



Supervision and Regulation Report



November 2023

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



The Federal Reserve System is the central bank of the United States. It performs five key functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

The Federal Reserve

- **conducts the nation's monetary policy** to promote maximum employment and stable prices in the U.S. economy;
- **promotes the stability of the financial system** and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- **promotes the safety and soundness of individual financial institutions** and monitors their impact on the financial system as a whole;
- **fosters payment and settlement system safety and efficiency** through services to the banking industry and U.S. government that facilitate U.S.-dollar transactions and payments; and
- **promotes consumer protection and community development** through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and administration of consumer laws and regulations.

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Preface

The Federal Reserve promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system. It is responsible for supervising—monitoring, inspecting, and examining—certain financial institutions of varying size and complexity to ensure that they comply with rules and regulations, and that they operate in a safe and sound manner. The Federal Reserve supervises bank holding companies, savings and loan holding companies, the U.S. operations of foreign banking organizations, and state member banks.

The Federal Reserve Board publishes its semiannual Supervision and Regulation Report to inform the public and provide transparency about its supervisory and regulatory policies and actions, as well as current banking conditions. Previous reports are available at <https://www.federalreserve.gov/publications/supervision-and-regulation-report.htm>.

For more information on how the Federal Reserve Board promotes the safety and soundness of individual financial institutions and the financial system see *The Fed Explained: What the Central Bank Does* at <https://www.federalreserve.gov/aboutthefed/the-fed-explained.htm> and visit the Supervision and Regulation web page on the Board's public website at <https://www.federalreserve.gov/supervisionreg.htm>.

Abbreviations

ACL	allowance for credit losses
AI	artificial intelligence
AML	anti-money laundering
API	application programming interface
BTFP	Bank Term Funding Program
BHC	bank holding company
BSA	Bank Secrecy Act
CA	Consumer Affairs
CBLR	Community Bank Leverage Ratio
CBO	community banking organization
CDS	credit default swap
CECL	current expected credit loss
CET1	common equity tier 1
CFP	contingency funding plan
CLD	construction and land development
CRE	commercial real estate
C&I	commercial and industrial
DLT	distributed ledger technology
FASB	Financial Accounting Standards Board
FBO	foreign banking organization
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHLB	Federal Home Loan Bank
Fintech	financial technology
GAAP	generally accepted accounting principles
G-SIB	global systemically important banking organization
HELOC	home equity line of credit
IHC	intermediate holding company
IT	information technology

IRR	interest rate risk
LBO	large banking organization
LFBO	large and foreign banking organization
LISCC	Large Institution Supervision Coordinating Committee
MRAs	matters requiring attention
MRIAs	matters requiring immediate attention
NBA	nonbank assets
NMB	nonmember state bank
OCC	Office of the Comptroller of the Currency
RBO	regional banking organization
RRE	residential real estate
SEC	U.S. Securities and Exchange Commission
SHC	securities holding company
SHLC	savings and loan holding company
SMB(s)	state member bank(s)
SR	Supervision and Regulation
U.S. G-SIB	global systemically important banking organization headquartered in the United States
wSTWF	weighted short-term wholesale funding

Executive Summary

The banking sector remains sound overall, and most banks continue to report capital levels above regulatory requirements. Nevertheless, some banks have experienced sizeable declines in the fair value of some fixed-rate assets reflecting the increase in interest rates over the past two years. Recent earnings performance has been in line with pre-pandemic levels, and returns on average assets and equity for the first half of 2023 exceeded their 10-year averages. Overall, banks have ample liquidity and limited reliance on short-term wholesale funding. Loan delinquencies are rising in some segments but are still low.

The Federal Reserve is taking steps to enhance the speed, force, and agility of its supervision, as appropriate, to reflect lessons learned from the recent large U.S. bank failures and its supervision of Silicon Valley Bank. These include improving its supervision of liquidity and interest rate risks by conducting targeted reviews at banks exhibiting higher interest rate and liquidity risk profiles, as well as conducting focused training and outreach on supervisory expectations for interest rate and liquidity risk management for banks and examiners. The Federal Reserve is committed to taking additional steps to strengthen its supervisory efforts.

The Federal Reserve is also monitoring for potential credit deterioration, particularly within the consumer and commercial real estate (CRE) lending segments. Additionally, the Federal Reserve has implemented a new novel bank supervision program to improve oversight of banks engaged in non-traditional and financial technology-related activities.

This report focuses on developments in three areas:

1. [Banking System Conditions](#) provides an overview of the financial condition of the banking sector.
2. [Regulatory Developments](#) outlines the Federal Reserve's recent regulatory policy work.
3. [Supervisory Developments](#) highlights the Federal Reserve's current supervisory programs and priorities.

Banking System Conditions

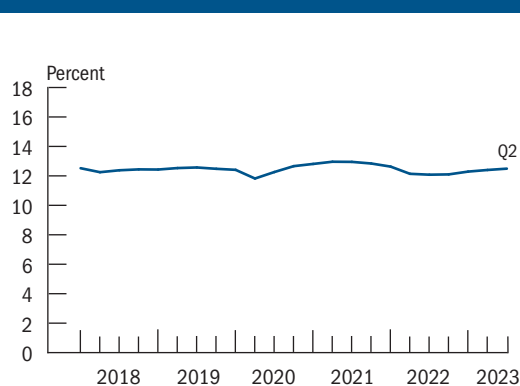
The banking system remains sound overall. Banking organizations continue to report capital and liquidity levels above regulatory minimums. Earnings performance has remained solid and in line with pre-pandemic levels, despite recent pressure on net interest margins. Deposit declines related to the March banking stresses have slowed. Loan delinquency rates remain low overall. However, delinquencies for CRE and some consumer sectors have increased from their low levels, and banks have increased credit loss provisions. Liquidity and interest rate risks also remain elevated for some banks, partially attributed to the increased funding costs and significant fair value losses on investment securities.

Banking Firms Increased Regulatory Capital, but Tangible Capital Remains Depressed

Regulatory capital ratios increased during the first half of 2023. The industry's aggregate common equity tier 1 (CET1) capital ratio rose to 12.5 percent as of June 30, 2023, a fourth consecutive quarterly increase ([figure 1](#)). This reflects over \$2 trillion in CET1 capital across the banking system.

However, tangible capital levels, which include declines in the fair values of securities but exclude intangible assets such as goodwill, remained under pressure for many banks. As of the second quarter of 2023, banks' balance sheets reflected declines in fair value of \$248 billion in available-for-sale securities, which are reflected in tangible capital. In addition, banks reported more than \$310 billion in declines in the fair value of held-to-maturity securities.

Figure 1. Aggregate common equity tier 1 (CET1) capital ratio

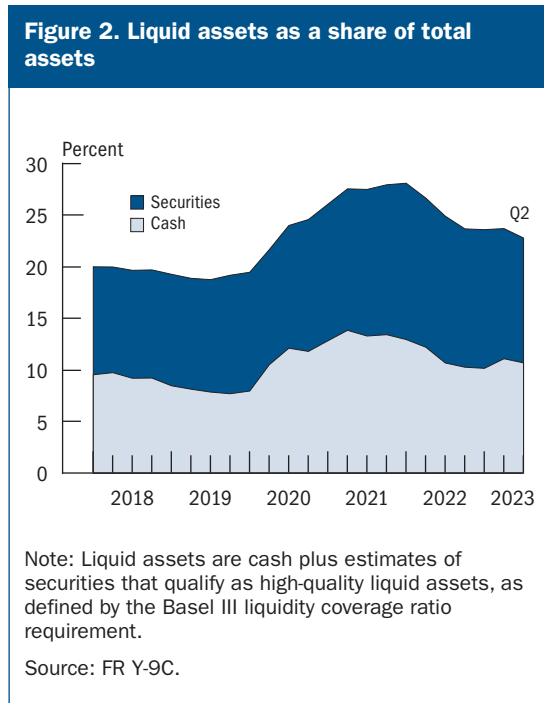


Note: CET1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. See [appendix A](#) for further information. Community banks can opt into the community bank leverage ratio framework. Thirty-seven percent of community banks have done so and are excluded from the figure.

Source: Call Report and FR Y-9C.

Accounting standards do not require banks to reflect declines in the fair value of held-to-maturity securities within equity capital.¹ However, substantial declines in the fair value of securities are still a concern for banks facing liquidity constraints, which could force some of these banks to sell securities at a loss.

