GUIDANCE & SUPERVISION

LISCC Capital Program Operating Manual

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Redacted Public Version

Note: All redactions in this redacted public version are indicated in bold, italic font with brackets around it, like this: [Redaction: description of redacted material]. Additionally, the front cover, end page, and some font sizes and colors are slightly different from the original internal document to reflect Board publishing standards and to increase accessibility.

The CCAR Manual referenced in the LISCC Program Operating Manual is no longer correct as it does not reflect the practice of recent years. Overtime, the LISCC Program's approach to CCAR evolved from being primarily focused on evaluating the capital plans of firms to evaluating fundamental financial risk management circa 2019/2020. Historically, CCAR specific work was guided by annual standalone CCAR procedures and instructions; however, subsequent to the LISCC Program Operating Manual's publication in 2023, the need for standalone CCAR procedures and instructions was eliminated. CCAR practices now follow the processes laid out in the LISCC Program Operating Manual.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Capital Program Operating Manual

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Capital Program Operating Manual

I. Program Overview and Operations

The LISCC Capital Program (referred to herein as Capital Program) is a year-round supervisory program assessing the capital adequacy and capital planning practices of LISCC firms. This is primarily accomplished through two efforts: (1) the Comprehensive Capital Analysis and Review's (CCAR) qualitative assessment, which is an annual horizontal assessment of the capital plans and capital planning practices; and (2) other examinations on topics germane to capital planning, including related controls and financial risk management practices. CCAR's qualitative assessment generally focuses on assessing the reliability of firms' stressed capital projections, the controls around those projections, and the governance of firms' internal capital adequacy assessments. The Capital Program's other examinations are generally tailored to the most material capital-related risks to each LISCC firm and aim to develop a complete assessment of firms' capital planning practices and overall safety and soundness.

Work within the Capital Program culminates in the assignment each year of a capital planning and positions component rating for each firm (Capital Rating), using the LFI Ratings Framework. Findings from Capital Program examinations also inform the Governance & Controls (G&C) Program's assessment of independent risk management and internal controls and the overall rating and messaging for G&C. The LISCC Oversight committee (OC) has delegated the oversight of the execution of the Capital Program to the Capital Steering Committee (Capital SC), which includes representatives with a range of perspectives on capital and financial risk management issues from across the Federal Reserve System. LISCC firms receive a letter conveying feedback on their capital planning practices and their Capital Rating at least annually. In certain cases, the Federal Reserve may update its Capital Rating for firms more frequently than annually based on material changes in a firm's financial condition, or new information on capital planning practices.

This section of the Capital Program Manual summarizes the roles and responsibilities of the key stakeholders under the Capital Program organizational structure and should be read in conjunction with Part I: Chapter 2.V and Part II: Chapter 5 of the LISCC Manual.

Program Management

Introduction

Collaboration among teams within and across core LISCC programs is critical. Within the Capital Program, the multiple teams responsible for executing individual pieces of the program are required to work closely with one another to share insights on key issues. In addition, the Capital SC and Capital Program Leadership Group (PLG), the individuals responsible for overseeing the day-to-day execution of each area of the Capital Program, collaborate with their counterparts in the other core LISCC programs and Dedicated Supervisory Teams (DSTs) to coordinate resource needs and uses, transfer knowledge, and identify common findings. In the case of the Capital Program, the Capital SC and the Capital PLG must work in partnership with the leadership from all programs to determine how best to execute work related to financial risk management and controls and how to incorporate relevant findings into key OC decisions.

The section below describes the core teams tasked with executing the Capital Program and their primary responsibilities.

Roles and Responsibilities

The Board's Division of Supervision and Regulation (SR) Director, the OC, and the Capital SC oversee the execution of the Capital Program for LISCC firms. For information on the role of the SR Director and the OC in overseeing the Capital Program, please reference the LISCC Manual.

The following organization chart lays out the groups that report up to the Capital SC in support of the Capital Program.

Figure 1: Capital Program Organization Chart Overview

Capital Steering Committee

The Capital Steering Committee is overseen by the LISCC OC and is directly responsible for oversight of the Capital Program. The Capital SC advises the Co-Chairs of the Capital Program on the design and execution of CCAR and firm-specific and horizontal work related to capital adequacy, capital planning, and financial risk management and controls. The Capital SC is also responsible for vetting the annual capital assessment and rating for each LISCC firm.

For additional information on the role and composition of the Capital SC, please reference Chapter 2.V of the LISCC Manual or the Capital SC Charter

Capital Program Leadership Group

Overview

The Capital PLG is responsible for the day-to-day execution and administration of the Capital Program year-round as defined by the Capital SC. This includes responsibility for executing all supervisory work conducted by the Capital Program and the management and operational duties stemming therefrom.

Under the direction of the Capital SC, the PLG is required to develop and execute capital positions and planning-related supervisory plans to improve the depth, comprehensiveness, and quality of capital

assessments into the broader ongoing supervisory program. This is largely accomplished by providing strategic direction to and overseeing the Capital Program's Horizontal Evaluation Teams (HETs). The PLG works with the HETs to:

- Set direction for HET supervisory work;
- Develop year-round HET supervisory plans for the LISCC firms;
- Clarify relevant supervisory expectations for both internal and external purposes;
- Escalate policy, assessment, and other program issues to the Capital SC for discussion and resolution;
- Enhance work programs, internal guidance, and training materials;
- Vet the opening and closing of firm-specific findings;
- Ensure consistent interpretation and application of supervisory expectations in evaluations; and
- Determine HET resource needs both for year-round HET resources (core and affiliate staff) and for any supplemental resource demands during the annual CCAR program.

In addition to working closely with the HETs to execute the capital program's objectives, the PLG is also responsible for providing regular updates to the Capital SC on year-round supervisory work related to capital planning and financial risk management and controls. Additional information on how the PLG fulfills this objective can be found in the meeting management section of this manual.

Membership

There are currently six members of the Capital PLG. Each PLG member oversees a horizontal evaluation team with responsibility for assessing specific areas of firms' capital adequacy, capital planning, and financial risks and controls.

