Attachment B

First-Cycle Inspection of Insurance SLHCs, Broker-Dealer SLHCs, and Commercial SLHCs

A limited number of SLHCs have been identified as being primarily engaged in insurance or broker-dealer activities, primarily engaged in commercial activities through the exemption in section 10(c)(9)(C) of HOLA, or primarily engaged in activities that were authorized by regulation on March 5, 1987 for SLHCs to engage in directly, and have savings association subsidiaries that account for only a small percentage of the total consolidated assets of the SLHC. Commercial SLHCs are principally engaged either in commercial activities (such as manufacturing or merchandising) or in activities not specifically permissible for financial holding companies (such as real estate development).[1] Given the distinct nature of these entities, the Board may elect to supervise these entities in portfolios separate from the traditional holding company portfolios, which are based largely upon asset size.

During the first supervisory cycle, examination staff should focus on gaining an understanding of the structure of the consolidated organization, intercompany financial transactions, and overall financial condition, and should conduct reviews of corporate governance, risk management, and internal audit at each SLHC.

At SLHCs focused on insurance and broker-dealer lines of business, examiners will also identify and conduct reviews of key financial activities and associated risk management practices.

At commercial SLHCs, while examiners should seek to gain an understanding of the structure and operations of the consolidated organization, the focus of first inspection cycle activities should be on the financial, not the commercial, activities of the company. However, the segregation of the financial business lines of these companies will vary and some or all corporate functions may integrate both commercial and financial business lines. An inspection of a company in this category should include all functions that directly relate to financial activities, such as risk management, corporate governance, and internal financial activities (e.g., treasury functions, derivative/hedging transactions, or lending). Examiners should assess commercial activities only to the extent that these activities may impact the savings association subsidiary(ies), including the holding company's ability to serve as source of strength to them.

During the initial supervisory cycle for SLHCs primarily engaged in insurance, broker-dealer, or commercial activities, supervision staff should, by the fourth quarter of 2011, initiate several activities:

- communicate with the OCC, FDIC, state banking supervisors, state insurance regulators, the U.S. Securities and Exchange Commission, and any other functional regulators (as relevant);

[1] Section 10(c)(9)(C) of HOLA permitted certain SLHCs, referred to as grandfathered unitary SLHCs or GUSLHCs, to retain their authority to engage in nonfinancial activities. Only a subset of all GUSLHCs primarily engages in commercial activities. That subset, along with other SLHCs that engage in activities that were authorized by regulation on March 5, 1987 for SLHCs to engage in directly, and have savings association subsidiaries that account for only a small percentage of the total consolidated assets of the SLHC are referred to herein as "commercial SLHCs."

- develop an initial supervisory profile (institutional overview and risk assessment)[2] for each company, including any potential consumer compliance risks arising from financial activities outside of the savings association subsidiary(ies); and
- develop an initial financial assessment for each company.

Subsequently, supervisory staff should leverage information gained through the above activities to:

- develop and implement supervisory plans, in coordination with other regulators as appropriate;
- conduct targeted discovery reviews; and
- compile financial data to support horizontal and peer analyses.

Federal Reserve examination staff plan to complete these first supervisory cycle activities by July 2012. At that point, it is anticipated that staff will have gained sufficient knowledge of the risk profiles of each organization to inspect and provide indicative ratings to these companies in line with the Federal Reserve supervisory process for bank holding companies.

[2] See SR letter 99-15, "Risk-Focused Supervision of Large Complex Banking Organizations," and SR letter 97-24, "Risk-Focused Framework for Supervision of Large Complex Institutions."