

Joint EGRPRA Report Indicative of Current State of Financial Regulatory Reform

March 27, 2017 | Client Update | 3-minute read

The Economic Growth and Regulatory Paperwork Reduction Act (“EGRPRA”) requires the federal banking agencies to conduct a review of their regulations every ten years. The purpose is to identify outdated or otherwise unnecessary regulatory requirements imposed on banks. Last Tuesday, the banking agencies sent the [latest report required under EGRPRA](#) to Congress. Since the report was prepared by the Obama-era agencies, its recommendations are limited to those which attracted bipartisan support before the election. Governor Daniel Tarullo’s accompanying [letter](#) to Congress restated his view that it is appropriate to tier regulatory requirements based on size, including with respect to capital, enhanced prudential standards, incentive compensation, and the Volcker Rule.

According to the report, the topics drawing the most comment from the banking sector were: (1) capital; (2) Call Reports; (3) appraisals; (4) frequency of examination; (5) CRA; and (6) BSA/AML. Many of these topics are addressed by the CHOICE Act. The banking agencies also identified several areas where they intend to reduce regulatory burden. Those areas include capital requirements, regulatory reporting, appraisals, and examination frequency. With respect to capital, the agencies intend to simplify the treatment of deductions from regulatory capital for MSAs, timing difference DTAs and investments in unconsolidated financial institutions, the recognition of minority interests, and the treatment of High Volatility Commercial Real Estate (HVCRE) exposures. Since the relief is intended to address community banks’ concerns about the complexity of the capital rules, it’s unclear to what extent larger banks, such as advanced approaches banks, would also benefit from these changes. Lastly, the report mentions the agencies’ intent to raise appraisal thresholds for CRE loans, increase the asset thresholds related to management official interlocks under Regulation L, and provide additional guidance regarding loans to executive officers, directors and principal shareholders of banks under Regulation O.

There is an interesting discussion by the OCC and FDIC about a number of statutory changes that they would recommend or support to relieve unnecessary burden and modernize banking laws. For instance, the OCC recommended modernizing the National Bank Act in a number of ways. Echoing comments made by Comptroller Curry in [2015](#), the OCC stated that it supports a community bank exemption to the Volcker Rule. In fact, it said that it drafted a legislative proposal to exempt banks with total consolidated assets of \$10 billion or less. Similarly, the FDIC joined the OCC in expressing its support for a statutory change to raise the threshold for annual company-run stress testing from \$10 billion to \$50 billion. Interestingly, the Federal Reserve was silent on any legislative efforts that it would support or recommend to reduce regulatory burden. In contrast, in last year’s [Section 620 report](#) to Congress the Federal Reserve recommended that Congress repeal the merchant banking authority and the grandfathering of certain commodities activities.

Stay tuned to FinRegReform for updates on further legislative and regulatory changes affecting the financial industry.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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