



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Executive Summary, 2024-SR-C-007, February 26, 2024

The CFPB Can Enhance Certain Practices to Mitigate the Risk of Conflicts of Interest for Division of Supervision, Enforcement and Fair Lending Employees

Finding

The Consumer Financial Protection Bureau can enhance certain practices to mitigate the risk of conflicts of interest for Division of Supervision, Enforcement and Fair Lending (SEFL) employees. Specifically, the Office of Supervision Examinations (OSE) should formally adopt an examiner rotation policy and implement an assignment tracking mechanism to mitigate the risk of regulatory capture—the risk that sustained exposure to the same regulated entity increases a regulator’s susceptibility to becoming less independent and objective.

We found that OSE has informal practices for rotating and tracking examiners assigned to supervised entities. OSE does not have a formal policy to ensure that examiners rotate to assignments at other supervised entities within a specified time frame. Additionally, OSE does not use a system, application, or monitoring tool to track examiner assignments to ensure that examiners rotate.

By establishing a formal rotation policy and a tracking mechanism for examiner assignment data, OSE can ensure that rotations are monitored and implemented effectively. Periodically rotating examiners will also promote objectivity, cross-training, and broader expertise among examiners while reducing the risk of regulatory capture.

In addition, we identified a matter for management consideration related to establishing a process for employees to attest to their impartiality when beginning work on a new matter.

Recommendations

Our report contains two recommendations designed to further enhance the CFPB’s approach to mitigating the risk of conflicts of interest. In its response to our draft report, the CFPB concurs with our recommendations and outlines actions that have been or will be taken to address each recommendation. For our recommendation related to OSE developing and implementing a formal examiner rotation policy, we have reviewed documentation associated with the action taken by the CFPB, and we believe that the agency has taken sufficient action to close this recommendation. We will follow up to ensure that the remaining recommendation is fully addressed.

Purpose

We conducted this evaluation to assess the extent to which the CFPB promotes a focus on independence and has policies, procedures, and controls to mitigate the risk of conflicts of interest among SEFL staff.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes the CFPB to supervise depository institutions and their affiliates with more than \$10 billion in total assets and certain nondepository institutions. SEFL is responsible for ensuring compliance with federal consumer financial laws by supervising market participants and initiating enforcement actions when appropriate.

To foster public confidence in the integrity of the agency’s work, CFPB officials and staff must independently and objectively execute their financial institution supervision and oversight activities. CFPB employees must adhere to principles of ethical conduct and conflict of interest statutes, including recusal requirements.