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Comptroller General
of the United States

Accessible Version

May 9, 2025

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th St. & Constitution Ave., NW
Washington, D.C. 20551

Priority Open Recommendations: Board of Governors of the Federal Reserve System

Dear Chair Powell:

The purpose of this letter is to call your personal attention to three areas based on GAO's past work and five priority recommendations, which are enclosed.¹ Additionally, there are 11 other GAO open recommendations that we will continue to work with your staff to address.

We are highlighting the following areas that warrant your timely and focused attention. Specifically:

Bank supervision. The 2023 bank failures raised questions about whether the banking regulators took sufficient action to ensure that financial institutions promptly addressed supervisory concerns, such as weak liquidity and risk management practices. In 2024, we found that the Board of Governors of the Federal Reserve System had not finalized a rule that would promote earlier remediation of issues at certain financial institutions. Implementing this recommendation would help lessen the risk of insolvency among certain financial institutions and protect financial stability.

Financial services regulations. Leading practices for rulemaking call for assessing the potential and actual effects of proposed and final rules, such as costs and benefits. However, in July 2024, we found that the Federal Reserve's policies and procedures for conducting regulatory analysis had not been updated since 1994 and did not fully align with leading practices, including for documenting the analysis performed. Policies that align its regulatory analysis with leading practices could help the Federal Reserve ensure its rules justify regulatory action and represent the most cost-beneficial option, as we recommended.

In addition, we found the Federal Reserve lacked implemented policies and procedures for systematically performing retrospective reviews of its rules. We recommended that the Federal Reserve adopt such policies and procedures. Doing so could help the Federal Reserve evaluate

¹GAO considers a recommendation to be a priority if, when implemented, it may significantly improve government operations—for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

whether rules are achieving their intended effects and avoiding unintended economic consequences.

Blockchain technology. In 2023, we found that financial regulators lacked an ongoing coordination mechanism for addressing blockchain risks in a timely manner. For example, regulators identified financial stability risks posed by stablecoins in 2019 but did not identify the need for action to address these risks until November 2021. We recommended that the Federal Reserve and other federal financial regulators jointly establish or adapt an existing formal coordination mechanism to identify and address risks posed by blockchain-related products and services. Such a mechanism would help the Federal Reserve and the other regulators collectively identify risks and develop and implement a regulatory response in a timely manner.

Please see Enclosure 1 for additional details about the status and actions needed to fully implement the five open priority recommendations out of the 16 total recommendations that remain open. These include a priority recommendation on financial technology.

We also provide in Enclosure 2 additional information on the Federal Reserve's recommendation implementation rate, as well as implemented, closed, and new priority recommendations since our May 2024 letter. The enclosure also discusses relevant management challenges from our High-Risk List that apply to the Federal Reserve. Additionally, in response to legislation enacted in December 2022, this enclosure includes information on any additional congressional oversight actions that can help agencies implement priority recommendations and address any underlying issues related to such implementation.

Copies of this letter are being sent to the appropriate congressional committees. The letter will also be available on the GAO website at [Priority Recommendations | U.S. GAO](#).

If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment, at GarciaDiazD@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Our teams will continue to coordinate with your staff on addressing these open priority recommendations and the remaining 11 open recommendations. I appreciate the Federal Reserve's continued commitment and thank you for your personal attention to these important issues.

Sincerely,

//SIGNED//

Gene L. Dodaro
Comptroller General
of the United States

Enclosures – 2

Enclosure 1

Priority Open Recommendations to the Board of Governors of the Federal Reserve System

Bank Supervision

Bank Supervision: Federal Reserve and FDIC Should Address Weaknesses in Their Process for Escalating Supervisory Concerns. [GAO-25-106771](#). Washington, D.C.: November 19, 2024 (reissued with revisions on November 25, 2024).

Year Recommendation Made: 2025

Recommendation: The Chair of the Board of Governors of the Federal Reserve System should issue a regulation to implement remaining open portions of section 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, taking into account prior proposals and public comments.

Actions Needed: The Federal Reserve neither agreed nor disagreed with the recommendation. In its comment letter, the Federal Reserve said it has implemented a number of regulations that substantially address the early remediation measures contemplated by Section 166 of the Dodd-Frank Act. The Federal Reserve stated it would continue to consider how to address any residual elements in a manner consistent with the statutory language and without creating unintended consequences.

To implement this recommendation the Federal Reserve needs to fully implement Section 166 of the Dodd-Frank Act. Doing so would help lessen the risk of insolvency among certain financial institutions, thereby protecting financial stability.