Liquidity Risks Persist for Some Banks



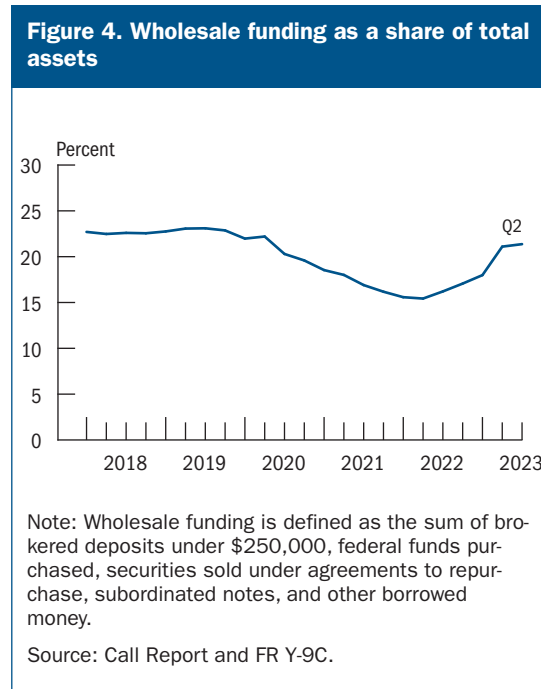
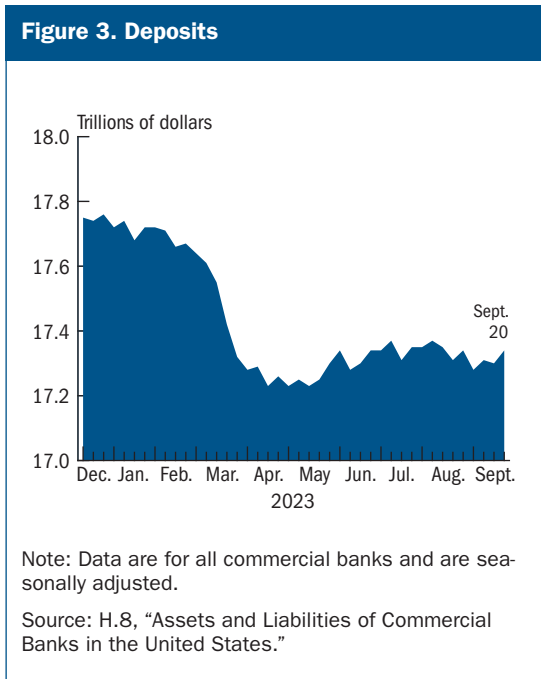
Liquidity levels have come down from their peak in 2021 but remain above pre-pandemic levels. Firms reported a slight drop in liquid assets in the first half of 2023, as a decline in investment securities was partially offset by an increase in cash balances over this period (figure 2).

After reaching a historic high of \$18 trillion in April 2022, deposits declined steadily through February 2023 as interest rates increased and some depositors sought higher returns in non-deposit investments. Deposit declines accelerated during the first half of 2023 following the failures of three large U.S. banks. Deposits at commercial banks fell by nearly \$400 billion from the start of March through April (figure 3), with most of the decline concentrated in March. Between May and the end of August, deposit levels stayed largely stable.

As deposit levels have declined, banks have increased their use of wholesale funding sources from historic lows seen in early 2022 (figure 4).²

¹ For held-to-maturity securities that were transferred from the available-for-sale category, declines in fair value that existed at the date of the transfer are reported within equity capital.

² Wholesale funding levels are now in line with their 10-year average.

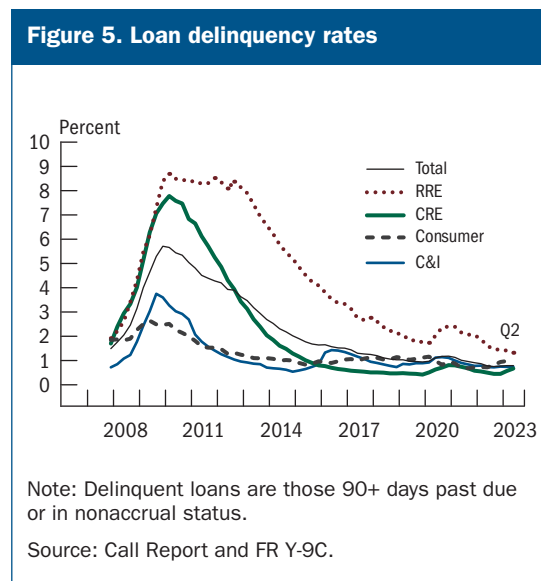


Loan Growth Slowed and Delinquencies Increased for Some Sectors

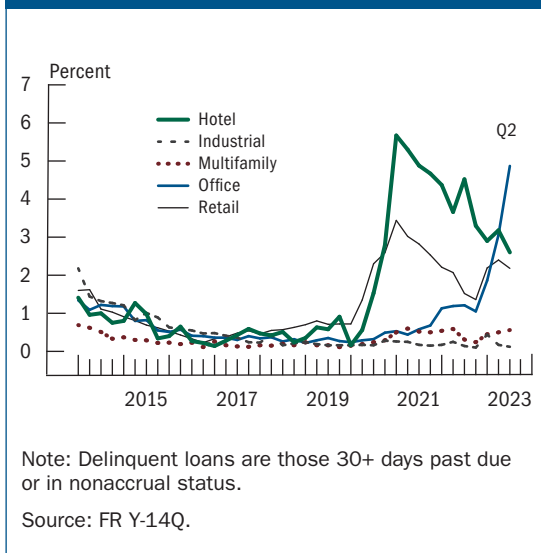
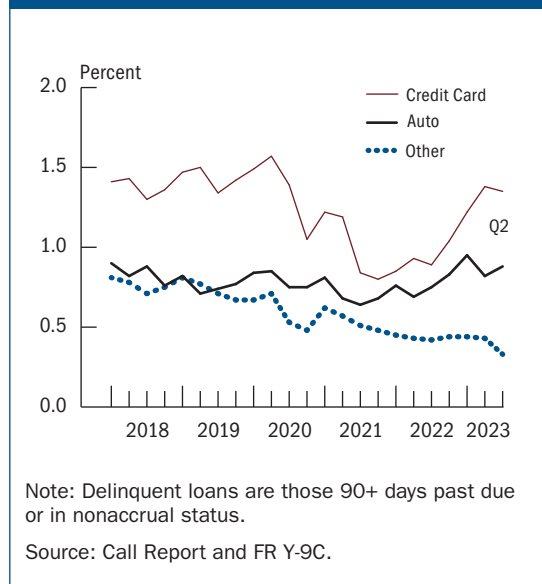
The pace of loan growth has slowed relative to 2022. Total loan balances grew just 0.7 percent in the first half of 2023, compared with 3.8 percent in the first half of 2022.

According to respondents to recent Federal Reserve Senior Loan Officer Opinion Surveys, both reduced loan demand and tighter lending standards contributed to a lending slowdown.³

Loan delinquency rates remain low. However, delinquency rates for CRE and consumer loans increased slightly during the first half of 2023 (figure 5). For the largest firms, the CRE office loan segment showed the largest increase in delinquency rates (figure 6).



³ Board of Governors of the Federal Reserve System, "The April 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices" (Washington: Board of Governors, 2023), <https://www.federalreserve.gov/data/sloos/sloos-202304.htm>; and "The July 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices" (Washington: Board of Governors, 2023), <https://www.federalreserve.gov/data/sloos/sloos-202307.htm>.

Figure 6. Income-producing CRE loan delinquency rates by property type**Figure 7. Consumer loan delinquency rates**

Within the consumer loan segment, credit card loan delinquencies have increased post-pandemic. After falling to near-record lows in the second half of 2021, credit card delinquency rates rose over the second half of 2022. The overall credit card delinquency rate reached 1.4 percent in the second quarter of 2023, roughly in line with pre-pandemic levels (figure 7). The increase in credit card delinquencies was concentrated among subprime and near-prime borrowers, whose delinquency rates have slightly exceeded pre-pandemic levels in 2023.⁴

Higher Interest Expense and Rising Provisions Moderated Earnings

Bank earnings performance during the first half of 2023 remained sound. Return on average assets and return on equity remained above their 10-year averages (figure 8). Higher noninterest income helped offset lower net interest income and increased provisions. The industry's noninterest income included nonrecurring gains related to the acquisitions of three large, failed banks, adding about 16.2 percent and 4.0 percent to bank earnings in the first and second quarter, respectively.⁵ Even after excluding these gains, earnings were comparable with pre-pandemic levels.

⁴ Andrew Haughwout, Donghoon Lee, Daniel Mangrum, Joelle Scally, and Wilbert van der Klaauw, "Credit Card Markets Head Back to Normal after Pandemic Pause," *Liberty Street Economics* blog, Federal Reserve Bank of New York, August 8, 2023, <https://libertystreeteconomics.newyorkfed.org/2023/08/credit-card-markets-head-back-to-normal-after-pandemic-pause/>.

⁵ Nonrecurring gains on the acquisitions of failed banks contributed to higher noninterest income at certain large banking organizations.

Net interest margins measure the difference between interest income and the amount of interest paid for funding, expressed as a share of average earning assets. These margins declined from 3.4 percent in the fourth quarter of 2022 to 3.2 percent in the second quarter of 2023 as increased rates paid on deposits and wholesale funding were not fully offset by growth in interest income (figure 9).