Additional information on the role for each PLG member can be found below:

- The ***PLG Lead*** oversees and provides strategic direction to other PLG members who are responsible for the direct oversight of the HETs. The PLG Lead reports to the Capital SC Co-chairs and has decision-making authority for matters fully delegated to the PLG by the Capital SC. All other PLG members report to the PLG Lead. The PLG Lead is highly engaged in the execution of the Capital Program and communicates on an ongoing basis with the SC, the DSTs, and other relevant stakeholders. This includes regular interactions with team leads from across the LISCC program in planning supervisory activities.
- The ***Credit Risk PLG Member*** oversees two horizontal teams focused on assessing wholesale and retail credit risk at the LISCC firms. The Credit Risk PLG member reports to the Capital PLG Lead and is responsible for directing the supervisory activities of Retail Credit Risk and Wholesale Credit Risk Teams.
- The ***Market Risk PLG Member*** oversees two horizontal teams focused on assessing trading risk and counterparty credit risk at the LISCC firms. The Market Risk PLG member reports to the Capital PLG Lead and is responsible for directing the supervisory activities of the Trading Risk and Counterparty Credit Risk Teams.
- The ***Interest Rate Risk and Pre-Provision Net Revenue PLG Member*** oversees two horizontal teams focused on assessing interest rate risk/net interest income pre-provision net revenue and non-interest income pre-provision net revenue (PPNR) at the LISCC firms. The IRR & PPNR PLG member

reports to the Capital PLG Lead and is responsible for directing the supervisory activities of the IRR & Securities Risk and PPNR Teams.

- The ***Capital Planning PLG Member*** works closely with the DSTs and the PLG members of the other horizontal teams in the Capital Program to holistically assess capital planning issues impacting all risk areas. The Capital Planning PLG member also works closely with the leadership of the LISCC Governance and Controls Program to assess and respond to issues related to internal controls.
- The ***PLG Operations and Communications Lead*** is responsible for ensuring the overall execution of the Capital Program in an effective and efficient manner and that written communications to LISCC firms are clear, concise and reflect the views of the Capital SC and LISCC OC. The Operations Lead works closely with other PLG members to identify, develop, and maintain analytical tools to support timely, risk focused supervision by the Capital Program. The Operations Lead also works closely with the Capital SC co-chairs and PLG Lead to oversee internal and external communications, including instructions and letters to firms, and responses to external inquiries related to the Federal Reserve's capital supervision efforts. Finally, the Operations Lead oversees program operation staff as part of the Capital Program Operations Team.

The PLG member responsible for a specific risk area is referred to as the "relevant" or "designated" PLG member throughout this manual. As described above, the relevant or designated PLG member has direct responsibility for the oversight of each HET assigned to the specific risk area (market, credit, revenue, or capital planning). Additional information on the HETs is in the sections below.

Capital Program Operations Team

The Capital Program Operations team reports to the PLG Operations and Communications Lead and is directly responsible for ensuring that the Capital Program as a whole is organized, documented, and communicated appropriately. The Program Operations Team works to promote consistency, completeness and establish effective process flow to ensure efficient day-to-day operations. The responsibilities of the Capital Program Operations Team includes, but are not limited to:

- Enhance and develop technology used to support Capital Program supervisory work;
- Develop approaches to presenting key program information;
- Establish operating procedures for execution of capital supervision for all staff in the Capital Program;
- Conduct selected assurance activities to ensure those standards are met; and
- Ensure all major program developments and decisions are clearly documented, preserved, and communicated to relevant stakeholders.

In addition to the above areas, the Program Operations Team also works with the PLG Lead and PLG members to track progress on supervisory issue remediation across the program as a whole and briefing the PLG and SC on status. This involves collaborating with the PLG Lead and PLG members to enhance workflows, examination documents, and other procedures. The Program Operations team also closely collaborates with the Office of OC and staff in other programs with similar responsibilities.

Horizontal Evaluation Teams

Overview

HETs are staffed by subject matter experts in various aspects of capital planning and are responsible for providing objective assessments of the capital planning pillars or sub-components in which they specialize. HET members work for the Capital Program year-round, conducting examinations and other supervisory activities, reviewing and providing feedback on the firms' efforts to remediate supervisory findings, and monitoring firms' capital planning-related activities, among other responsibilities.

In undertaking their work, HET staff collaborate closely with DST members. HET staff are expected to take into account information gathered and assessments developed by DSTs throughout the year. Collaboration between HET staff and DSTs ensures that issues identified at a given LISCC firm are addressed holistically and comprehensively.

Each HET is responsible for a specific risk area, as summarized below.

- The ***Retail Credit Risk Team*** assesses firms on their processes for generating stress loss projections for their retail credit portfolios and evaluates firms' retail credit risk management practices. The evaluation of firms' ability to generate credible loss projections for use in their capital planning process covers areas such as risk capture, quantitative methodologies, qualitative methodologies, and process and controls. While the assessment of firms' retail credit risk management practices entails determing the extent to which firms consistently idendify, measure, monitor, and control their retail credit risk.
- The ***Wholesale Credit Risk Team*** is responsible for the evaluation of how firms approach loss estimation for their wholesale credit portfolios and the assessment of firms' wholesale credit risk management practices. This includes assessing firms' ability to effectively capture its risk exposures, monitor how the risk exposures change with economic conditions, measure risk exposures and appropriately translate them into a credible stress test of potential losses stemming from these risks, and control the risks through effective limit management and sound credit underwriting practices.
- The ***Counterparty Credit Risk Team*** assesses firms' ability to identify and capture risk exposures effectively, to monitor how the risk exposures change with market conditions, to measure and aggregate those exposures accurately, to translate their risks appropriately into a credible stress test of potential losses, and to control risk through effective limit management and credit provisioning practices.
- The ***Trading Risk Team*** assesses firms' abilities to identify and capture their trading risk exposures effectively, monitor those risk exposures as market conditions change, measure risk associated with trading exposures, translate trading risks appropriately into credible stress tests, and limit trading risk through practices such as effective limit setting.
- The ***Interest Rate Risk (IRR) & Securities Team*** covers the extent to which the firm's stress scenario and risk measurement practices capture the specific risks from its activities, how it translates those risks into projections of loss or reduced revenues, the impact on capital ratios, and the adequacy of its limit management practices, internal control processes, governance, and associated policies.
- The ***Pre-Provision Net Revenue (PPNR) Team*** is responsible for the assessment of the projection processes for non-interest revenues, expenses, trading balances and market risk weighted assets (RWA) of firms as part of the overall evaluation of these firms' capital planning processes.

