118TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
118–728

FOSTERING THE USE OF TECHNOLOGY TO UPHOLD REGULATORY EFFECTIVENESS IN SUPERVISION ACT

NOVEMBER 1, 2024.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MCHENRY, from the Committee on Financial Services, submitted the following

R E P O R T

[To accompany H.R. 7437]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 7437) to require certain supervisory agencies to assess their technological vulnerabilities, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Fostering the Use of Technology to Uphold Regulatory Effectiveness in Supervision Act".

59–006

SEC. 2. FINDINGS.

Congress finds the following:

(1) Banking regulators continue to examine and monitor depository institutions without access to real-time information.

(2) Risk surrounding technology procurement may present challenges for updating supervisory technology.

(3) To ensure that prudential supervision is effective and sustainable in the digital age, agencies must leverage new technologies to allow for the financial monitoring necessary to preserve a safe and sound banking system.

(4) New technological tools are also necessary in order for agencies to effectively fulfill mandates other than prudential supervision, including their mandates to assure consumer protection and monitor Bank Secrecy Act compliance.

(5) Agencies' reliance on outdated technology creates vulnerabilities for the financial system, causing—

(A) difficulties in collecting, compiling, and analyzing relevant information about risks and noncompliance at supervised firms;

(B) reliance on information that is inaccurate, incomplete, or not timely;

(C) reliance on limited and outdated tools for data analysis;

(D) difficulties in using data to identify risk trends;

(E) difficulties in producing accurate and timely reports;

(F) inadequacy of cybersecurity safeguards; and

(G) failure to detect illegal activities.

(6) The rapid expansion of financial firms' use of artificial intelligence may generate opportunities to improve the financial system while also introducing a range of risks, making it essential that agencies be equipped with the technology and skills needed to analyze these opportunities and potential risks.

(7) While agencies assess their supervisory capabilities on an ongoing basis, it is imperative that there be a unified goal to enhancing supervisory technologies that ensures effective and sustainable oversight in the digital age.

SEC. 3. TECHNOLOGICAL VULNERABILITIES AND PROCUREMENT PRACTICES ASSESSMENT.

(a) IN GENERAL.—

(1) TECHNOLOGICAL VULNERABILITIES ASSESSMENT.—Each covered agency shall, not later than 180 days after the date of the enactment of this section, assess how existing technological systems used by the covered agency prevent the covered agency from conducting real-time supervisory assessments of entities over which the covered agency has supervisory authority, including effects stemming from—

(A) core information technology infrastructure;

(B) technology used to supervise entities, including supervisory technological tools; and

(C) technology for monitoring general market risks using reported data and external data.

(2) PROCUREMENT PRACTICES ASSESSMENT.—Each covered agency shall, not later than 180 days after the date of the enactment of this section—

(A) assess the procurement rules and protocols adhered to by such covered agency when such covered agency acquires or develops new technological systems; and

(B) identify any challenges created by such procurement rules and protocols, including the impact such rules or protocols have on the ability of the covered agency to test new technological systems.

(b) REPORT.—Not later than 1 year after the completion of the assessments required under subsection (a), and every 5 years thereafter, the covered agencies shall coordinate and jointly submit to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate a report that includes the following with respect to each covered agency—

(1) a general overview of hardware and software used for information gathering and advanced analytics during supervision activities, including products purchased from technology vendors and products developed by the covered agency or contractors of the covered agency;

(2) a description of the procurement practices and protocols of the covered agency, including a description of—

(A) whether such processes are voluntarily adhered to or mandated; and

(B) any challenges resulting from such practices and protocols and relevant factors, if any, that have impacted the covered agency's ability to obtain new technology;

(3) a general overview of the portion of workforce of the covered agency that is engaged primarily in technology development within the covered agency, including—

(A) an overview of the ability of the covered agency to recruit and retain appropriate technology experts;