In the second quarter of 2023, many U.S. banks also increased provisions for credit losses. Provisions increased from an annual rate of 0.65 percent of average loans and leases in the first quarter of 2023 to an annual rate of 0.73 percent of average loans and leases in the second quarter of 2023.

Figure 8. Bank return on average assets (ROAA) and return on equity (ROE)

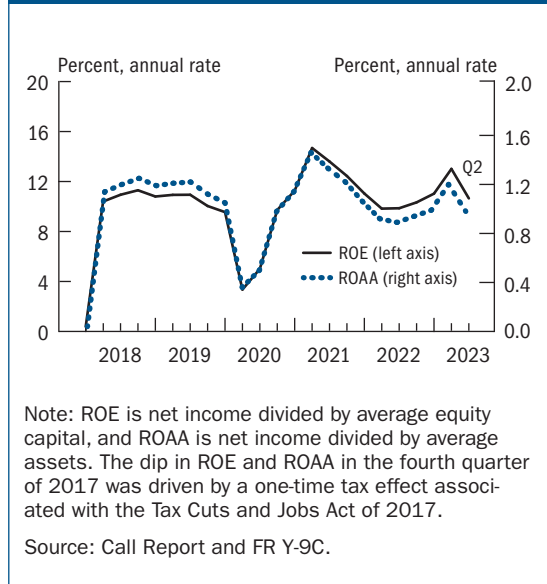
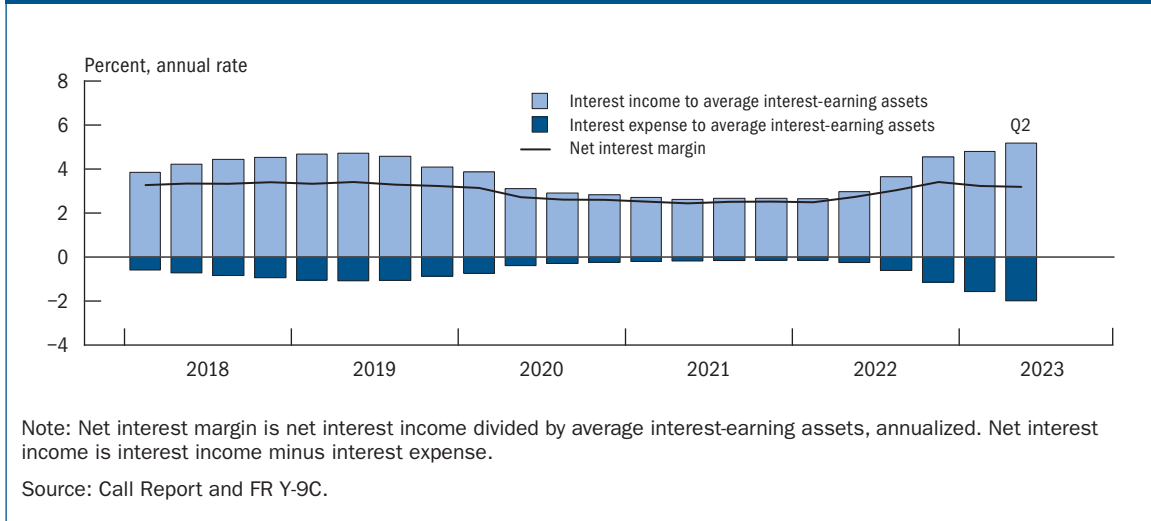


Figure 9. Net interest margin



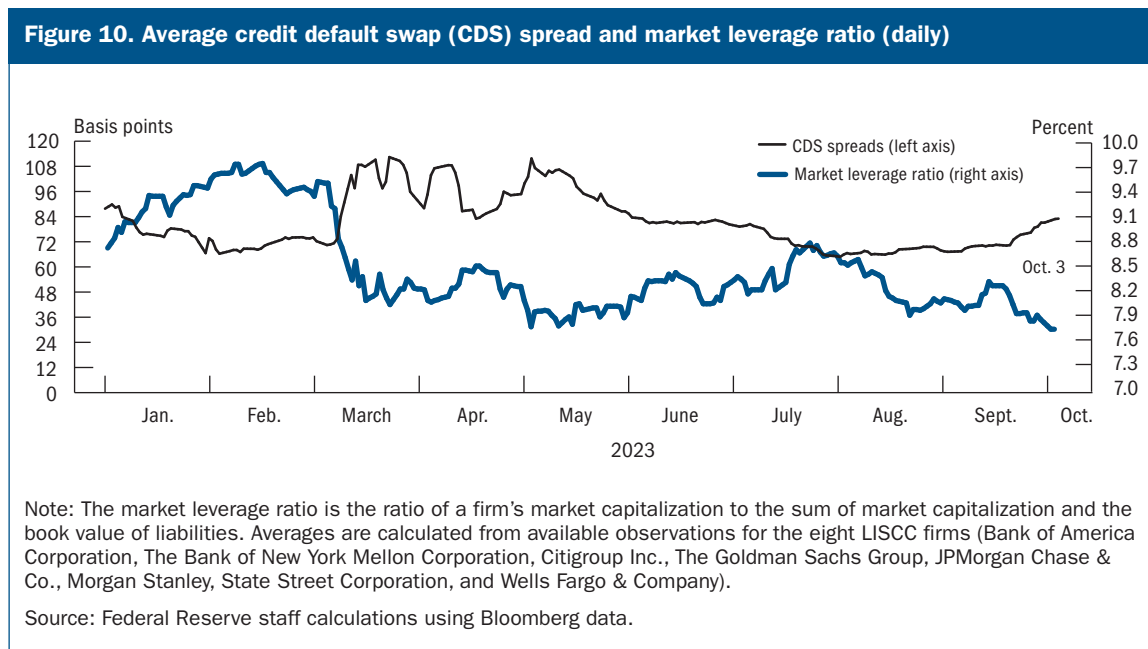
Bank Market Indicators Show Mixed Signals

Market assessments of bank risk, including the market leverage ratio and credit default swap (CDS) spreads, provide a forward-looking assessment of the strength of the banking system. The market leverage ratio is a measure of a firm’s financial position that considers the relationship between a firm’s market capitalization and its liabilities. Lower stock prices reduce the ratio of a firm’s market capitalization to its debt, which indicates less market confidence in a firm’s financial

strength. Conversely, higher stock prices produce a higher ratio, reflecting a higher degree of confidence in a firm's financial strength. As a complement to market leverage, CDS spreads track the price of insurance against a default by a given firm. If a firm's CDS spread rises, it means the market has lower confidence in a firm's creditworthiness. Lower CDS spreads indicate higher confidence in a firm's creditworthiness, according to the market.⁶

During 2023, the average market leverage ratio for the largest banks has declined, remaining lower than levels seen at the beginning of the year. The average CDS spread for the largest banks also worsened between the start of March and early May. The average CDS spread has since fallen below its levels at the start of the year, though it is still elevated relative to pre-pandemic levels (figure 10).

Credit rating downgrades from Moody's and S&P Global in August contributed to pressure on some bank stock prices. These two credit agencies downgraded credit ratings or lowered outlooks for more than 20 banks, affecting all but the largest tier of banks. Both Moody's and S&P Global referenced the higher interest rate environment and CRE exposure as considerations in the downgrades.



⁶ See [appendix A](#) for additional information on market indicators.

Third-Quarter 2023 Earnings at Large Firms

This section provides a recap of banking sector conditions for the third quarter of 2023, based on earnings results for 22 large U.S. bank holding companies and one large savings and loan holding company.⁷ While such trends are indicative, it should be noted that the sample may not necessarily be representative of the banking sector.

In the third quarter of 2023, aggregate large bank profitability, as measured by return on equity, approximated 12 percent, roughly the same level as reported in the second quarter of 2023. As compared with the second quarter, large banks reported lower net interest income, which was offset by higher capital markets fees and a smaller credit loss provision.

Large banks generally reported that deposit costs continued to rise but at a slower pace than experienced in each of the first two quarters in 2023. Most also reported that deposit balances were stable during the third quarter of 2023.

Large banks modestly built credit loss allowances during the third quarter of 2023, and loan growth was muted. Loan loss rates were largely unchanged quarter-over-quarter but were higher than those experienced in the third quarter of 2022.

The aggregate CET1 capital ratio for large banks approximated 12 percent on September 30, 2023, which was higher than the level seen at June 30, 2023, and at the end of 2022. Higher CET1 capital ratio levels reflect targeted efforts by bank management teams to build CET1 capital and control risk-weighted-asset growth.

⁷ The sample includes Ally Financial Inc.; American Express Company; Bank of America Corporation; The Bank of New York Mellon Corporation; Capital One Financial Corporation; The Charles Schwab Corporation; Citigroup Inc.; Citizens Financial Group, Inc.; Discover Financial Services; Fifth Third Bancorp; The Goldman Sachs Group, Inc.; Huntington Bancshares Incorporated; JPMorgan Chase & Co.; KeyCorp; M&T Bank Corporation; Morgan Stanley; Northern Trust Corporation; The PNC Financial Services Group, Inc.; Regions Financial Corporation; State Street Corporation; Truist Financial Corporation; U.S. Bancorp; and Wells Fargo & Company. Data are unadjusted for mergers and acquisitions.