- The ***Capital Planning Team*** promotes and supports comprehensive capital planning assessments across Pillars I – V and associated capital planning expectations as described in SR Letter 15-18, "and related regulatory guidance, rules, and regulations. Throughout the year, the Capital Planning Team coordinates with the DSTs on the assessment of Pillars I-V that cover a firm's governance, risk management, internal controls, capital policy, and scenario design supporting the capital planning process.

Collectively, the Retail, Wholesale, Counterparty, Trading, IRR, and PPNR teams are primarily responsible for the assessment of Pillar VI, but may also provide insight pertinent to the other pillars as part of their work. Please reference Part II: Chapter 5 of the LISCC Manual for additional details regarding the supervisory assessment pillars and specific assessment areas for which each team is responsible. Additional information on the supervisory assessment pillars and the specific expectations to which firms are held against can also be found in SR Letter 15-18.

Membership Structure

Horizontal Team Leads

Each HET has one team lead (horizontal team lead, or "HTL") that is responsible for leading a team of examiners focused on a specific area in the day-to-day execution of the LISCC Capital Program. The HTLs report to the PLG member assigned for their area of responsibility. HTLs are responsible for ensuring that the supervisory work undertaken by their teams results in timely, credible, and well-supported and communicated assessments of firms' capital planning practices and financial risk and controls within the team's area of responsibility. The HTLs also collaborate with each LISCC firm's DST and other LISCC programs to ensure that planned examination activities are reflected in supervisory plans for the year. Finally, HTLs are responsible for providing timely feedback for staff conducting work as part of the program.

Horizontal Team Deputies

Each HTL has one or more deputies to assist in the meeting of their objectives and responsibilities. The number of deputies per HTL is commensurate with the total team size. The deputy's role is determined through a collaborative effort between the HTL and relevant PLG member.

Team Members

Horizontal team members are staff assigned to a specific HET. The Team Lead, working with Deputies, is responsible for assigning each team member a designated area of focus, be it a specific portfolio of firms, specific products / risks, or a combination. Assignments should be made in line with team members' individual skill sets and communicated with local managers, as appropriate.

Dedicated Supervisory Teams

Each LISCC DST is responsible for providing an assessment of their firm's qualitative elements of the capital planning process covered in Pillars I-V of SR 15-18. The DSTs' pillar assessment are informed by work performed during CCAR, as well as by supervisory work conducted outside of CCAR that contributes to the teams' overall evaluations of firms' risk identification and risk management, internal controls, and governance, both broadly and as it specifically relates to the firms' capital planning processes. The DSTs work closely with the HETs to obtain horizontal perspective, convey a firm-specific perspective, and to

ensure that they are applying supervisory expectations consistently.

Additional information on the role of the DSTs is found in the DST Manual.

Meeting Management

Introduction

The guidelines documented here are specific to meetings led by the Capital SC or Capital PLG and are meant to provide high-level information regarding the purpose of regular occurring meetings. Outside of scope of this section are meetings that horizontal teams may have on their own and meetings that may be requested by the LISCC or LISCC OC.

Purpose	Capital Group	Attendees	Frequency
Standing meeting to vet horizontal exams, IDRs, and provide updates to SC on Capital Program events	Capital SC	Capital SC, Capital PLG, and Operations team	Bi-weekly
Supervisory planning approval and quarterly review	Capital SC	Capital SC, Capital PLG, Capital HET Leads and Deputies, DST Leads and Deputies, DST Capital Leads, Operations team	Quarterly
Annual assessment vetting	Capital SC	Capital SC, Capital PLG, Capital HET Leads and Deputies, DST Leads and Deputies, DST Capital Leads, Operations team	Annual
Standing weekly PLG meeting to check-in on	Capital PLG	All PLG members	Weekly
Standing vetting meeting to vet exam feedback and issue closure	Capital PLG	All PLG members, Operations team	Weekly
Share information from each area of responsibility and strategize on how to meet expectations going forward	Capital PLG	All PLG members, Capital SC Co-Chairs, and Operations team	Quarterly
Town hall to provide program updates, training, address staff concerns	All Capital Program	Capital SC, Capital PLG, Capital HETs, DST Capital Leads, DST Capital staff, and Operations team	Quarterly

Additional Meetings

In addition to the meetings described above, the HETs are required to have regular meetings as individual teams. These meetings are scheduled at the discretion of the HTLs and Deputies.

The Capital SC and PLG may also be requested to attend meetings at the request of the LISCC, OC, or other

programs. Additional information on LISCC Program Meeting and Calendar Management can be found in the Office of the OC Operating Manual.

Unique Processes

CCAR is subject to a unique set of processes. Please see the CCAR Scope and Program Plan issued each year for details on CCAR processes and associated documentation requirements.

II. Supervisory Program Cycle

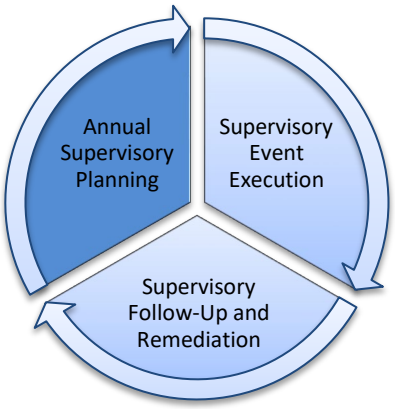
This section describes responsibilities and record-keeping requirements for the execution of approved capital program firm-specific and horizontal examinations as well as in-depth reviews. Updated quarterly, this section is a key part of the Capital Program's Policies and Procedures Manual. Out of scope in this section are policies and procedures for the annual CCAR exercise, as well as expectations for any monitoring and analytics work conducted by the Capital Program.[1]

Capital Program Annual Supervisory Planning

The Capital Program's supervisory work for a given year is determined through the annual supervisory planning process, which is led by the OC. All events proposed and approved by the Capital SC for the coming annual supervisory cycle are presented to the OC so that the OC can consider the entire body of work by Program and by firm to ensure that, in totality, supervisory work for a given year is aligned with OC priorities. The final supervisory plan can be adjusted during the year, if necessary, to account for shifting priorities, resources, and emerging risks.

