

## INTRODUCTION

The Federal Reserve shares supervisory and regulatory responsibility for federally insured banks with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation at the federal level, and with individual state banking departments at the state level. The Federal Reserve is the primary federal supervisor of state-chartered banks that have chosen to join the Federal Reserve System (which are referred to as “state member banks”).

Regulation and supervision are distinct, but complementary, activities. Regulation entails establishing the rules within which banks must operate—in other words, regulations govern the formation, operations, activities, and acquisitions of banks. Once the Federal Reserve Board or another government entity adopts a regulation, the Federal Reserve’s supervision process includes monitoring, inspecting, and examining banks to assess whether a bank is in compliance with banking laws and regulations, and whether it is operating in a safe and sound manner. Further, through the supervision process, examiners evaluate a bank’s risk profile as well as the adequacy of a bank’s risk management to identify, manage, and control the risks arising from the bank’s business operations and activities.

New laws, regulations, supervisory policies, guidance, and interpretations result from emerging conditions and trends in the banking industry or are tied to specific risks and industry events. With the enactment of new laws and regulations and the issuance of additional guidance, the scope of supervisory activities and examinations are revised to promote the safety and soundness of banks and to assess compliance with laws and regulations.

Section 10(d) of the Federal Deposit Insurance Act generally requires the appropriate federal banking agency for an insured depository institution (which includes state member banks) to conduct a full-scope examination at least once every 12 months. The Act does permit a longer cycle—at least once every 18 months—for insured depository institutions that meet certain criteria. Examiners use the Uniform Financial Institutions Rating System (UFIRS), which is commonly referred to as the CAMELS rating system, to structure their assessment of a bank’s condition and to communicate their conclusions about the assessment of a bank’s condition.

## PURPOSE OF THIS MANUAL

One of the main goals of the *Commercial Bank Examination Manual* is to explain the Federal Reserve’s examination process for state member banks. The state member bank examination process is the Federal Reserve’s fact-finding arm in carrying out its regulatory and supervisory responsibilities. Further, the Federal Reserve supplements the information from examination activities with information from its off-site surveillance process that is based on banks’ financial regulatory reports (referred to as the “Call Reports”).

## Objectives of an Examination

The essential objectives of an examination are to (1) provide an objective evaluation of a bank’s soundness; (2) determine the level of risk involved in the bank’s transactions and activities; (3) ascertain the extent of compliance with banking statutes and regulations; (4) evaluate the adequacy of corporate governance and to appraise the quality of the board of directors and management; and (5) identify the activities and business operations where a bank needs to take corrective action to improve its risk management, the quality of its performance, and to promote and demonstrate compliance with applicable statutes and regulations.

The *Commercial Bank Examination Manual* organizes and formalizes examination objectives and procedures that provide guidance to examiners on conducting their work, and enhances the quality of examinations and consistent application of procedures across the Federal Reserve System. The manual provides specific guidelines for

- determining the scope of an examination;
- determining the procedures to be used in examining a bank, including those procedures that may lead to the early detection of trends and risks that, if continued, might result in a deterioration in the condition of a bank;
- evaluating the adequacy of a bank’s policies and procedures, the degree of compliance with them, and the adequacy of its internal controls;
- evaluating the work performed by a bank’s internal and external auditors;

- evaluating the performance and activities of a bank’s board of directors and management;
  - preparing workpapers that support examination reports and aid in evaluating the work of examiners; and
  - using objective criteria as a basis for the overall supervisory conclusion, comments, and criticism, regarding the condition of a bank, compliance with banking laws and regulations, and the quality of a bank’s risk management.
- Part 3000—Capital, Earnings, Liquidity, and Sensitivity to Market Risk
  - Part 4000—Management Activities and Internal Controls
  - Part 5000—Other Examination Areas
  - Part 6000—Bank Regulations
  - Part 7000—International
  - Part 8000—Statutes Administered by the Federal Reserve

Sections in each part are made up of four subsections, where applicable:

This manual also provides background information on common banking activities and describes risk management practices for banks to support their safe and sound operations. More specifically, this manual describes loan and investment portfolio management as well as capital adequacy and liquidity analysis.

Although this manual is designed to provide guidance to examiners in planning and conducting bank examinations, it should not be considered a legal reference. Questions concerning the applicability of, and compliance with, banking laws and regulations should be referred to appropriate legal counsel at the Reserve Banks or the Board of Governors of the Federal Reserve System. As this manual provides background and references to regulations, a bank should refer to the Code of Federal Regulation for the Federal Reserve Board’s regulations.

Further, this manual should not be viewed as a comprehensive training guide for examiners. Examiners should view this manual as a working tool and guide. The Federal Reserve has separate training and continuing professional development programs for its examiners and has examination modules that provide more detailed instructions than this manual to assist examiners in conducting an examination.

- *Supervisory policy and guidance by topic* (e.g., section xxxx.1): These sections provide details on the respective topics. This information is expanded upon and reinforced through the Federal Reserve’s educational and training programs and the examiner’s experience on the job.
- *Examination objectives* (e.g., section xxxx.2): These sections describe the goals that examiners should achieve in performing the examination for a particular bank activity or risk. In some instances, the examination objectives are incorporated into the examination procedures or are part of the [Examination Documentation \(ED\) modules](#), which define common examination objectives and procedures for the review of state member banks in the community and regional bank supervision portfolios. Therefore, a manual section may not have an examination objectives section.
- *Examination procedures* (e.g., section xxxx.3): These sections list procedures that examiners may scope into the review of a bank’s activity or risk. If there are corresponding ED modules for the topic, the section will provide a link to the ED modules page on the Board’s public website and a listing of module titles related to the section.
- *Internal control questionnaires* (e.g., section xxxx.4): These sections set forth standards for a bank’s operational controls. The assessment of a bank’s internal controls is typically incorporated into the examination procedures and, therefore, a manual section may not have an internal control questionnaire (ICQ). An ICQ can be used in evaluating a bank’s operational audit techniques where the scope of internal audit includes such considerations. The ICQ steps marked with an asterisk require substantiation by observation or testing.

## HOW TO USE THIS MANUAL

### Organization

The *Commercial Bank Examination Manual* is divided into the following major parts, which are generally organized based on the components of the CAMELS rating system:

- Part 1000—Supervisory Process
- Part 2000—Assets

## UPDATES

Effective December 31, 2017, the Board ended the option of ordering print versions for the *Commercial Bank Examination Manual*. The

manual is updated periodically. The most recent version of the entire manual and major sections, as well as the ED modules, are available on the Board's website at <https://www.federalreserve.gov/publications/supmanual.htm>.