Regulatory Developments

The Federal Reserve has taken several policy actions since the publication of the May 2023 *Supervision and Regulation Report*. Significant actions are detailed in [table 1](#) below. All Supervision and Regulation (SR) and Consumer Affairs (CA) letters are available on the Federal Reserve Board's public website.⁸

Table 1. Federal Reserve or interagency rulemakings/statements (proposed and final)	
From 04/29/2023 to 10/31/2023	
Date issued	Rule/guidance
6/1/2023	Agencies request comment on quality control standards for automated valuation models proposed rule. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230601a.htm
6/6/2023	Agencies issue final guidance on third-party risk management. Joint Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230606a.htm
6/8/2023	Agencies propose interagency guidance on reconsiderations of value for residential real estate valuations. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230608a.htm
6/29/2023	Agencies finalize policy statement on commercial real estate loan accommodations and workouts. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230629a.htm
7/27/2023	Agencies request comment on proposed rules to strengthen capital requirements for large banks. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm
7/27/2023	Federal Reserve Board announces the individual capital requirements for all large banks, effective on October 1 Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727b.htm
7/28/2023	Agencies update guidance on liquidity risks and contingency planning. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230728a.htm
8/8/2023	Federal Reserve Board provides additional information on its program to supervise novel activities in the banks it oversees and activities that involve crypto-assets and distributed ledger or "blockchain" technology. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230808a.htm
8/29/2023	Agencies request comment on proposed rule to require large banks to maintain long-term debt to improve financial stability and resolution. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230829a.htm
8/29/2023	Agencies propose guidance to enhance resolution planning at large banks. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230829b.htm
10/6/2023	Federal Reserve Board finalizes a rule establishing capital requirements for insurers supervised by the Board. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231006a.htm
10/24/2023	Agencies issue principles for climate-related financial risk management for large financial institutions. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231024b.htm

⁸ The Federal Reserve publishes SR and CA letters to address significant policy and procedural matters related to the Federal Reserve System's safety and soundness and consumer compliance supervisory responsibilities, respectively. SR letters are available on the Board's public website at <https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm>, and CA letters are available on the Board's public website at <https://www.federalreserve.gov/supervisionreg/caletters/caletters.htm>.

Basel III Capital Framework

In July, the bank regulatory agencies invited public comment on a proposal to modify large bank capital requirements.⁹ The changes would implement the final components of the Basel III agreement, also known as the Basel III endgame.

The proposal seeks to apply a broader set of capital requirements to an increasing number of large banking organizations—generally applying them to banking organizations with \$100 billion or more in total assets.

Most banks currently would have enough capital to meet the proposed requirements. The proposal is estimated to result in an aggregate 16 percent increase in CET1 capital requirements for all large banks, with the increase principally affecting the largest and most complex banks. The effects would vary for each banking organization based on its activities and risk profile. Under the proposal, large banks would begin transitioning to the new framework on July 1, 2025, with full compliance starting July 1, 2028.

Separately, the Federal Reserve Board requested comment on a proposal that would make certain adjustments to the calculation of the risk-based capital surcharge for global systemically important banking organizations (G-SIBs), also known as the G-SIB surcharge. The changes would better align the surcharge to each banking organization's systemic risk profile, including by measuring indicators of a banking organization's systemic importance over the entire year, instead of only at the end of the year.¹⁰

Comments on both proposals were initially due by November 30, 2023, though that was extended to January 16, 2024 to allow interested parties more time to analyze the issues and prepare their comments.¹¹

⁹ See Board of Governors of the Federal Reserve System, "Agencies Request Comment on Proposed Rules to Strengthen Capital Requirements for Large Banks," news release, July 27, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm>.

¹⁰ See Board of Governors of the Federal Reserve System, "Agencies Request Comment on Proposed Rules to Strengthen Capital Requirements for Large Banks," <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm>.

¹¹ See Board of Governors of the Federal Reserve System, "Agencies Extend Comment Period on Proposed Rules to Strengthen Large Bank Capital Requirements," news release, October 20, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231020a.htm>.

Long-Term Debt

In August, the agencies requested public comment on a proposal to enhance the resolvability of large banks that are not G-SIBs. G-SIBs are already subject to substantial resolution-related requirements under existing rules.¹²

The proposal would require non-G-SIB large banks with at least \$100 billion in total assets to issue and maintain a minimum amount of long-term debt, which could be used to absorb losses and to increase the options available to resolve such banks in case of failure. By reducing the risk that depositors would face losses, long-term debt also could reduce the speed and severity of bank runs and limit contagion when a bank is under stress. The proposal includes transition and phase-in provisions and would allow for certain outstanding long-term debt to apply toward the minimum requirements to provide in-scope banks with a reasonable period to comply with the requirements.

Comments on this proposal are due by November 30, 2023.

Discount Window Preparedness

In July, the agencies updated their existing guidance on liquidity risks and contingency planning.¹³ The updated guidance indicates that depository institutions should regularly evaluate and update their contingency funding plans. It further notes that the discount window is an important tool that depository institutions can utilize in managing liquidity risk, and that the agencies encourage depository institutions to incorporate the discount window as part of their contingency funding arrangements.

The guidance also reinforces the supervisory expectation that if the discount window is part of a depository institution's contingency funding plans, the depository institution should establish and maintain operational readiness to use the discount window, including by conducting periodic transactions.

¹² See Board of Governors of the Federal Reserve System, "Agencies Request Comment On Proposed Rule To Require Large Banks to Maintain Long-Term Debt to Improve Financial Stability and Resolution," news release, August 29, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230829a.htm>.

¹³ See Board of Governors of the Federal Reserve System, "Agencies Update Guidance on Liquidity Risks and Contingency Planning," news release, July 28, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230728a.htm>.

Supervisory Developments

This section provides an overview of recent supervisory efforts to assess institutions' safety and soundness and compliance with laws and regulations. There are separate subsections for large financial institutions with assets of \$100 billion or more and community and regional banking organizations. Supervisory approaches and priorities differ by a financial institution's size and complexity.

The Federal Reserve is responsible for overseeing the implementation of certain laws and regulations relating to consumer protection and community reinvestment. The scope of the Federal Reserve's supervisory jurisdiction varies based on the consumer law or regulation and on the asset size of the state member bank. Consumer-focused supervisory work is designed to promote a fair and transparent marketplace for financial services and to ensure supervised institutions comply with applicable federal consumer protection laws and regulations.

More information about the Federal Reserve's consumer-focused supervisory program can be found in the Federal Reserve's *109th Annual Report 2022*.¹⁴

Federal Reserve Supervision

Supervisors conduct examinations to evaluate a banking organization's activities, risk management, and financial condition.¹⁵ Examinations include assessments of capital adequacy, asset quality, earnings strength and quality, liquidity position and funding sources, sensitivity to interest rate risks, and the quality of board and management oversight. Supervisors may also decide whether to further focus examinations on a firm's known and potential risks. For example, examiners may undertake additional credit quality and credit risk management testing at a bank with a rapidly growing concentration in CRE loans.

If supervisors find risk management or financial condition to be deficient, they provide direction and require the bank to correct its weaknesses. This direction takes the form of confidential supervisory findings: matters requiring attention (MRAs) and, for more significant issues that

¹⁴ See Board of Governors of the Federal Reserve System, *109th Annual Report of the Board of Governors of the Federal Reserve System* (Washington: Board of Governors, July 2023), <https://www.federalreserve.gov/publications/files/2022-annual-report.pdf>.

¹⁵ See "Understanding Federal Reserve Supervision," <https://www.federalreserve.gov/supervisionreg/how-federal-reserve-supervisors-do-their-jobs.htm>.

must be corrected on a priority basis, matters requiring immediate attention (MRIAs). These are communicated to a banking organization's management and board of directors in a written exam or inspection report. If a bank does not address these supervisory findings or the findings are significant enough to pose an immediate threat to a bank's safety and soundness, supervisors may also lower the bank's supervisory rating or pursue an enforcement action against the bank.

Supervisory ratings, which are confidential, provide an assessment of a firm's risk management and financial condition, based on examination results, supervisory findings, and other information collected from banking organizations and monitored throughout the year. These ratings reflect examiners' overall judgment of the firm's safety and soundness. Supervisory ratings are generally issued once a year for larger banking organizations and every 18 months for smaller firms but may also be issued in the interim if circumstances warrant.

Supervised Institutions

The Federal Reserve supervises bank holding companies, savings and loan holding companies, state member banks, and foreign banking organizations operating in the United States of varying size and complexity. The Federal Reserve follows a risk-focused approach by scaling supervisory work to the asset size and complexity of an institution.

