BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

On June 23, 2025, the Board announced that reputational risk will no longer be a component of examination programs in its supervision of banks.

SR 10-6

March 17, 2010

Revised August 1, 2023

In August 2023, an addendum was attached to this letter to reinforce that depository institutions should maintain actionable contingency funding plans. A supervised banking organization may send questions regarding the addendum via the Board's public website (https://www.federalreserve.gov/apps/contactus/feedback.aspx). The content of the letter has not been revised.

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

SUBJECT: Interagency Policy Statement on Funding and Liquidity Risk Management

Attached is an interagency policy statement approved by the Board of Governors of the Federal Reserve System and the other supervisors of U.S. depository institutions.[1] This policy statement provides guidance on sound practices for managing the funding and liquidity risks of depository institutions. The practices set forth in this guidance are entirely consistent with established Federal Reserve guidance contained in the *Commercial Bank Examination Manual* and the *Trading and Capital-Markets Activities Manual*. The interagency guidance is also consistent with the principles of sound liquidity risk management issued in September 2008 by the Basel Committee on Banking Supervision titled *Principles for Sound Liquidity Risk Management and Supervision*.[2] Therefore, this interagency guidance represents the formal codification of international supervisory guidance and provides a unified set of supervisory expectations among the U.S. supervisors.

The guidance articulates the process that depository institutions should follow in appropriately identifying, measuring, monitoring, and controlling their funding and liquidity risks. In particular, the guidance re-emphasizes the importance of cash flow projections,

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[1] The other financial regulators are the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and National Credit Union Administration, in conjunction with the Conference of State Bank Supervisors.

[2] See the Bank for International Settlements website: http://www.bis.org/

diversified funding sources, stress testing, a cushion of liquid assets, and a formal, well-developed contingency funding plan as primary tools for measuring and managing funding and liquidity risks. The Federal Reserve expects all supervised financial institutions to manage their liquidity risk using processes and systems that are commensurate with their complexity, risk profile, and scope of operations.

Scope of Application

The interagency guidance targets funding and liquidity risk management at insured depository institutions, including state member banks. The basic principles presented in this policy statement also apply to bank holding companies (BHCs), which should manage and control aggregate risk exposures on a consolidated basis, while recognizing legal distinctions and possible obstacles to cash movements among subsidiaries.

BHCs (including financial holding companies) should develop and maintain liquidity management processes and funding programs that are consistent with their complexity, risk profile, and scope of operations. Appropriate liquidity risk management is especially important for BHCs since liquidity difficulties can easily spread to both depository and non-depository subsidiaries, particularly in cases of similarly named companies where customers may not always understand the legal distinctions between the holding company and subsidiaries. For this reason, BHCs should ensure that liquidity is sufficient at all levels of the organization to fully accommodate funding needs in periods of stress.

Liquidity risk management processes and funding programs should take into full account the institution's lending, investment, and other activities and should ensure that adequate liquidity is maintained at the parent holding company and each of its subsidiaries. These processes and programs should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among subsidiaries and between subsidiaries and the parent holding company. BHC liquidity should be maintained at levels sufficient to fund holding company and affiliate operations for an extended period of time in a stressed environment when access to normal funding sources are disrupted without having a negative impact on insured depository institution subsidiaries.

Material nonbank subsidiaries, such as broker-dealers, are expected to have liquidity management processes and funding programs that reflect the principles outlined in the attached guidance and are consistent with the subsidiaries' complexity, risk profile, and scope of operations. A nonbank subsidiary that directly accesses market sources of funding and/or manages specific funding programs should pay particular attention to:

- Maintaining sufficient liquidity, cash flow, and capital strength to service its debt obligations and cover fixed charges;
- Assessing the potential that funding strategies could undermine public confidence in the liquidity or stability of subsidiary depository institutions; and
- Ensuring the adequacy of policies and practices addressing the stability of funding and integrity of the institution's liquidity risk profile as evidenced by funding

mismatches and the degree of dependence on potentially volatile sources of short-term funding.

The Federal Reserve's *Trading and Capital-Markets Activities Manual* and *Bank Holding Company Supervision Manual* contain more in-depth discussions of the specific considerations surrounding the principles of safe and sound liquidity risk management of BHCs, as well as legal and regulatory restrictions surrounding the transfer of funds between holding companies and their subsidiaries.

The general principles presented in this policy statement also apply to foreign banking organizations (FBOs) operating in the United States. The U.S. operations of FBOs are expected to have appropriate liquidity risk management processes in place that are consistent with established international standards. Supervisory expectations for the U.S. operations of FBOs are the same as those for comparable domestic organizations. FBO branches and agencies are also expected to comply with the basic tenets of sound liquidity risk management with full recognition that the application of these principles depends significantly on the specific business models, governance structures, funding approaches, and liquidity risk profiles of the operations. For example, funding dependencies between a branch and home office, and governance structures without boards of directors, may preclude compliance with some basic principles as specifically articulated in the attached guidance for standalone legal entities. In such cases, appropriate mitigating controls should be in place.

Liquidity risk for the U.S. operations of FBOs should be managed with processes and systems appropriate for the U.S. entities' size, complexity, risk profile, and scope of activities. Regardless of the scope or scale of U.S. operations, the risks undertaken are expected to be managed with: 1) effective governance and management oversight as appropriate; 2) adequate policies, procedures, and limits on risk taking; and 3) strong management information systems for measuring, monitoring, reporting, and controlling liquidity risks. While elements of these risk management processes may be implemented locally or outside of the United States, the Federal Reserve expects to have ready access to the information necessary to maintain an understanding and assessment of these functions.

More detail regarding supervisory expectations for safe and sound liquidity risk management of the U.S. operations of FBOs are contained in SR letter 08-9/CA letter 08-12, "Consolidated Supervision of Bank Holding Companies and the Combined U.S. Operations of Foreign Banking Organizations," and in the *Examination Manual for U.S. Branches and Agencies of Foreign Banking Organizations*.

Conclusion

Reserve Banks are asked to distribute this letter to financial institutions supervised by the Federal Reserve in their districts, as well as to their own supervisory and examination staff. Questions on the attached guidance or the Federal Reserve's supervisory approach to liquidity risk management at supervised institutions should be addressed to: Jim Embersit, Deputy Associate Director, Market and Liquidity Risk, at (202) 452-5249; Ricardo Crumble, Supervisory Financial Analyst, Market and Liquidity Risk, at (202) 728-5852; and Mary Arnett, Supervisory Financial Analyst, Market and Liquidity Risk, at (202) 721-4534.

Patrick M. Parkinson
Director

Attachment:

- *Interagency Policy Statement on Funding and Liquidity Risk Management*
- *Addendum to the Interagency Policy Statement on Funding and Liquidity Risk Management: Importance of Contingency Funding Plans (July 2023)*

Cross Reference:

- SR letter 08-9/CA letter 08-12, "Consolidated Supervision of Bank Holding Companies and the Combined U.S. Operations of Foreign Banking Organizations"

Supersedes:

- SR letter 90-20, "Bank Holding Company Funding and Liquidity"