(B) employee self-reported workforce data; and

(C) a description of the degree to which the covered agency relies on contractors to design, develop, or deploy technology and perform technology-related tasks;

(4) a description of the processes used by the covered agency to obtain information from entities supervised by the covered agency and general information about market trends and risks;

(5) a description of the ways in which the covered agency shares information or system access with other covered agencies;

(6) an evaluation of the level of ease or difficulty experienced by the covered agency, including any legal or regulatory challenges, when—

(A) sharing data with other government agencies; or

(B) collecting data from entities supervised by the covered agency;

(7) an evaluation of cost for supervised entities to modify systems to share data with covered agencies; and

(8) a description of any plans the covered agency has that relate to how the covered agency will implement future upgrades to the technology used by the covered agency to supervise entities supervised by the covered agency, including—

(A) a general description of any planned upgrades;

(B) the anticipated timeline for any planned upgrades;

(C) the costs of any planned upgrades;

(D) any concerns about access to needed resources;

(E) intended efforts for hiring and training individuals as part of any technological upgrades;

(F) any aspects of any planned upgrades that should be addressed on an interagency basis; and

(G) any anticipated challenges and solutions associated with entities supervised by the covered agency adapting to new reporting requirements, including—

(i) estimates of transition costs; and

(ii) estimates of any potential cost reductions.

(c) COVERED AGENCY DEFINED.—In this section, the "covered agency" means the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, the Bureau of Consumer Financial Protection, and the National Credit Union Administration.

PURPOSE AND SUMMARY

Introduced on February 23, 2024, by Representative Erin Houchin, H.R. 7437, the *Fostering the Use of Technology to Uphold Regulatory Effectiveness in Supervision (FUTURES) Act*, aims to help modernize technology systems within federal agencies responsible for regulating banks and credit unions, enhancing their capacity for effective supervision and oversight. H.R. 7437 would require the Federal Reserve System (Federal Reserve), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), Consumer Financial Protection Bureau (CFPB), and the National Credit Union Administration (NCUA), to assess their internal supervisory technologies as well as their ability to upgrade these technologies, as necessary. H.R. 7437 is cosponsored by Representatives Bill Foster, French Hill, and Brittany Pettersen.

BACKGROUND AND NEED FOR LEGISLATION

H.R. 7437 builds on the Government Accountability Office's (GAO) September 2023 report titled "Agencies Can Better Support Workforce Expertise and Measure the Performance of Innovation Offices." In that report, the GAO recommended that the CFPB, FDIC, Federal Reserve, NCUA, and the OCC collect staff skillset data and incorporate leading workforce planning practices. Further, the report recommended that the CFPB, NCUA, and OCC develop performance measures for their innovation offices and develop performance metrics for their supervisory technology strategic objectives.

The GAO report also discussed the critical challenges agencies face in developing and retaining a qualified workforce able to address technological developments by regulated entities while ensuring the agencies themselves are effectively deploying technology to enhance their own supervisory capabilities. Separately, an independent report titled “Financial Regulators’ Dilemma: Administrative and Regulatory Hurdles to Innovation,” conducted by the Alliance for Innovative Regulation (AIR), identified several issues and hurdles that financial regulators face in staying abreast of technological advances.

The FUTURES Act, by requiring a comprehensive assessment of procurement practices and technology usage, will shine a light on the challenges our financial regulators face and pave the way for solutions. It is imperative to ensure our financial regulators utilize cutting-edge technological tools as well as attract and retain personnel with the necessary expertise. By sharing experiences and challenges, the report will equip us with the necessary knowledge to develop solutions that modernize their capabilities. Technology modernization will lead to efficiencies that can help level the disproportionate regulatory costs and ensure our financial regulators have the tools they need to effectively supervise regulated entities.

RELATED HEARINGS

Pursuant to clause 3(c)(6) of rule XIII, the following hearings were used to develop H.R. 7437:

The Subcommittee on Digital Assets, Financial Technology and Inclusion of the Committee on Financial Services held a hearing on October 25, 2023, titled “Modernizing Financial Services Through Innovation and Competition.”