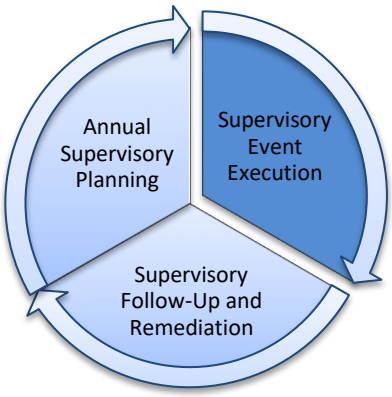
After the OC communicates the approved supervisory events for the next supervisory cycle, Capital Program members begin converting the approved proposals into executable supervisory events. In addition, the scope of a give year's CCAR exercise is determined as part of the annual supervisory planning process.

For all aspects of supervisory planning, the Capital Program follows the uniform supervisory planning process and guidance issued by the Office of the OC, which can be found in the Supervisory Planning Process document.



[1] For specific guidance related to the annual CCAR exercise, please see that year's CCAR Scope and Program Plan on the Capital Program SharePoint site. Specific guidance related to the execution of monitoring and analytics work can be found in the MAP Operating Manual.

Supervisory Event Execution Overview



After the LISCC OC communicates the approved supervisory events for the next supervisory cycle, Capital Program members can shift focus to event execution. Both firm-specific and horizontal examinations consist of four phases:

1. Examination preparation
2. Examination execution
3. Examination conclusion
4. Supervisory follow-up and remediation

While the deliverables and expectations are generally consistent for both firm-specific and horizontal examinations, the activities may be governed differently. Unless stated otherwise, expectations in this section apply to all Capital examinations and reviews. Additional procedures related to Market Risk Rule and Advanced Approaches related examinations and reviews can be found in Appendix C: Market Risk Rule Procedures and Appendix D: Advanced Approaches Procedures. In addition, procedures related to the execution of OCC participation exams can be found via the LISCC Program-wide Examination Work papers Requirements for Participation on Other Agencies' Exams.

In addition to the program-specific standards described in this section, LISCC Program-wide standards have been established for key aspects of the examination and monitoring processes. All members of the LISCC Program are responsible for understanding and following these important requirements, which can be found at the following links:

Program-wide Examination and Monitoring Documentation/Posting Standards:

- LISCC Program-wide Examination Work papers Expectations and Approval Requirements
- LISCC Program-wide Examination Work papers Requirements for Participation on Other Agencies' Exams
- LISCC Program-wide BOND Posting Minimum Requirements

Table 1: Universe of Capital Program Exam Activities/Deliverables (Firm-Specific and Horizontals)

Activities/ Deliverable	Overview
Infrastructure Preparation	After a proposal is approved, the EIC works with the primary contacts/relevant exam support for the designated firm(s) to begin preparing all internal infrastructure platforms (i.e., SharePoint, the Consolidated Supervision, Comparative Analysis, Planning, and Execution application (C-SCAPE), IntraLinks, and the Large Financial Institution (LFI) ExamSpace application) and documentation templates in support of the examination.
Scope Memo Horizontal template Firm-Specific template	Scope memos detail the body of work necessary to complete the examination and must be approved by the Capital SC or delegated body at least 50 calendar days before the exam commencement date.
Workprogram	EICs may create a workprogram to help guide and document examiner evaluations. If created, the completed workprogram is due the last day of the onsite review, unless otherwise directed by the EIC.
Entry Letter	Entry letters are drafted using the approved scope memo as the primary input. Letters must be sent to the firm(s) at least 37 calendar days before the exam commencement date and posted to the Banking Organization National Desktop (BOND) and LFI ExamSpace at least 30 calendar days before the exam commencement date.
Firm Documentation Submissions (Entry Letter responses)	Firms submit supporting examination documents to IntraLinks, as outlined in the entry letter, typically one week before the exam commencement date.[2] Files from IntraLinks flow to LFI ExamSpace. The EIC is expected to notify exam staff that materials are available for review.
Internal Kick-Off Meeting	Members of each exam team and the relevant PLG member are invited to an internal kickoff meeting to discuss scope, logistics, and the firm documentation submission typically one week before the exam commencement date.
Kick-Off Meeting with Firm(s)	Kick-off meetings are held with each firm, typically on the exam commencement date, to discuss exam objectives, introductions and logistics. HETs are expected to work with the DSTs to schedule meetings.
Meeting Minutes	Examiners are to document key external/internal meetings within 5 days of the meeting.
Examiner Conclusion Memo	The examiner conclusion memo documents the examiner's overall conclusions for the assigned scope objectives. If there is one, the workprogram is an input into the examiner conclusion memo, which is an input into the EIC conclusion memo. The examiner conclusion memo is due 7 days from the last day of the onsite review.
Disposition of Findings Memo	The EIC's disposition of findings memo tracks the proposed MRAs, MRIAs, assessments, ratings and other supervisory recommendations as they evolve from the examiner conclusion memos to the EIC conclusion memo. The memo is due before the exam-team vetting.
EIC Conclusion Memo	EIC conclusion memo summarizes exam results and are the basis for vettings and supervisory letter development. The memo is due within 21 calendar days of onsite work completion, and should be reviewed/approved by the EIC's manager and shared prior to the exam-team vetting.
Remediation Verification Event Issue Review Template	The Remediation Verification Event (RVE) issue review template documents examiner rationale to support the closure or non-closure of the issue(s) reviewed via an RVE.
Exam-Team Vetting	The first vetting of examination results and supervisory findings occurs at the exam-team level. The EIC or designee is responsible for completing a vetting outcome template within 5 days of the exam team vetting.
PLG Vetting	The PLG vets all firm-specific exams and RVEs. The EIC or designee is responsible for completing a vetting outcome template within 5 days of the designated PLG vetting. For horizontals, the PLG will vet results, then the EIC updates and distributes exam materials at least three business days before the Capital SC vetting.

[2] The exam commencement date (ECD) is the day on which the core supervisory work begins, excluding pre-event scoping and planning activities. For onsite reviews, it is the day on which the supervisory team arrives onsite. For offsite reviews, it is the day on which the supervisory team is expected to begin analysis (C-SCAPE definition).

