



[Home](#) > [Newsroom](#)

NCUA Chairman Todd M. Harper Remarks at the FSOC Open Session

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Thank you and good day, everyone.

We have Secretary Yellen's outstanding leadership to thank for much of what the Council has accomplished during the last four years. Indeed, the reinvigoration of the Council under her direction returned this body to its roots: being an active, adaptable, and collaborative group that closely monitors existing and potential threats to financial stability.

Among our many achievements, I am proudest of last year's publication of the *Nonbank Designations Guidance and Analytical Framework*. The old guidance was an endless game of *Chutes and Ladders*. But, the new system represents an important improvement, marked by clear, balanced, and consistent processes that are faithful to Dodd-Frank Act's requirements.

Let me pause here to also thank Sandra Lee and the entire FSOC team for their hard work on numerous initiatives, including this year's insightful annual report. This report highlights several systemic issues specific to credit unions.

The NCUA's lack of third-party vendor authority is a growing regulatory blind spot that has real-world implications. Those risks have only increased since the Council first recommended addressing this deficiency in its 2015 annual report. Late last year, for example, a cyber incident at a core credit union service provider disrupted basic services for credit union members across 40 states.

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The reality is that risk frequently grows the most in the unregulated shadows of the financial system. Congress needs to close this regulatory loophole.

For the first time, this annual report also aptly recognizes the need to anticipate and mitigate the likelihood of large credit union failures, especially with system assets heavily concentrated in a few large institutions. As such, this annual report recommends the NCUA should both increase the reserves held in the Share Insurance Fund and be granted additional flexibility in how it manages the fund.

Under existing law, the NCUA's power to raise reserves is fundamentally constrained, which hamstrings the agency's ability to leverage periods of financial strength to prepare for times of economic upheaval. If Congress raised the equity ratio ceiling, the NCUA Board could do more at the right time to substantially strengthen the resiliency of the fund and prevent a repeat of the 2008 corporate credit union crisis that led Congress to pass emergency legislation to protect the credit union system from a cascade of credit union failures.

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Lastly, this annual report underscores the need to finalize the long overdue regulatory action on incentive-based compensation, in accordance with Section 956 of Dodd-Frank. Earlier this year, the NCUA joined several other agencies in issuing a proposed rule to establish disclosure and reporting requirements for incentive-based compensation arrangements.

Having worked on Section 956 as a congressional staffer during the drafting of the Dodd-Frank Act, I understand the importance of having all six responsible agencies come together to finalize work on this statutory mandate.

Financial executives have a responsibility to steward their institutions with a focus on long-term organizational health and not on short-term personal gain. Effective rules, not unenforceable guidelines, will best allow regulators to protect shareholders, jobholders, householders, and all other stakeholders from the excesses caused by greed. We all need to finish this job to uphold transparency and accountability across the financial system.

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In closing, the Dodd-Frank Act established this Council to actively research and monitor the financial system for potential risks and to then act when identified vulnerabilities are not sufficiently addressed. As such, Congress has entrusted the Council with an essential duty in protecting our interconnected financial ecosystem.

Our work here matters most to the people living and working on Main Street by protecting them from the excesses of Wall Street and the risks lurking in the shadows of the regulatory system. We cannot allow a repeat of the Great Financial Crisis when unemployment peaked at more than 15 million Americans and 10 million Americans lost their homes.

Going forward, the Council must remain vigilant against the many threats to financial stability and stand ready to act, when needed, by actively monitoring all corners of the financial system; designating systemically important financial institutions; identifying financial market utilities engaging in systemically important clearing activities; subjecting both to heightened scrutiny; and if necessary, breaking apart those entities posing a grave threat to the financial system.

That's what my boss, the former Congressman Paul Kanjorski, intended in drafting the language that became Section 121 of the Dodd-Frank Act. And, it was his prescient vision that guided my work on the Council these last four years.

Thank you.

Todd M. Harper

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