The Subcommittee on Digital Assets, Financial Technology and Inclusion of the Committee on Financial Services held a hearing on December 5, 2023, titled “Fostering Financial Innovation: How Agencies Can Leverage Technology to Shape the Future of Financial Services.”

The Subcommittee on Digital Assets, Financial Technology and Inclusion held a Field Hearing on December 8, 2023, titled “Connecting Communities: Building Innovation Ecosystems Across America.”

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on April 17, 2024, and ordered H.R. 7437 to be reported favorably to the House as amended by a voice vote, a quorum being present. Before the question was called to order the bill favorably reported, the Committee adopted an amendment in the nature of a substitute offered by Ms. Houchin by voice vote.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the order to report legislation and amendments thereto. H.R. 7437 was ordered reported favorably to the House as amended by a voice vote, a quorum being present.

An amendment offered by Ms. Waters, no. 3, was not agreed to by a recorded vote of 22 ayes to 28 nays (Record vote no. FC–129), a quorum being present.

Record vote no. FC- 129

Representative	Yea	Nay	Present
Mr. McHenry	___	X	___
Mr. Hill	___	X	___
Mr. Lucas	___	X	___
Mr. Sessions	___	X	___
Mr. Posey	___	X	___
Mr. Luetkemeyer	___	___	___
Mr. Huizenga	___	X	___
Mrs. Wagner	___	X	___
Mr. Barr	___	X	___
Mr. Williams (TX)	___	X	___
Mr. Emmer	___	X	___
Mr. Loudermilk	___	X	___
Mr. Mooney	___	X	___
Mr. Davidson	___	X	___
Mr. Rose	___	X	___
Mr. Steil	___	X	___
Mr. Timmons	___	X	___
Mr. Norman	___	X	___
Mr. Meuser	___	X	___
Mr. Fitzgerald	___	X	___
Mr. Garbarino	___	X	___
Mrs. Kim	___	X	___
Mr. Donalds	___	X	___
Mr. Flood	___	X	___
Mr. Lawler	___	X	___
Mr. Nunn	___	X	___
Ms. De La Cruz	___	X	___
Mrs. Houchin	___	X	___
Mr. Ogles	___	X	___
Ms. Waters	X	___	___
Mrs. Velázquez	___	___	___
Mr. Sherman	X	___	___
Mr. Meeks	X	___	___
Mr. Scott	X	___	___
Mr. Lynch	X	___	___
Mr. Green	X	___	___
Mr. Cleaver	X	___	___
Mr. Himes	X	___	___
Mr. Foster	X	___	___
Mrs. Beatty	X	___	___
Mr. Vargas	X	___	___
Mr. Gottheimer	X	___	___
Mr. Gonzalez	X	___	___
Mr. Casten	X	___	___
Ms. Pressley	X	___	___
Mr. Horsford	X	___	___
Ms. Tlaib	X	___	___
Mr. Torres	X	___	___
Ms. Garcia	X	___	___
Ms. Williams (GA)	X	___	___
Mr. Nickel	X	___	___
Ms. Pettersen	X	___	___

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c) of rule XIII of the Rules of the House of Representatives, the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the goal of H.R. 7437 is to require prudential regulators to individually assess their internal supervisory technologies, as well as their ability to upgrade these technologies, as necessary.

CONGRESSIONAL BUDGET OFFICE ESTIMATES

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

H.R. 7437, Fostering the Use of Technology to Uphold Regulatory Effectiveness in Supervision Act
As ordered reported by the House Committee on Financial Services on April 17, 2024

By Fiscal Year, Millions of Dollars	2024	2024-2029	2024-2034
Direct Spending (Outlays)	*	1	3
Revenues	*	*	-1
Increase or Decrease (-) in the Deficit	*	1	4
Spending Subject to Appropriation (Outlays)	0	0	0

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2035?	< $2.5 billion	Statutory pay-as-you-go procedures apply?	Yes
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2035?	< $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	Yes, Under Threshold

* = between -$500,000 and $500,000.

