

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
DIVISION OF SUPERVISION AND REGULATION

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Date: October 29, 2025  
From: Mary Aiken (Acting Director) and Julie Williams (Acting Deputy Director)  
Subject: Statement of Supervisory Operating Principles

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On August 6, 2025, Acting Director Mary Aiken shared Vice Chair for Supervision (VCS) Miki Bowman's priorities and operating principles. The Vice Chair's priorities and principles provide an outline of broad changes to the conduct of supervision, including both what we do and how we do it. The goal of these changes is to strengthen supervision by focusing it on identifying and taking timely proportionate action as early as possible to eliminate the most important risks threatening the safety and soundness of banking organizations. These changes represent a significant shift from past operating practices.

This memo provides directional guidance on the changes the Vice Chair expects us to undertake. Board S&R and Reserve Bank staff should take note of the significant shift in direction and implement the changes necessary to align our supervisory work and messaging with this new approach. As a guiding principle, staff should not assume that our current or past operating practices should continue going forward. Staff should continually consider whether their work, conclusions, messaging, and other actions are aligned with the specific changes outlined in this statement of supervisory operating principles and, more broadly, with the overall shift in direction and posture.

- Examiners and other supervisory staff should be focused on the responsibility of the Board to promote the safe and sound operation of banks and the stability of the U.S. financial system. In furtherance of this mission, examiners are encouraged and expected to use their reasoned judgment.
  - If an issue arises that may present a material financial risk to a regulated firm's safe and sound operation, but this issue is not sufficiently addressed by existing supervisory tools, those issues should be escalated up the management chain for review.
- Examiners and other supervisory staff should prioritize their attention on a firm's material financial risks.
  - They should not become distracted from this priority by devoting excessive attention to processes, procedures, and documentation that do not pose a material risk to a firm's safety and soundness.
  - Examiners and other supervisory staff can address shortcomings that do not rise to the level of MRAs or MRIAs by making nonbinding supervisory observations. We will be amending SR 13-13 to reverse its directive to eliminate supervisory observations.
  - This will make supervision more effective by allowing examiners and other supervisory staff to prioritize their attention on a firm's material financial risks.
- When evaluating and rating bank holding companies, savings and loan holding companies, and the U.S. operations of foreign banks, the Gramm-Leach-Bliley Act of 1999 requires examiners to rely to the maximum extent possible on the examinations and other supervisory work by the primary state or federal banking supervisor for their depository institution subsidiaries other than state member banks.

- Federal Reserve supervisory staff should not conduct their own examination of such depository institution subsidiaries unless it is impossible for the Federal Reserve to rely on the examination of such a depository institution's primary state or federal supervisor.
  - This impossibility standard might be met if such a depository institution's primary state or federal supervisor does not share sufficient information about the depository institution for the Federal Reserve to rely on their examinations or other supervisory work.
  - It would not be met simply because we might do examinations differently.
- Board S&R and Reserve Bank staff should tailor their supervision based on the size, complexity and systemic importance of a particular banking organization, using relatively more resources on large, complex and more systemic organizations and relatively less resources on smaller, less complex and less systemic organizations.
- When evaluating and rating state member banks for which the Federal Reserve is the primary federal supervisor, examiners should work jointly with the state banking agency.
  - For state member banks eligible for an alternate-year examination program (AEP), which allows every other examination to be conducted by the state banking agency along with Federal Reserve examiner presence, examiners should rely to the extent possible on the state banking agency's examination work and conclusions in the alternating years.
  - See above about information sharing.
- Examiners and other supervisory staff need to change the way they decide whether an MRA, MRIA or requirement in an enforcement action can be terminated because the underlying deficiency has been fully remediated.
  - They should not perform their own duplicative validations of whether a firm has fully remediated an MRA or MRIA or requirement in an enforcement action unless the firm's internal audit is rated unsatisfactory.
    - Instead, they should rely on an institution's internal audit for validations when that function is rated satisfactory.
  - They should not delay the termination of an MRA, MRIA or requirement in an enforcement action if the underlying deficiency has been fully remediated in order to test over a period of time whether the remediation is sustainable.
    - Instead, they should monitor sustainability after termination and hold the firm accountable if the deficiency reappears.
  - Examiners and other supervisory staff should not conduct additional reviews or "capstones" on issues not directly related to any of the deficiencies identified in an enforcement action or on risks that are not a material threat to a firm's safety and soundness before terminating an enforcement action.
- The LISCC and LFBO portfolios should no longer conduct horizontal reviews unless the Deputy Director of Supervision determines that the benefits of a particular horizontal review to the safety and soundness of the banking organizations being reviewed or the stability of the U.S. financial system outweigh the associated costs.
  - Assessments based on horizontal reviews should be measured against supervisory expectations, not against whatever practice within the peer group is considered to be the best.
  - The results of the horizontal reviews should be confidentially disclosed to the banks that are reviewed, including comparisons across the in-scope institutions.

- Examiners and other supervisory staff should not discourage or prohibit firms from taking into account liquidity available from the Federal Home Loan Banks (FHLBs) in managing their liquidity or performing their internal liquidity stress tests.
  - Similarly, they should not require firms to preposition assets at the discount window as a condition to future discount window secured borrowings.
- Supervisory ratings should accurately reflect an institution's financial condition and material financial risks.
  - The management and risk management components of CAMELS and RFI/C (D) ratings should not be given more weight than the other components in determining a firm's composite rating.
  - All component ratings should be considered and weighed based on their materiality to the institution.
- The standard for issuing MRAs and MRIAs based on threats to safety and soundness will be changing (work is underway to provide more specific guidance). Generally speaking, MRAs and MRIAs should:
  - Prioritize deficiencies that could have a material impact on a firm's financial condition, rather than focusing on procedural or documentation shortcomings that do not materially threaten the firm's safety and soundness.
- Examiners and other supervisory staff will no longer be permitted to communicate MRAs and MRIAs in vague or overbroad language.
  - Instead, they will be required to communicate MRAs and MRIAs with sufficient specificity so that a person of ordinary intelligence can readily know what the deficiency is underlying an MRA or MRIA and what a non-deficient state would be.
  - They should encourage meaningful dialogue and discussion between examiners and bank representatives. Examiners and other supervisory staff should:
    - Promptly respond to each institution's questions to provide clarity when requested.
    - Listen and invite feedback from an institution as to whether a particular MRA or MRIA is justified, around any lack of clarity of the issue, our expectations, or the path to remediation.
- Our interpretation of the statutory standard for issuing enforcement actions based on an unsafe or unsound practice will also be changing (work is underway to clarify this standard).