



Federal Financial Analytics, Inc.

**Petrou Keynote Address: Key Supervisory Issues**

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Karen Shaw Petrou, managing partner of Federal Financial Analytics, today delivered the attached keynote address to the annual meeting of the U.S. banking agencies' accounting and auditing regulators. She called on them to use their technical skills to fix the way credit exposures are measured in all of the pending banking rules. Seemingly a minor matter, failing to do this properly will lead to perverse results and increased systemic risk as new leverage rules and limits on single-counterparty credit risk are finalized.

“Set the exposure limits too low, and banks will take undue risk,” Petrou said. “But, set them too high and we’ll shut down a critical element of financial-market liquidity and hurt the central counterparties many think essential to reform of the over-the-counter derivatives market,” Petrou continued.

The address also states that resolution plans aimed at ending too-big-to-fail won't work if these measurements are wrong, and accounting standards setting loan-loss reserves are also technical issues with substantive and systemic impact. She strongly supports pending accounting standards that use expected, not incurred, loss measurements to ensure reserves are sufficient under stress. Ms.

Petrou also calls on the banking agencies to hold boards of directors and senior management to account if internal-audit and risk-tolerance standards are breached.

If you have any questions or need additional information, reply by return e-mail or call 202-589-0880.

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