- The Large Institution Supervision Coordinating Committee (LISCC) program supervises firms that pose elevated risk to U.S. financial stability.
- The Large and Foreign Banking Organization (LFBO) program supervises U.S. firms with total assets of \$100 billion or more and all foreign banking organizations operating in the United States regardless of asset size.
- The Regional Banking Organization (RBO) program supervises U.S. firms with total assets between \$10 billion and \$100 billion.
- The Community Banking Organization (CBO) program supervises U.S. firms with less than \$10 billion in total assets.

Table 2 provides an overview of the organizations supervised by the Federal Reserve by portfolio, including the number of institutions and total assets in each portfolio.

Table 2. Summary of organizations supervised by the Federal Reserve, as of 2023:Q2

Portfolio	Definition	Number of institutions	Total assets (\$ trillions)
Large Institution Supervision Coordinating Committee (LISCC)	Eight U.S. global systemically important banks (G-SIBs)	8	14.8
State member banks (SMBs)	SMBs within LISCC organizations	4	1.2
Large and foreign banking organizations (LFBOs)	Non-LISCC U.S. firms with total assets \$100 billion and greater and FBOs	171	10.5
Large banking organizations (LBOs)	Non-LISCC U.S. firms with total assets \$100 billion and greater	18	5.1
Large FBOs (with IHC)	FBOs with combined U.S. assets \$100 billion and greater	11	3.2
Large FBOs (without IHC)	FBOs with combined U.S. assets \$100 billion and greater	6	1.0
Small FBOs (excluding rep offices)	FBOs with combined assets less than \$100 billion	103	1.2
Small FBOs (rep offices)	FBO U.S. representative offices	33	0.0
State member banks	SMBs within LFBO organizations	9	1.1
Regional banking organizations (RBOs)	Total assets between \$10 billion and \$100 billion	101*	2.7
State member banks	SMBs within RBO organizations	32	1.0
Community banking organizations (CBOs)	Total assets less than \$10 billion	3,483**	2.9
State member banks	SMBs within CBO organizations	655	0.6
Insurance and commercial savings and loan holding companies (SLHCs)	SLHCs primarily engaged in insurance or commercial activities	6 insurance 4 commercial	0.9
<p>* Includes 100 holding companies and 1 state member bank that does not have a holding company. ** Includes 3,430 holding companies and 53 state member banks that do not have holding companies.</p>			

Current Supervisory Priorities

During 2023, the Federal Reserve intensified examination efforts on assessing banks' preparedness for managing liquidity, interest rate, and credit risks. In addition, supervisors initiated continuous monitoring for a small number of firms with a risk profile that could result in funding pressures for the firm.

In August, the Federal Reserve established a Novel Activities Supervision Program to enhance the supervision of novel activities conducted by banking organizations supervised by the Federal Reserve. The program helps ensure that the risks associated with innovative activities are appropriately supervised and reviewed by examiners with expertise and experience in overseeing such activities.¹⁶ The program focuses on novel activities related to crypto-assets, distributed ledger technology, and complex, technology-driven partnerships with nonbanks to deliver financial services to customers. The program is risk-focused and will work in partnership with existing Federal Reserve supervisory teams to strengthen the oversight of novel activities.

¹⁶ See Board of Governors of the Federal Reserve System, "Creation of Novel Activities Supervision Program," SR Letter 23-7 (August 8, 2023), <https://www.federalreserve.gov/supervisionreg/srletters/SR2307.htm>.

Large Financial Institutions

This section of the report discusses the supervisory approach for large financial institutions—namely, U.S. firms with total assets of \$100 billion or more, and foreign banking organizations with combined U.S. assets of \$100 billion or more. These firms are either within the LISCC portfolio or the LFBO portfolio. Large financial institutions are subject to regulatory requirements that are tiered to the risk profiles of these firms. [Appendix A](#) provides an overview of key regulatory requirements. Supervisory efforts for large financial institutions focus on four components:

1. capital planning and positions,
2. liquidity risk management and positions,
3. governance and controls, and
4. recovery and resolution planning.

The Financial Condition of Large Financial Institutions

Large financial institutions' capital positions remain above minimum regulatory ratios, although unrealized losses on securities and other assets have weighed on their tangible capital. As of June 30, 2023, their aggregate CET1 capital ratio was 12.3 percent. Supervisors continue to closely monitor capital levels and, in June, completed the annual stress test for 23 large financial institutions. This year, the supervisory severely adverse scenario included a severe global recession accompanied by a period of heightened stress in commercial and residential real estate, as well as corporate debt markets. The stress test results show that the 23 large banks subject to the test this year have sufficient capital to absorb more than \$540 billion in losses and continue to lend to households and businesses under stressful conditions.¹⁷

The Board also conducted an exploratory market shock on the trading books of the largest banks, testing them against greater inflationary pressures and rising interest rates. While not contributing to banks' capital requirements, the exploratory stress test was used to further understand the risks of bank trading activities and to assess the potential for testing banks against multiple scenarios in the future.

Large financial institutions' profitability, as measured by return on average assets and return on equity, remained at solid levels, with both measures staying above their 10-year average during the first half of 2023. However, net interest margins declined slightly because of slower lending activity, increases in deposit costs, and greater reliance on higher cost wholesale funding. Large financial institutions also increased credit loss provisions. Loan delinquencies remain low, but there have been recent increases in past due balances of CRE and consumer loans.

¹⁷ See Board of Governors of the Federal Reserve System, *2023 Federal Reserve Stress Test Results* (Washington: Board of Governors, 2023), <https://www.federalreserve.gov/publications/files/2023-dfast-results-20230628.pdf>.

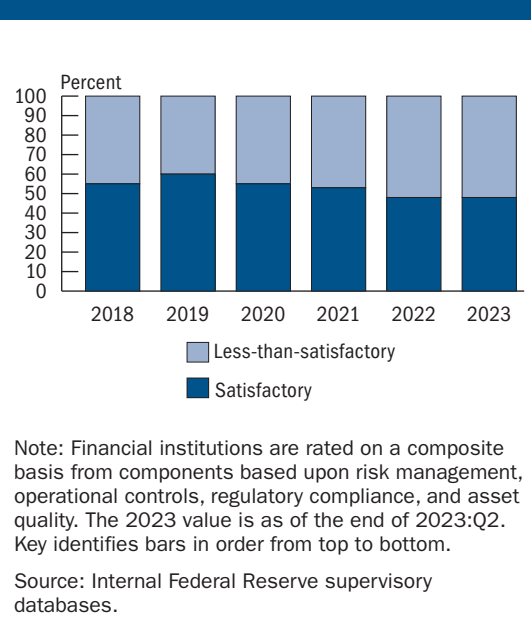
Liquidity positions remain substantially above regulatory minimums. However, liquidity positions have declined overall, and some large financial institutions have experienced deposit declines in an increasingly competitive deposit market.

Trends in Supervisory Ratings and Findings

Federal Reserve supervisors summarize their assessments of large financial institutions using the LFI rating system.¹⁸ The LFI rating system evaluates whether a firm possesses sufficient financial and operational strength and resilience to maintain safe-and-sound operations and comply with laws and regulations, including those related to consumer protection, through a range of conditions.¹⁹ It includes three components: (1) capital planning and positions; (2) liquidity risk management and positions; and (3) governance and controls. Each component is rated based on a four-point non-numeric scale: Broadly Meets Expectations, Conditionally Meets Expectations, Deficient-1, and Deficient-2. A firm is considered to be in satisfactory condition if all of its component ratings are “Broadly Meets Expectations” or “Conditionally Meets Expectations.”

As of June 30, 2023, most large financial institutions were meeting supervisory expectations with respect to capital planning and positions and liquidity risk management and positions. However, some firms continue to face challenges meeting supervisory expectations related to governance and controls, mainly because of deficiencies in the management of risks related to operational resilience, cybersecurity, and BSA/AML compliance. As a result, only about half of the large financial institutions had satisfactory ratings across all three LFI rating components (figure 11).

Figure 11. Ratings for large financial institutions



Outstanding supervisory findings at large financial institutions have increased over the last year (figure 12). Governance and controls findings represent approximately two-thirds of outstanding issues (figure 13). More recently, matters requiring attention related to liquidity and interest rate

¹⁸ See Board of Governors of the Federal Reserve System, “Large Financial Institution (LFI) Rating System,” SR Letter 19-3/CA Letter 19-2, (February 26, 2019), <https://www.federalreserve.gov/supervisionreg/srletters/sr1903.htm>.

¹⁹ See Board of Governors of the Federal Reserve System, *Supervision and Regulation Report* (Washington: Board of Governors, November 2019), <https://www.federalreserve.gov/publications/files/201911-supervision-and-regulation-report.pdf>.