High-Risk Area: [Modernizing the U.S. Financial Regulatory System](#)

Director: Michael E. Clements, Financial Markets and Community Investment

Contact information: clementsm@gao.gov

Financial Services Regulations

Financial Services Regulations: Improvements Needed to Policies and Procedures for Regulatory Analysis. [GAO-24-106206](#). Washington, D.C.: July 18, 2024.

Year Recommendations Made: 2024

Recommendation: The Chair of the Board of Governors of the Federal Reserve System should develop and implement policies and procedures for consistently performing regulatory analyses that align with leading practices, including for documenting the analyses performed.

Actions Needed: The Federal Reserve agreed with the recommendation. In its comment letter, the Federal Reserve stated that rigorous analysis is a critical element of its regulatory process, and that it had already taken steps to determine how best to implement this recommendation. In January 2025, the Federal Reserve said it established a team to develop policies and procedures consistent with leading practices for conducting regulatory analysis. Implementing such policies and procedures could help the Federal Reserve ensure its rulemakings justify

regulatory action and represent the most cost-beneficial option. They also would help ensure that the conclusions reached are more transparent and supported by appropriate documentation.

Recommendation: The Chair of the Board of Governors of the Federal Reserve System should develop and implement policies and procedures for systematically performing retrospective reviews of regulations.

Actions Needed: The Federal Reserve agreed with the recommendation. In its comment letter, the Federal Reserve stated it had conducted a large number of retrospective reviews over the past decade to evaluate the effectiveness and efficiency of its existing regulations. As of January 2025, Federal Reserve officials reported staff are developing policies and procedures for systematically performing retrospective reviews of regulations. Officials also noted that staff are reviewing current policies to identify potential improvements. Implementing this recommendation would help the Federal Reserve assess whether its rules have achieved their intended effects and could inform future rulemakings.

High-Risk Area: [Modernizing the U.S. Financial Regulatory System](#)

Director: Michael E. Clements, Financial Markets and Community Investment

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Blockchain Technology

Blockchain in Finance: Legislative and Regulatory Actions Are Needed to Ensure Comprehensive Oversight of Crypto Assets. [GAO-23-105346](#). Washington, D.C.: June 22, 2023.

Year Recommendation Made: 2023

Recommendation: The Chair of the Board of Governors of the Federal Reserve System should jointly establish or adapt an existing formal coordination mechanism with the Consumer Financial Protection Bureau, Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Securities and Exchange Commission for collectively identifying risks posed by blockchain-related products and services and formulating a timely regulatory response. To facilitate these objectives, this mechanism could include formal planning documents that establish the frequency of meetings and processes for identifying risks and responding to them within agreed-upon time frames.

Actions Needed: The Federal Reserve neither agreed nor disagreed with the recommendation. In April 2024, Federal Reserve officials told us that the Financial Stability Oversight Council, of which the Federal Reserve is a member, had established a coordination mechanism through the creation of the Digital Asset Working Group. The group was formed to promote information sharing and enhance interagency coordination in identifying potential risks in the digital asset space.

In July 2024, the agencies provided documentation demonstrating that the working group meets regularly and has developed and implemented processes for identifying risks and regulatory challenges concerning blockchain-related products and services.

To fully implement the recommendation, the agencies should continue to work toward developing processes for responding to those risks and challenges that cross regulatory jurisdictions within agreed-upon time frames. Such a mechanism would help the Federal Reserve and the other regulators collectively identify risks and develop and implement a regulatory response in a timely manner.

High-Risk Area: [Modernizing the U.S. Financial Regulatory System](#)

Director: Michael E. Clements, Financial Markets and Community Investment

Contact information: clementsm@gao.gov

Financial Technology

Financial Technology: Agencies Should Provide Clarification on Lenders' Use of Alternative Data. [GAO-19-111](#). Washington, D.C.: December 19, 2018 (reissued with revisions on March 12, 2019).

Year Recommendation Made: 2019

Recommendation: The Chair of the Board of Governors of the Federal Reserve System should, in coordination with the other federal banking regulators and the Consumer Financial Protection Bureau and with input from relevant stakeholders, communicate in writing to banks that engage in third-party relationships with financial technology (fintech) lenders on the appropriate use of alternative data in the underwriting process, including issues to consider when selecting types of alternative data to use.

Action Needed: The Federal Reserve agreed with the recommendation. In June 2023, the Federal Reserve—along with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency—issued interagency guidance on third-party risk management. In March 2024, the regulators said they believed this action fulfills the recommendation.