H.R. 7437 would require federal financial regulators to assess how their technological systems prevent them from conducting real-time supervision of regulated entities and how their procurement rules limit the testing of new technologies. Federal financial regulators under the bill include the Consumer Financial Protection Bureau (CFPB), Federal Deposit Insurance Corporation (FDIC), Federal Reserve, National Credit Union Administration (NCUA), and Office of the Comptroller of the Currency (OCC). In addition, the bill would require those agencies to jointly report to the Congress every five years on multiple issues, including their use of hardware and software, procurement practices, and information technology workforce.

In total, CBO estimates that the administrative costs for the agencies to implement the requirements in H.R. 7437 would increase direct spending by $3 million and reduce revenues by $1 million over the 2024–2034 period.

Using information about the cost of similar provisions, CBO estimates that each agency would need about two employees, at an average annual cost of $260,000 per employee, to complete the assessments and reports.

Expenditures for the CFPB, FDIC, NCUA, and OCC are classified in the budget as direct spending. The NCUA and OCC collect fees from financial institutions to offset their operating costs, and those fees are recorded as offsetting receipts, that is, as reductions in direct spending. CBO estimates that, on net, enacting H.R. 7437 would increase direct spending by $3 million over the 2024–2034 period.

Costs incurred by the Federal Reserve reduce remittances to the Treasury, which are recorded in the budget as revenues. CBO estimates that H.R. 7437 would decrease revenues by $1 million over the 2024–2034 period.

If federal financial regulators increase annual fees to offset the costs of implementing the bill, H.R. 7437 would increase the costs of an existing private-sector mandate on entities required to pay those fees. CBO estimates that the incremental cost of the mandate would be small and would fall well below the annual threshold established in the Unfunded Mandates Reform Act (UMRA) for private-sector mandates ($200 million in 2024, adjusted annually for inflation).

The bill contains no intergovernmental mandates as defined in UMRA.

The CBO staff contacts for this estimate are David Hughes (for federal costs) and Rachel Austin (for mandates). The estimate was reviewed by H. Samuel Papenfuss, Deputy Director of Budget Analysis.

PHILLIP L. SWAGEL,
Director, Congressional Budget Office.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

Pursuant to clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1973.

FEDERAL MANDATES STATEMENT

Pursuant to section 423 of the Unfunded Mandates Reform Act, the Committee adopts as its own the estimate of the Federal mandates prepared by the Director of the Congressional Budget Office.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of the bill establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, including any program that was included in a report to Congress pursuant to section 21 of the Public Law 111–139 or the most recent Catalog of Federal Domestic Assistance.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This Act may be cited as the “Fostering the Use of Technology to Uphold Regulatory Effectiveness in Supervision Act”.

Section 2. Findings

This Section highlights that agencies must leverage new technologies to enhance their capacity for effective supervision and oversight. The findings also emphasize the risks and vulnerabilities associated with reliance on outdated technology. Further, this Section emphasizes that agencies must leverage new technologies to fulfill other important mandates to protect consumers and combat money laundering, the financing of terrorism, and other illicit finance activities.

Section 3. Technological vulnerabilities and procurement practices assessment

This Section requires the Federal Reserve, FDIC, OCC, CFPB and the NCUA to conduct internal assessments of their technological vulnerabilities and procurement practices. The assessments within each agency must be completed within 180 days. A report must be submitted to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs no later than 180 days after the assessments and every 5 years thereafter. This report must include a general overview of their hardware and software; a description of their procurement practices; a general overview of their technology workforce; a description of the processes they use to obtain information; a description of how they share information with other agencies; and a description of any existing plans to implement future upgrades to their supervisory technologies.

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