Capital SC Vetting	Final vetting of **horizontal exams only,** unless specifically requested by the Capital SC, is led by the relevant PLG member in conjunction with the EIC. Findings are presented to the Capital SC for formal approval and divergent views are considered and settled. The Capital PM works with the EIC to schedule SC vettings and is responsible for completing the vetting outcome template within 5 days of the vetting.
Vetting Outcome Template	The Vetting Outcome Template will be completed to reflect the outcomes, decisions, and divergent views for all scope memo vettings, exam vettings, and RVE vettings. The Vetting Outcome Template is always completed immediately following the vetting.
Workpaper Documentation Completed	All final workpapers should be uploaded to ExamSpace prior to sending out the supervisory letter.
Close-Out Meeting with Firm(s)	Formal close-out meetings are held with each firm within 60 calendar days of onsite work completion, based on a near final letter. The letter can either be provided at this meeting or mailed after this meeting.
Supervisory Letter	Supervisory letters are developed by the EIC and DST lead(s) and receive sign off from the relevant PLG member and by the Letter Oversight Group (LOG). Letters are sent within 60 calendar days of the last day onsite and posted to BOND no later than 7 calendar days after the mailing date.
Firm's Response Letter	Firm(s) are required to provide a remediation plan in response to identified supervisory issues within 45 calendar days upon receipt of the supervisory letter.
Acknowledgement Letter	Exam team is responsible for reviewing the firm(s)-submitted remediation plan and replying via an acknowledgment letter within 30 calendar days of receipt.
Infrastructure Updates	Final scope memo, entry letter, supervisory letter, firm response letter, and acknowledgement letter are uploaded to BOND. Supervisory issues are entered into C-SCAPE within 10 days of issuing the supervisory letter.
Link to all Examination Templates	National Exam Tools and Templates – This includes all national templates.

Templates may be modified as necessary, in consultation with the Office of OC and the Capital Operations Team.

Internal Examination Infrastructure Preparation

The EIC, referring to the individual responsible for leading an overall examination, is responsible for working with Capital Operations staff to ensure internal infrastructure platforms are set up and documentation templates are prepared for the examination. Table 2 gives an overview of internal systems used to execute a Capital Program examination.

Table 2: Examination Infrastructure for Firm-Specific and Horizontal Exams

Platform	Purpose	Responsible Parties
BOND	The automation platform for sharing supervisory information among Reserve Banks and with other federal/state banking regulatory agencies.	EIC and DSTs (for supervisory communications with the firm) are responsible for, but may work with/rely on exam support, to ensure BOND records are completed and up-to-date for each event (firm-specific and horizontal) at their firm, in addition to all other formal correspondence to or from the firm.
C-SCAPE	Internal event management tool used to populate DST supervisory plans, resources, and supervisory findings. Feeds into BOND, LFI ExamSpace, and ROAM-T.	The LISCC Exam Support Team is responsible for maintaining event entries in C-SCAPE and on-going maintenance. The EIC is responsible for reviewing the information in C-SCAPE to ensure it is up-to-date and correct. The EIC should communicate any updates to the Capital

		Operations team and LISCC Exam Support team promptly. Issues: The Primary Issue owner is responsible for reviewing the initial entry of the issue to ensure it is current.
Capital SharePoint Site	Working site where pre-planning exam materials can be stored prior to LFI ExamSpace event creation.	EIC may use the Capital SharePoint site to store any pre-planning work if LFI ExamSpace is not ready at the time of pre planning. Documents should be transferred to LFI ExamSpace once it is generated.
LFI ExamSpace	Primary working site where all exam work products are stored. Federal Reserve System's authorized repository for supervisory work, serving as a national collaborative solution for maintaining, organizing, storing and securing work papers. Includes a direct connection to IntraLinks.	The EIC, exam team, and managers should use ExamSpace as the repository for all final exam materials, as well as for "significant drafts" of any document that covers findings, proposed findings, and/or ratings (e.g., when a document is passed to a manager for review and input). EIC is responsible for including instructions in the entry letter to explain to firms how to submit documents to LFI ExamSpace via IntraLinks. EIC is responsible for reviewing the work papers stored in the ExamSpace Event to ensure that findings and assessment are fully supported and that scope objectives and any changes have been addressed. HTL/Deputies are responsible for ensuring work paper documentation fully supports the supervisory findings and conclusions included in the final Supervisory Letter.
IntraLinks	A temporary repository (only active for the duration of the business need) that facilitates the secure bi-directional exchange of electronic files between the Federal Reserve and financial institution.	Firms are responsible for uploading the materials in response to the entry letter to IntraLinks. The EIC is responsible for ensuring documents received align with Entry Letter expectations.
ROAM-S	In addition to C-SCAPE, ROAM-S exists as a resource scheduling tool. Events and resources booked in C-SCAPE will flow to ROAM-S, which then flows to ROAM-T. ROAM-S is also a conflict of interest (COI) flagging tool.	The relevant Reserve Bank Exam Support staff is responsible for ensuring events and resources in C-SCAPE appropriately flows to ROAM-S as well as checking ROAM-S for potential direct/indirect conflict of interest flags. Upon discovery of a COI, exam support staff notifies the EIC and their reporting manager.
ROAM-T	The primary tool for tracking staff's time across the Federal Reserve.	Exam team is responsible for verifying their actual hours worked in ROAM-T at the end of every week.

The subsections below provide additional information on each platform and its role specific to the Capital Program. For more information on these platforms, please see the referenced internal guidance documents.

BOND

BOND is the automation platform for sharing supervisory information among Reserve Banks and with other federal/state banking regulatory agencies. For the Capital Program, consistent with the LISCC program, the

following documents must be posted to BOND for each firm participating in the examination:

- Entry Letter
- Scope Memo
- Supervisory Letter
- Firm's Response Letter
- Acknowledgement Letter
- If applicable: Addendum to Scope, Extension Requests/Approval Letters

LISCC Program-wide BOND expectations can be found ***[Redacted: hyperlink to internal website containing document describing BOND expectations]*** and information on the BOND application is available ***[Redacted: hyperlink to internal website to which information on BOND is posted]***.