However, the guidance does not include specific direction to banks that engage in third-party relationships with fintech lenders regarding the appropriate use of alternative data in the underwriting process. Instead, the guidance broadly applies to all topics and third-party relationships. As a result, it does not address specific topics, such as the use of alternative data, or specific types of third-party relationships, such as those with fintech companies. As of February 2025, the Federal Reserve had not taken additional actions to fully implement this recommendation.²

To fully implement this recommendation, the Federal Reserve needs to coordinate with the other federal banking regulators and the Consumer Financial Protection Bureau to finalize written communication providing banks with specific direction on the appropriate use of

²In July 2024, the federal bank regulators issued a joint statement on banks' arrangements with third parties to deliver bank deposit products and services. The statement reemphasized existing guidance and did not address the appropriate use of alternative data in underwriting. The regulators also published a request for information on bank-fintech arrangements involving products and services distributed to consumers and businesses. Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses, 89 Fed. Reg. 61577 (July 31, 2024). The request for information mentions the risks of the use of alternative data in bank-fintech arrangements and sought comments on the description of those risks—among others—and how to address them, but regulators have not taken additional action.

alternative data in underwriting when partnering with fintech lenders. Such communication would give fintech lenders greater certainty regarding their compliance with consumer protection laws and help banks manage the risks associated with these partnerships.

Director: Michael E. Clements, Financial Markets and Community Investment

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Enclosure 2

Key Information About the Status of GAO Recommendations and Improving Agency Operations

Board of Governors of the Federal Reserve System's Recommendation Implementation Rate

In November 2024, we reported that, on a government-wide basis, 70 percent of our recommendations made 4 years ago were implemented.³ The Federal Reserve's recommendation implementation rate was 100 percent.⁴ As of May 2025, the Federal Reserve had 16 open recommendations.

Implemented, Closed, and New Priority Recommendations

Our May 2024 letter identified two priority recommendations.⁵ Since then, neither of the open priority recommendations were implemented, and we added three new priority recommendations.

New priority recommendations: The new priority recommendations are in the areas of bank supervision and financial services regulations (see Enclosure 1).

High-Risk List

In February 2025, we issued our biennial update to our High-Risk List.⁶ This list identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement. It also identifies the need for transformation to address economy, efficiency, or effectiveness challenges. One of our high-risk areas—[modernizing the U.S. financial regulatory system](#)—relates directly to the Federal Reserve. Specifically, we urge your attention to the effective and efficient oversight of financial institutions and activities.

Several other government-wide, high-risk areas also have direct implications for the Federal Reserve and its operations. These include [improving management of IT acquisitions and operations](#), [improving strategic human capital management](#), [improving the personnel security clearance process](#), [managing federal real property](#), and [ensuring the cybersecurity of the nation](#).

In addition to the Federal Reserve's high-risk area, we urge your continued attention to these other government-wide, high-risk issues as they relate to the Federal Reserve. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget, and the leadership and staff in agencies, including within the

³GAO, *Performance and Accountability Report: Fiscal Year 2024*, [GAO-25-900570](#) (Washington, D.C.: Nov. 15, 2024).

⁴We calculated the implementation rate based on the total number of recommendations we made 4 years ago that we have closed as implemented.

⁵GAO, *Priority Open Recommendations: Board of Governors of the Federal Reserve System*, [GAO-24-107295](#) (Washington, D.C.: May 24, 2024).

⁶GAO, *High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness*, [GAO-25-107743](#) (Washington, D.C.: Feb. 25, 2025).

Federal Reserve. In March 2022, we issued a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.⁷

Congress's Role on GAO Recommendations

We also recognize the key role Congress plays in providing oversight and maintaining focus on our recommendations to ensure they are implemented and produce their desired results. Legislation enacted in December 2022 includes a provision for GAO to identify any additional congressional oversight actions that can help agencies implement priority recommendations and address any underlying issues relating to such implementation.⁸

Congress can use various strategies to address our recommendations, including incorporating them into legislation. Congress can also use its oversight processes to incentivize the Federal Reserve to act on our recommendations and monitor its progress. For example, Congress can hold hearings focused on the Federal Reserve's progress in implementing GAO's priority recommendations or take other actions to provide incentives for the Federal Reserve to act.

Congress also plays a key role in addressing any underlying issues related to the implementation of these recommendations. For example, Congress can pass legislation providing an agency explicit authority to implement a recommendation or requiring an agency to take certain actions to implement a recommendation.

⁷GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, [GAO-22-105184](#) (Washington, D.C.: Mar. 3, 2022).

⁸James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263, § 7211(a)(2), 136 Stat. 2395, 3668 (2022); H.R. Rep. No. 117-389 (2022) (accompanying Legislative Branch Appropriations Act, H.R. 8237, 117th Cong. (2022)).