Figure 12. Outstanding number of supervisory findings, large financial institutions

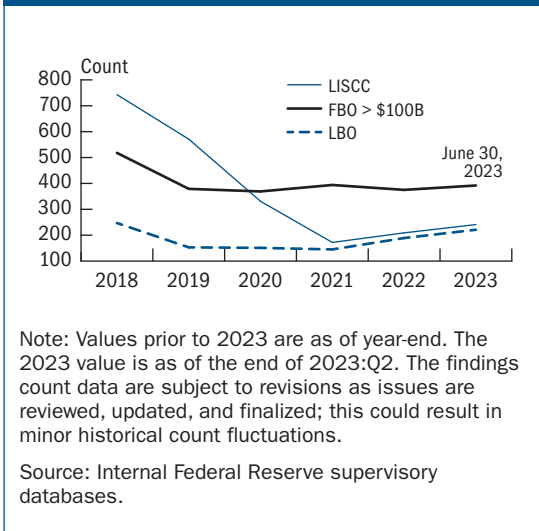
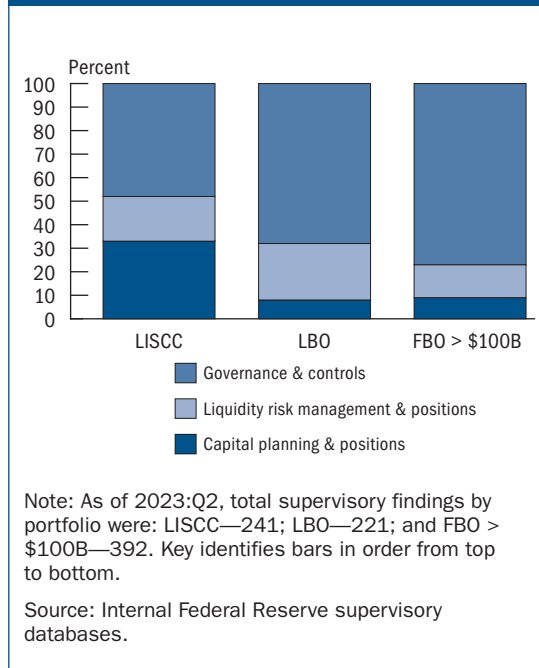


Figure 13. Outstanding supervisory findings by category, large financial institutions



risk management have increased. This stems from the effects of higher interest rates on the market value of banking organizations’ asset holdings, particularly investment securities. Because unrealized losses diminish the ability of banks to sell securities to meet liquidity needs without incurring losses, these unrealized losses can increase liquidity risks and require closer management of contingency funding arrangements. Higher rates for deposit and wholesale funding also increase firms’ interest costs and reduce earnings.

Supervisory Focus

During 2023, the Federal Reserve completed examinations to assess liquidity and heightened monitoring of liquidity risk management and liquidity positions at the largest banking organizations. This included reviewing contingency funding plans, access to secured funding, liquidity stress test projections, and intraday liquidity risk management practices. Supervisors also directed additional attention to evaluating firms’ interest rate risk positions and management.

Large financial institution supervisors initiated horizontal reviews to assess interest rate risk management practices across the large firms. Horizontal reviews include a series of examinations focused on a single supervisory issue at several firms. This allows examiners to compare risk management practices at different firms, identify gaps in practices at specific firms, and promote sound practices across the industry. These reviews assess the adequacy of firms’ risk manage-

ment processes to identify, measure, monitor, and, as needed, mitigate interest rate and related liquidity risks. To the extent gaps are identified, supervisors issue MRAs or MRAs to direct banks to address these issues.

Although loan delinquencies remain low, large financial institutions have recently increased provisions for credit losses. Some firms have indicated in public earnings releases that they expect increased loan losses, particularly within the office segment of CRE.²⁰ Supervisors, therefore, continue to closely monitor underwriting and loan quality. Recent efforts include a horizontal review to address exposures to potential deterioration in CRE markets. Supervisors are centering the review on evaluating credit risk monitoring and measurement, internal loan risk rating accuracy, steps taken to mitigate the risk of losses on CRE loans, and CRE risk reporting to firms' boards of directors and senior management.

Supervisors also continue to focus on monitoring credit risk associated with consumer loans as delinquency and charge-off rates return to pre-pandemic levels. They are also conducting work to assess the level and quality of loans to nonbank financial institutions, given a substantial increase in lending to this segment in recent years.

See below for additional detail on large financial institutions' supervisory priorities for the coming months.

Large Financial Institution Supervisory Priorities

Capital

- financial risks in the current economic environment, including
 - interest rate risk
 - market and counterparty credit risk
 - consumer and commercial credit risk
- risk-management practices in credit, market, and interest rate risk
- implementation of regulatory requirements (e.g., capital for counterparty credit exposure rules)

Liquidity

- internal liquidity stress tests
- contingency funding plans and intraday liquidity risk management
- changes in deposit behaviors and resulting effects on liquidity positions and risk-management practices

²⁰ Matt Tracy, "U.S. Banks Increase Reserves for Commercial Real Estate Exposure," Reuters website, July 21, 2023, <https://www.reuters.com/business/finance/us-banks-increase-reserves-commercial-real-estate-exposure-2023-07-21/>.

- asset/liability management and stress testing
- liquidity risk management at foreign banking organization branches

Governance and Controls

- operational resilience, including cybersecurity, novel banking, and information technology risks
- third-party vendor risk management
- compliance, internal loan review, and audit
- firm remediation efforts on previous supervisory findings

Recovery and Resolution Planning

- recovery and resolution planning, including biannual resolution plan review for the G-SIBs
- remediation of and follow-up on resolution plan shortcomings and exam findings, as necessary
- international coordination among global supervisors

Community and Regional Banking Organizations

This section of the report discusses the financial condition and supervisory approach for banking organizations with assets of less than \$100 billion, including community banking organizations (CBOs), which have less than \$10 billion in total assets, and regional banking organizations (RBOs), which have total assets between \$10 billion and \$100 billion.

The Financial Condition of CBOs and RBOs

CBOs and RBOs generally remain in sound financial condition, though increased funding costs are narrowing net interest margins.

Nearly all CBOs and RBOs remain well-capitalized. However, as interest rates have risen, some banks have experienced sizeable declines in the fair value of their securities investments and, as a result, have also seen their tangible equity levels decline. Federal Reserve examiners are closely monitoring tangible equity levels and their impact on banks' cost of funding.

Asset quality remains sound, and the level of problem loans remains low.²¹ CBOs and RBOs, however, hold a high proportion of the banking sector's CRE loans. Some CRE market segments have recently been under stress, particularly office. As a result, Federal Reserve examiners are closely monitoring conditions and engaging with bank management to assess the degree to which banks with high levels of CRE loans are prepared for potential changes in market conditions.

²¹ "Problem loans" are composed of 90-day-or-more past due loans, non-accrual loans, impaired loans, renegotiated or restructured loans, and loans that are internally criticized or classified by a bank, as well as loans that were classified by examiners during the previous examination.

Liquidity remains satisfactory for most CBOs and RBOs, but liquidity at several RBOs was adversely affected by the banking stresses in the first half of 2023. For some RBOs, deposit declines were material and required these banks to seek new wholesale funding. These wholesale funding sources tend to be more costly and have put pressure on net interest margins for some RBOs, as well as some CBOs.

Federal Reserve examiners are closely monitoring liquidity risk management practices and contingency funding plans, and examiners are assessing banks' preparedness to manage unexpected deposit outflows. They are also encouraging CBOs and RBOs to maintain actionable and diversified funding sources to help them manage the competitive deposit and funding environment. Examiners are emphasizing that funding sources should be highly reliable and that banks should have sufficient collateral pledged so they can quickly access funding when needed.

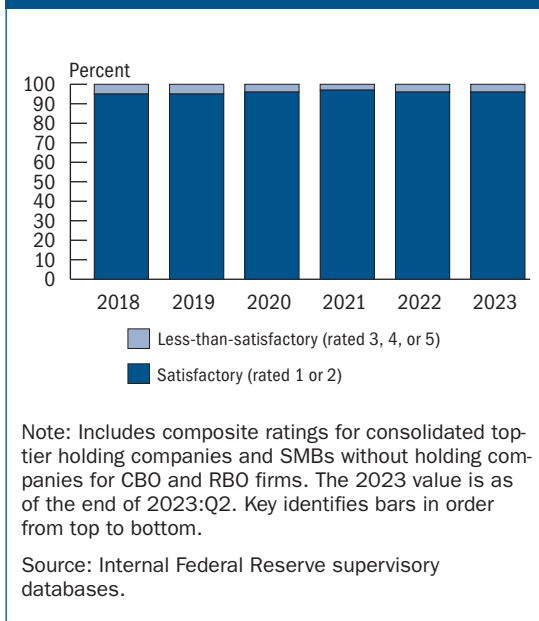
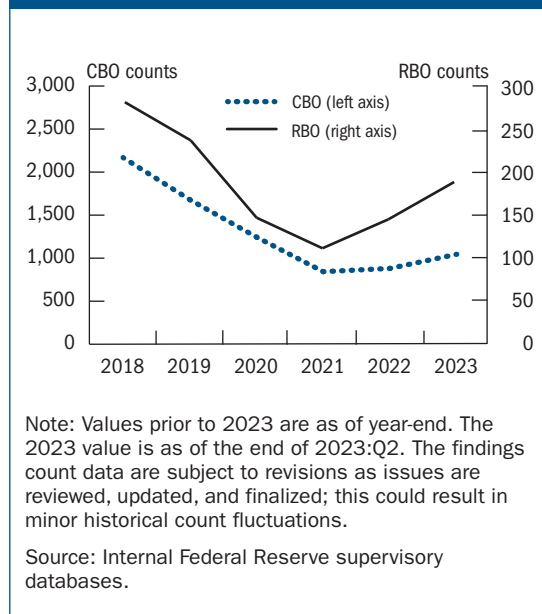
Trends in Supervisory Ratings and Findings