C-SCAPE

C-SCAPE is the primary internal event management tool. All staff assigned to the Capital Program are expected to have C-SCAPE access for all SR Letter 15-18 firms. Once an event is approved, the EIC is to contact the Capital Operations Team and LISCC Exam Support Team to verify information that should be entered in C-SCAPE. After resources is entered into C-SCAPE, their time commitment automatically feeds through to ROAM-T, the primary tool for tracking staff's time sheets across the Federal Reserve.

The EIC is responsible for defining the ROAM-T category that event staff should use. In addition, the name of an event should be consistent throughout the event (C-SCAPE, workpapers, MIS, etc.). If exam staffing changes, the EIC is responsible for communicating those updates to the Capital Operations Team and LISCC Exam Support Team.

C-SCAPE also serves as a central location for managing supervisory issues including MRIAs, MRAs, or provisions for enforcement actions. Details on issues management can be found later in this document.

Additional C-SCAPE information, including how to request access, can be found ***[Redacted: hyperlink to internal website to which information on C-SCAPE is posted]***.

Capital SharePoint Site

The Capital SharePoint site may be used for storing and sharing **pre-planning** documents **only** for Capital examinations and reviews prior to the generation of an LFI ExamSpace event (must be transferred over to LFI ExamSpace once generated). This includes all work done as part of supervisory planning, including but not limited to staffing assignments and any documents created in support of scope development. Capital SharePoint site access is driven by SharePoint rosters that correspond to DST and HET membership.

EICs are responsible for updating the SharePoint roster to ensure that only staff actively participating in the examination have access to the associated documentation stored in the library.

The Capital SharePoint site is also a repository for storing Capital Program related information that isn't exam-related and stored on ExamSpace. The Capital Operations Team is responsible for creating the appropriate storage libraries and maintaining access lists within the SharePoint site.

For questions on the Capital SharePoint site, please contact the Capital Operations Team.

LFI ExamSpace

Per AD Letter 17-6, "Implementation of LFI ExamSpace Application for ECM and FRB-Staffed Exam Events," LFI ExamSpace is the Federal Reserve's authorized repository for maintaining, organizing, storing and securing exam supervisory work including firm-specific and horizontal (umbrella event and sub-event pushed to DSTs) events, as well as RVEs. All examiners should follow the Capital Program Exam Cheat Sheet, available on the LISCC Core Program Operating Manuals page on the LISCC SharePoint site, for examination workpaper expectations and approval requirements. Examiners and risk specialists participating on each examination are expected to populate the workpaper database on a flow basis as information is received and analysis is developed and completed.

LFI ExamSpace provides for the ongoing maintenance of work papers and is designed to facilitate the sharing of information for firm-specific and horizontal (with the exception of some horizontals such as CCAR, CLAR, etc.) supervisory activities in a consistent manner across all portfolios. Management groups, Reserve Bank management, and Board staff may utilize LFI ExamSpace to gain insights into supervisory activities and assessments on a firm-specific and horizontal basis.

LFI ExamSpace will provide supervisory staff with a means for:

- Tracking the progress of specific events, knowledge transfer, and referencing past and future events;
- Supporting the EIC's role in managing all required aspects of the event to which they are assigned;
- provides audit trail and supporting documentation for the assessment and findings communicated to the firm;
- Overseeing the completion of events;
- Meeting expectations related to quality management;
- Responding to formal and informal information requests and subpoenas, and
- Testing conformance with System policies and procedures through quality assurance activities.

All analysis, assessments, and supporting work papers related to FRB Staffed should be maintained in LFI ExamSpace. Work papers should not be stored on other applications, databases, or shared drives, unless required by System guidance (e.g., NIC Letter 1601, AD Letter 13-21, etc.)

Note: The workpaper requirements differ when Federal Reserve System examiner(s) participate on another regulatory agency's supervisory event. Please reference LISCC Program guidance for expectations for participation on another agency's supervisory event.

For an LFI ExamSpace overview, including its IntraLinks connection, user guides, FAQs, training presentations, and Reserve Bank contacts, please see the LFI ExamSpace Information Center. For specific questions with regards to LFI ExamSpace, examiners should contact the individuals listed in the above link for their specific district.

IntraLinks

If the examination requires that firm(s) submit documentation, examiners must use IntraLinks and LFI ExamSpace. IntraLinks is a secure cloud-based service that the Federal Reserve uses to securely upload documents from an external organization. IntraLinks connects directly with LFI ExamSpace; files uploaded to IntraLinks automatically transfer to LFI ExamSpace, including the associated metadata tags. The files are

available on LFI ExamSpace within a couple hours of the institution uploading the file to IntraLinks. Firms are responsible for uploading the materials in response to the entry letter to IntraLinks. If issues arise in the flow of materials from IntraLinks to LFI ExamSpace, the EIC is to contact the STSSO for assistance. Ultimately, the EIC is responsible for ensuring documents received align with Entry Letter expectations.

IntraLinks Exchange Setup

Once an exam is published in C-SCAPE, a corresponding LFI ExamSpace event is created. Examiners then can use the LFI ExamSpace event to manage the IntraLinks connection and receive documentation from the firm(s). To ensure that firms can submit documents to the IntraLinks exchange, the entry letter appendix includes instructions to the firm, as described in the entry letter template.

For information on IntraLinks and its connection to LFI ExamSpace, as well as the set up structure, see the IntraLinks Talking Points and IntraLinks: Uploading Files Reference. For specific questions, please contact the local Reserve Bank contact listed on the LFI ExamSpace Information Center.

ROAM-S

ROAM-S is an additional scheduling tool that speaks to both C-SCAPE and ROAM-T. Events and resources booked in C-SCAPE flows directly to ROAM-S within 24 hours, then flows to ROAM-T within another 24 hours. In addition to scheduling, ROAM-S is also a COI flagging tool. The relevant Reserve Bank exam support staff is responsible for ensuring events and resources in C-SCAPE appropriately flow to ROAM-S as well as checking the tool for potential direct/indirect COI flags. Upon discovery of a COI, exam support staff notifies the EIC and relevant DST Lead/PLG.

ROAM-T

ROAM-T is the primary time tracking tool for all Federal Reserve staff. All time spent on Capital examinations is entered into ROAM-T. After an examination is entered into C-SCAPE, it will automatically flow into ROAM-T for all staff assigned to the event. All examination staff are responsible for ensuring that they book their time in ROAM-T under the automated event.

