCC to provide further clarity on the permissibility and expectations for a range of crypto-related activities. The results of this interagency effort will be communicated throughout 2022.

And finally, we know that you are feeling the pain of turnover during what people call "the Great Resignation." We are feeling it too. That's why one of our focus areas this year is hiring. We are actively hiring in the industry right now and are laser-focused on making sure that the people we hire have the right skill sets to maintain our quality supervision. So, be on the lookout for some new faces that we are bringing aboard.
Best,

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