The Federal Reserve and the other federal and state banking agencies utilize the Uniform Financial Institution Rating system (referred to as "CAMELS") to present the examiner's conclusions regarding the overall condition of the bank. The CAMELS composite rating represents an overall appraisal of six key assessment components covered under the CAMELS rating system: Capital Adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

For the inspection of a holding company with less than \$100 billion in total consolidated assets, the Federal Reserve utilizes the RFI rating system to present the examiner's conclusions regarding the overall condition of these holding companies. The RFI composite rating represents an overall appraisal of three components covered under the RFI rating system: Risk management, Financial Condition, and Impact of the non-depository entities on the subsidiary depository institutions.

The CAMELS and RFI rating systems are assigned based on a "1 to 5" numeric scale. A "1" numeric rating indicates the highest rating, strongest performance and practices, and least degree of supervisory concern. A "5" numeric rating indicates the lowest rating, weakest performance, and highest degree of supervisory concern. Banks and holding companies that are rated "1" or "2" are generally in satisfactory condition, while banks that are rated "3", "4", or "5" are in less-than-satisfactory condition.

Based on supervisory ratings as of June 2023, the vast majority of CBOs and RBOs remain in satisfactory condition with effective risk management practices ([figure 14](#)). However, the financial trends described above have resulted in an increase in the number of supervisory ratings downgrades.

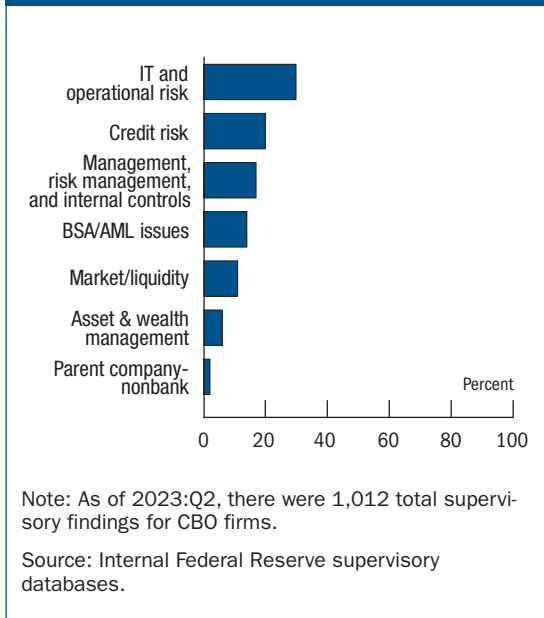
Figure 14. Top-tier ratings for CBO and RBO firms**Figure 15. Outstanding supervisory findings, CBO and RBO firms**

The number of supervisory findings outstanding at CBOs and RBOs increased in the first half of 2023 (figure 15). The number of findings per examination also increased in 2023 relative to 2022. For the first half of 2023, information technology weaknesses and operational risk were the most cited supervisory issues for CBOs and RBOs (figures 16 and 17). Credit risk issues remained elevated, and issues with market risk, liquidity risk, and BSA/AML compliance were an increasing share of issues compared with prior years.

Supervisory Focus

During 2023, the Federal Reserve intensified monitoring of CBOs and RBOs that appeared most vulnerable to funding pressures. In many cases, Federal Reserve examiners issued findings requiring bank management to improve access to contingent funding, increase liquid asset buffers, and revalidate the deposit outflow assumptions in a bank's contingency funding plans. Examiners have also increased their focus on ensuring that banks understand the nature of their deposit concentrations and accurately assess the stability of each deposit segment.

Federal Reserve examiners are also closely monitoring real estate markets and banks with large CRE concentrations. While credit quality conditions currently remain stable, examiners are closely monitoring banks' asset quality metrics for emerging deterioration. Banks with larger CRE credit concentrations are expected to have robust risk management practices including, but not

Figure 16. Outstanding supervisory findings by category, CBO firms**Figure 17. Outstanding supervisory findings by category, RBO firms**

limited to, the ability to quantify the impact of changing economic conditions on their earnings, asset quality, and capital.

Finally, Federal Reserve examiners are focused on the impact of rising interest rates on banks' capital and earnings. In general, examiners expect banks to preserve capital when they are experiencing financial difficulties or when the macroeconomic outlook for their primary sources of earnings have deteriorated.

See below for additional detail on CBO and RBO supervisory priorities for the coming months.

CBO and RBO Supervisory Priorities

Credit Risk

- high-risk loan portfolios and debt service coverage capacity in a changing interest rate environment
- credit concentrations, particularly in CRE loan portfolios
- impact of rising capitalization rates and real estate valuation uncertainty
- implementation of Current Expected Credit Losses (CECL) for CBOs in 2023

Liquidity Risk

- contingency funding plans
- liquidity coverage of uninsured deposits

Other Financial Risks

- interest rate risk
- declines in the fair value of securities and low tangible equity levels
- capital adequacy

Operational Risk

- information technology and cybersecurity preparedness
- fintech and banking-as-a-service activities
- third-party risk management

Appendix A: Sources and Terms

Data Sources

The Supervision and Regulation Report includes data both on institutions supervised by the Federal Reserve System and some institutions outside Federal Reserve supervision. The report reflects data through October 3, 2023. This appendix details these sources.

FFIEC Call Reports

The FFIEC Consolidated Reports of Condition and Income, also known as the Call Report, is a periodic report that is required to be completed by every national bank, state member bank, insured nonmember bank, and savings association as of the last day of each calendar quarter. The details required to be reported depend on the size of the institution, the nature of the institution's activities, and whether it has foreign offices. Call Report data are a widely used source of timely and accurate financial data regarding a bank's financial condition and the results of its operations. The data collected on the Call Report are used to monitor the condition, performance, and risk profiles of reporting institutions individually and as an industry.

FR Y-9C

The Consolidated Financial Statement for Holding Companies, also known as the FR Y-9C report, collects basic financial data from domestic bank holding companies (BHCs), savings and loan holding companies (SLHCs), U.S. intermediate holding companies of foreign banking organizations (U.S. IHCs), and securities holding companies (SHCs). Initiatives to reduce reporting costs for firms led to increases in the minimum asset size thresholds for reporting from \$500 million to \$1 billion, and from \$1 billion to \$3 billion, effective March 2015 and September 2018, respectively. In addition, BHCs, SLHCs, U.S. IHCs, and SHCs meeting certain criteria may be required to file this report, regardless of size. However, when such BHCs, SLHCs, U.S. IHCs, or SHCs own or control, or are owned or controlled by, other BHCs, SLHCs, U.S. IHCs, or SHCs, only top-tier holding companies must file this report for the consolidated holding company organization. The information contained in the report is as of the last day of each calendar quarter.

FR Y-14Q

The FR Y-14Q report is part of the Capital Assessments and Stress Testing information collection (FR Y-14). The FR Y-14 data collection is used to assess the capital adequacy of large firms using forward-looking projections of revenue and losses and to support supervisory stress test models and continuous monitoring efforts, as well as to inform the Federal Reserve's operational decision-

making and implement the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010). The FR Y-14Q collects detailed data on BHCs', IHCs', and SLHCs' various asset classes, capital components, and categories of pre-provision net revenue.

H.8 Assets and Liabilities of Commercial Banks in the United States

The H.8 release provides an estimated weekly aggregate balance sheet for all commercial banks in the United States. The H.8 release is primarily based on data that are reported weekly by a sample of approximately 875 domestically chartered banks and foreign-related institutions. Data for domestically chartered commercial banks and foreign-related institutions that do not report weekly are estimated at a weekly frequency based on quarterly Call Report data.

Notes on Data Sources and Terms

CAMELS Ratings

Following an examination of a commercial bank, the examiner's conclusions regarding the overall condition of the bank are summarized in a composite rating assigned in accordance with guidelines provided under the Uniform Financial Institution Rating system (referred to as "CAMELS"). The composite rating represents an overall appraisal of six key assessment areas (components) covered under the CAMELS rating system: Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

In addition to and separate from the interagency Uniform Financial Institutions Rating System, the Federal Reserve assigns a risk-management rating to all SMBs. The summary, or composite, rating, as well as each of the assessment areas, including risk management, is delineated on a numerical scale of 1 to 5, with 1 being the highest or best possible rating. Thus, a bank with a composite rating of 1 requires the lowest level of supervisory attention while a 5-rated bank has the most critically deficient level of performance and, therefore, requires the highest degree of supervisory attention.