Capital Program Operating Manual

Phase I – Examination Preparation

Introduction

This section covers preparation for Capital exams, with the exception of the annual CCAR exercise. Expectations regarding in-depth reviews, baseline monitoring, and analytics are also out of scope of this section and are addressed within the Monitoring and Analysis Program (MAP) Operating Manual.

While expectations are largely similar for firm-specific and horizontal examinations, there are instances in which processes diverge. The purpose of each of the two types of Capital exams are summarized below:

- *Firm-specific examination*: Firm-specific examinations are reviews of a single firm, focused on a discrete area, and may be conducted jointly with another regulatory agency. Firm-specific examinations are generally performed for issues where supervisory expectations and industry range of practice are well understood; for inquiries which require in-depth knowledge of the firm's structure or management; or when the issue is time sensitive, making a horizontal examination impractical.

  Each firm-specific examination requires an examiner in charge (EIC) who is responsible for leading the overall execution throughout all phases described in this section. For Capital firm-specific examinations, the EIC is generally the DST's Capital lead or designee, but if the DST and Capital Program leadership agree, the EIC may come from a horizontal team.

- *Horizontal examination*: Horizontal examinations are reviews of a specific activity, business line, or risk management practice across a group of institutions. Horizontal examinations are conducted to understand the range of industry practice for a specific activity, product, risk management practice, or control; ensure consistent application of established supervisory expectations; and/or ensure consistent assignment of ratings.

  Horizontal examinations can be conducted through a common team or common scope. Common team horizontal examinations may be pursued for examinations seeking to establish a range of practice, for example in cases where activities are new or supervisory knowledge gaps are large. Common scope examinations may be pursued for examinations of activities and controls that are well understood and for which supervisory expectations are firmly established. Expectations in this document are the same for both common team and common scope horizontal examinations.

  All horizontal examinations are required to have an EIC who is responsible for leading the overall execution of the exam throughout all phases. The EIC is generally the team lead from the specific HET that proposed the exam, as they are best positioned to lead the day-to-day execution of the review, unless otherwise decided by Capital Program leadership.

In this section, unless stated otherwise, EIC refers to the individual responsible for leading the overall firm-specific and horizontal examinations. The EIC may also designate an examination team member to assist in meeting/completing expectations laid out in this document. In addition, an EIC Checklist and Exam Cheatsheet, posted on the LISCC Core Program Operating Manuals page, are available to assist EICs and exam teams with meeting required exam processes and expectations. EICs will be required to complete the EIC checklist throughout the examination cycle, as evidence of their review and compliance with all

examination processes.

In addition, while not applicable to Capital Program horizontal staff, exams led by a DST EIC are required to comply with Office of the OC DST Quality Control processes throughout the exam(s). For additional information, DST EICs should review the LISCC DST Quality Control Mission, Scope, Roles, Responsibilities and LISCC Quality Control Automation Tool User Guide.

Creation of Initial Examination Documents

The pre examination period generally begins 8-12 weeks before the exam commencement date. The EIC begins drafting the scope memo, with collaboration and input from exam team members or their delegates, which must be vetted with the SC or delegated body. The EIC may choose to create a workprogram that is consistent with the scope memo objectives and can guide the exam work. Once the scope memo is approved by the Capital SC or delegated body, the EIC, with collaboration and input from exam team members or their delegates, prepares the entry letter to the firm. In the final week before the exam commencement date, the exam team is expected to review firm-provided documentation in response to the entry letter before the internal kick-off meeting.

Table 3 below provides an overview of the deliverables and timelines associated with Phase 1 of a Capital Program exam. The complete Exam Cheatsheet is posted on the LISCC Core Program Operating Manuals page on the LISCC SharePoint site and throughout this document.

Table 3: Pre Examination Activities/Deliverables

ACTIVITY/DELIVERABLE	TIMING	FIRM SPECIFIC		HORIZONTAL				DOCUMENT REPOSITORY
		Responsible	ES Approver	Responsible	ES Approver	Responsible	ES Approver	
				Umbrella		Firm Specific		
SCOPE MEMO								
Draft scope memo posted to ExamSpace for collaboration/review	---	EIC	N/A	Horiz EIC	N/A	EIC	N/A	ES
Hold vetting and obtain approval	Commencement date (ECD) - 60	EIC	N/A	Horiz EIC	N/A	N/A	N/A	ES
Complete vetting outcome template and post to ExamSpace	Vetting date + 5	EIC	N/A	Capital PM	N/A	Capital PM	N/A	ES
Final scope review approved in ExamSpace	ECD - 37	EIC	Relevant PLG	Horiz EIC	Relevant PLG	N/A	N/A	ES
Notify exam support for Bond posting	ECD - 37	EIC	N/A	Horiz EIC	N/A	DST	N/A	BOND
WORK PROGRAM (OPTIONAL)								
Begin drafting of work program	Prior to ECD	EIC	N/A	Horiz EIC	N/A	N/A	N/A	ES
Finalize/align work program with scope memo	Prior to ECD	EIC	DST/HET Lead or Designee	Horiz EIC	Des PLG or Designee	N/A	N/A	ES
ENTRY LETTER								
DRAFT entry letter posted to ExamSpace for collaboration/review	---	EIC	N/A	Horiz EIC	N/a	N/A	N/A	ES
Entry letter LOG review	Before transmittal	EIC	N/A	Horiz EIC	N/a	N/A	N/A	ES

Provide letter to DST	Before transmittal	EIC	N/A	Horiz EIC	N/a	N/A	N/A	ES
Final entry letter approved in ExamSpace	ECD - 37	EIC	DST/HET Lead or Designee	Horiz EIC	Relevant PLG	DST	DST Lead or Designee	ES
Date/sign/send final letter to firm	ECD - 37	EIC	N/a	N/a	N/a	DST	N/a	Outlook
Notify exam support for BOND posting	Transmittal +7	EIC	N/a	N/a	N/a	DST	N/a	Bond
CONFIRM RECEIPT OF ENTRY LETTER MATERIALS FROM FIRM	ECD - 7	EIC	N/A	Horiz EIC	N/A	DST	N/A	Intralinks/ES
INTERNAL KICK OFF PREP	ECD - 7	EIC	N/A	Horiz EIC	N/A	DST	N/A	N/A
SCHEDULE EXAM KICK OFF MEETINGS	Prior to ECD	EIC and DST	N/A	Horiz EIC and DST	N/A	DST	N/A	Outlook

It is paramount that all deadlines associated with an exam are clearly communicated by the EIC to the entire exam team. If a situation arises that may impede an exam's ability to meet the required deadlines, the EIC should follow the process as laid out in the capital program missed exam deadline memo.