When appraising the six key assessment areas and assigning a composite rating, the examiner weighs and evaluates all relevant factors for downgrades and upgrades of supervisory ratings.

Current Expected Credit Losses Methodology (CECL)

In 2016, the Financial Accounting Standards Board (FASB) announced significant changes to credit loss accounting under U.S. generally accepted accounting principles (GAAP). Refer to Accounting Standards Update (ASU) No. 2016-13, Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments.

CECL replaced the incurred loss methodology for financial assets measured at amortized cost. For these assets, CECL requires banking organizations to recognize lifetime expected credit losses. Further, banking organizations are required to incorporate reasonable and supportable forecasts in developing their estimate of lifetime expected credit losses, while also considering past events and current conditions.

Supervised institutions that are SEC filers, excluding smaller reporting companies, were required to adopt CECL on January 1, 2020. All other institutions were required to implement CECL by January 1, 2023. For additional information, refer to the Federal Reserve's CECL Resource Center (<https://www.supervisionoutreach.org/cecl>).

Commercial Real Estate Loans

Commercial real estate loans are the sum of construction, land development, and other land loans; loans secured by multifamily residential properties; and loans secured by nonfarm nonresidential properties.

Note: H.8 commercial real estate data include loans secured by farmland.

Common Equity Tier 1 (CET1)

Common equity capital is currently evaluated using a CET1 capital ratio, which was introduced into the regulatory capital framework in 2014, consistent with international Basel III reforms. The CET1 capital ratio is defined as CET1 capital, which consists primarily of common stock and retained earnings, as a percent of risk-weighted assets. Advanced approaches institutions are required to report risk-weighted assets using an internal model-based approach and a standardized approach. An advanced approaches institution is subject to the lower of the ratios. CBOs that have opted into the community bank leverage ratio (CBLR) framework are not required to report a CET1 capital ratio and risk-weighted assets.

From 2006 through 2013, tier 1 common capital was used to measure common equity capital for all firms. In 2014, both tier 1 common capital (for non-advanced approaches firms) and CET1 capital (for advanced approaches firms) were used. From 2015 to present, CET1 capital has been used for all firms.

Community Bank Leverage Ratio Framework

The CBLR framework, which became effective January 1, 2020, allows qualifying CBOs to adopt a simple leverage ratio to measure capital adequacy. To qualify for the framework, a CBO must have less than \$10 billion in total consolidated assets, have limited trading activity and off-balance-sheet exposure, meet the leverage ratio requirement, and not be part of an advanced approaches banking organization. The leverage ratio requirement for the CBLR framework was temporarily low-

ered to 8 percent beginning in the second quarter of 2020 through the remainder of calendar year 2020. The requirement was set at 8.5 percent for calendar year 2021 and returned to its previous 9 percent level beginning January 1, 2022.

The leverage ratio requirement for the CBLR framework is defined with respect to tier 1 capital as a percent of average total consolidated assets for the quarter as reported on Schedule RC-K on the Call Report or Schedule HC-K on Form FR Y-9C, as applicable. A CBLR banking organization with a ratio above the requirement will not be subject to other capital and leverage requirements.

Consumer Loans

Consumer loans include credit cards, other revolving credit lines, automobile loans, and other consumer loans including single-payment loans, installment loans excluding automobile loans, and student loans.

Contingency Funding Plan

A Contingency Funding Plan (CFP) is a bank's strategy for addressing contingent liquidity events. Contingent liquidity events are unexpected situations or business conditions that may increase liquidity risk. These events may be institution-specific or arise from external factors. A CFP should contain policies to manage a range of stress environments, establish clear lines of responsibility, and articulate clear implementation and escalation procedures. CFPs should be commensurate with an institution's complexity, risk profile, and scope of operations. CFPs should address both the severity and duration of contingent liquidity events. CFPs should be regularly tested and updated to ensure that they are operationally sound.

Credit Default Swap Spread

The five-year credit default swap spread is the premium payment expressed as a proportion of the notional value of the debt that is being insured against default (typically \$10 million in senior debt) in basis points. Data are based on daily polls of individual broker-dealers worldwide. Note that these broker quotes are typically not transaction prices. Data provided are for LISCC firms only.

Credit Loss Reserves

Credit loss reserves represent the allowance for credit losses on a bank's portfolio of financial instruments carried at amortized cost (including loans held for investment, held-to-maturity debt securities, trade receivables, reinsurance receivables, and receivables that relate to repurchase agreements and securities lending agreements), net investment in leases as a lessor, and off-balance-sheet credit exposures not accounted for as insurance or derivatives. Credit loss reserves are recorded on a bank's balance sheet.

Delinquent Loans

Delinquent loans are the sum of 90+ days past due loans and nonaccrual loans.

Note: FR Y-14Q delinquent loans are the sum of 30+ days past due loans and nonaccrual loans.

Liquid Assets

Liquid assets are cash plus estimates of securities that qualify as high-quality liquid assets, as defined by the Board's liquidity coverage ratio rule.

Market Leverage Ratio

The market leverage ratio is defined as the ratio of the firm's market capitalization to the sum of market capitalization and the book value of liabilities. This ratio can be considered a market-based measure of a firm's capital (expressed in percentage points). Data provided are for LISCC firms only.

Net Interest Margin

Net interest margin measures a bank's yield on its interest-bearing assets after netting out interest expense.

Prime Brokerage

Some large banks offer a suite of services to large investment funds known as prime brokerage. These services include the ability to borrow securities or cash, cash management, and access to research, as well as provide introductions to potential investors. Lending is an important aspect of these services. The investment funds typically obtain loans secured by equities or other securities through the prime broker.

Provisions

Provisions represent the amount necessary to adjust credit loss reserves to reflect management's current estimate of expected credit losses. Provisions are recorded as an expense item on the bank's income statement.

Residential Real Estate Loans

Residential real estate loans refer to loans secured by 1 to 4 family residential properties, including: revolving, open-end loans secured by 1 to 4 family residential properties and extended under lines of credit; closed-end loans secured by first liens on 1 to 4 family residential properties; and closed-end loans secured by junior (i.e., other than first) liens on 1 to 4 family residential properties.

Top Holder

All data, unless otherwise noted, refer to the top-holder data. This population generally comprises top-tier Call Report filers and top-tier FR Y-9C filers, including depository SLHCs and foreign banking organizations. In instances where a top-tier holding company does not file the FR Y-9C, we combine financial data of subsidiary banks/thrifts to approximate the consolidated financial data of the holding company. Commercial and insurance SLHCs, cooperative banks, and non-deposit trust companies are excluded from the top-holder population.

Tiering of Regulation

In October 2019, the Federal Reserve Board adopted rules that tier its regulations for domestic and foreign banks and holding companies to match their risk profiles more closely. The rules establish a framework that sorts institutions with \$100 billion or more in total assets into four categories based on several factors, including asset size, cross-jurisdictional activity, reliance on weighted short-term wholesale funding (wSTWF), nonbank assets (NBA), and off-balance-sheet exposure ([table A.1](#)).

Table A.1. List of domestic and foreign firms, by category, as of 2023:Q2				
Firm type	Category I U.S. G-SIBs	Category II >=\$700b total assets or >=\$75b in cross- jurisdictional activity	Category III >=\$250b total assets or >=\$75b in NBA, wSTWF, or off-balance-sheet exposure	Category IV Other firms with \$100b to \$250b total assets
Domestic firms				
U.S. domestic banking organization	Bank of America Bank of New York Mellon Citigroup Goldman Sachs JPMorgan Chase Morgan Stanley State Street Wells Fargo	Northern Trust	Capital One Charles Schwab PNC Financial Truist Financial U.S. Bancorp	Ally Financial American Express Citizens Financial Discover Fifth Third First Citizens Huntington KeyCorp M&T Bank Regions Financial Synchrony Financial
Foreign firms (standards vary by legal entity)				
Intermediate holding company			Barclays US Credit Suisse USA Deutsche Bank USA DWS USA TD Group US UBS Americas	BMO Financial BNP Paribas USA HSBC North America MUFG Americas RBC US Santander Holdings USA
Combined U.S. operations		Barclays US MUFG Sumitomo Mitsui UBS	Bank of Montreal BNP Paribas Deutsche Bank Mizuho Royal Bank of Canada Toronto-Dominion	Banco Santander Bank of Nova Scotia Canadian Imperial HSBC Societe Generale
Notes: NBA is nonbank assets, wSTWF is weighted short-term wholesale funding. Credit Suisse IHC is now owned by UBS. First Citizens became a Category IV firm as of 2022:Q4. SVB Financial became a Category IV U.S. domestic firm as of 2022:Q4. This bank failed on March 10, 2023. Source: FR Y-15.				

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