Scope Memo

The scope memo sets out the firm(s) in scope, lists specific deliverables and associated deadlines, provides the exam's goals, and defines the rationale. It also:

- Identifies the specific area(s) to be examined and gives an overview of the activities and risks to be evaluated,
- Specifies examination procedures to be performed, including any sampling process (judgmental/statistical) to be used and the level of transaction testing. The scope memo also specifies a set of questions that are to be answered (given that the work program is optional) with specific examiner assignments to those questions,
- Defines examination logistics including review period, location, and contact information, and
- Defines examiner assignments and responsibilities including expectations surrounding product deliverables.

<u>Drafting Responsibility</u>

A scope memo is required for all examinations. The EIC takes the lead in drafting the scope memo, with collaboration and input from exam team members and DST, and ensuring it is approved by the delegated body. Examiners should use the Horizontal Scope Memo Template or the Firm-Specific Scope Memo Template, as appropriate.

<u>Documentation Requirements</u>

The scope memo documentation requirements are the same for firm-specific and horizontal examinations and are summarized below:

- Once prepared, the draft scope memo should be posted to LFI ExamSpace to facilitate the review and approval process. The draft and final scope memos and vetting outcome memo are stored in the examination library in LFI ExamSpace.

- After receiving formal approval from the Capital SC or PLG, the final scope memo is converted to a .pdf file and uploaded to BOND Document Profile for the examination for each firm.
- While the EIC is responsible for verifying the final scope memo is uploaded to BOND, the EIC may rely on the DST and/or Reserve Bank Exam Support to post the final scope memo to BOND and associate it with the appropriate event C-SCAPE ID for their respective firm(s).

Approval Process/Vetting

For firm-specific examinations, the EIC drafts the scope memo and works with the relevant PLG member to get scope memo vetted at least 50 calendar days prior to the exam commencement date. During the scope vetting, in reaching consensus on the scope of work, the relevant PLG member, in coordination with the DST Lead, will make the decisions. Any dissenting viewpoints are to be documented in the vetting outcome. If divergent views raised, the disagreement will be escalated to the PLG Lead.

Following the scope vetting, the EIC incorporates feedback into the final scope memo and obtains approval at least 37 days before the exam commencement date.

- **For DST-led firm-specific examinations only**, the near final scope memo is required to be shared with DST Quality Control (QC) via the Supervision Quality Control Tool prior to official Examspace approval. Per DST QC, review and feedback takes up to 48 hours upon submission via the tool. Examiners should consider the timing of QC review, as well as any subsequent need for follow-ups, in order to meet ultimate deliverable deadlines and final approvals. For additional details, please refer to the DST QC manual/procedures.

Once the scope memo is finalized, the relevant PLG is responsible for noting approval within LFI ExamSpace.

For horizontal examinations, the horizontal exam EIC drafts the scope memo. The EIC reaches out to each DST's capital lead prior to the scope vetting with the SC to ensure that the firm has no examination date conflicts and that the scope does not require refinement. If conflicts or requests for tailoring emerge, the EIC remediates to the best of the EIC's ability, and if unable, escalates to the relevant PLG member overseeing the horizontal exam. The scope memo must be vetted by the Capital SC at least 50 days before the exam commencement date. The EIC incorporates feedback into the final scope memo and obtains approval at least 37 days before the exam commencement date.

Once the scope memo is finalized, the relevant PLG is responsible for noting approval within LFI ExamSpace.

The results of the scope memo vetting, inclusive of any feedback, suggestions, approvals and/or divergent views, are to be documented in the Vetting Outcome Template for all firm-specific and horizontal examinations and stored in LFI ExamSpace.

Scope Addendums

If there is a significant change in scope, the EIC should notify and work with the relevant PLG for review and approval of the proposed change. Changes to scope and the supporting rationale for the change should be documented in an Addendum to Scope memo. Once approved by the relevant PLG member, this information should be communicated to the exam team and documented in ExamSpace by the EIC.

Capital Program Operating Manual

Workprogram

The EIC is encouraged to create a workprogram to guide examiners through, and document, the review. There is no specific workprogram template and the EIC may choose the format or platform that works best for the specific examination. If used, workprograms must be consistent with the scope memo objectives and completed and shared with relevant DSTs/PLGs prior to exam kick-off. Workprograms include more detailed procedures to follow during the event, such as:

- Granular action items and/or questions to answer and assignment of questions to examiners,
- Deliverables for the team to create,
- Approaches to analyze materials received from firms.

Documentation Requirements

All workprograms are posted in ExamSpace.

Approval Process

If developed, workprograms are to be posted to ExamSpace and require approval in line with scope memo approvals.

Entry Letter

The entry letter notifies the firm(s) of the exam, including its goals and scope, start and end dates, onsite meeting logistics, documentation and meeting requests, instructions on how to submit the documents, and the EIC. Additionally, the letter requests information examiners will need to accomplish the exam's scope objectives. The EIC tailors the entry letter to reflect the scope objectives and activities. For onsite exams, EIC coordinates the onsite visit with the firm to ensure that team members have access to the facilities and works with the firm to arrange for meetings according to the expectations included in the entry letter.

Drafting Responsibilities

Once the exam scope is approved by the Capital SC or relevant PLG, the EIC, with collaboration and input from exam team members or their designees, is responsible for drafting the entry letter(s) using the LISCC letter head found ***[Redacted: hyperlink to internal website to which the entry letter template is posted]***.

For examinations where the EIC is not from the DST, the EIC is required to work with the relevant DST Capital lead(s) to ensure that the letter captures all firm-specific nuances, as appropriate. In such instances, examiners should follow the guidelines below.

- 3 weeks before transmittal:
    - For firm-specific examinations, the EIC drafts the entry letter using the LISCC letterhead found ***[Redacted: hyperlink to internal website to which the entry letter template is posted]*** and shares with relevant HET Lead(s) for review.
    - For horizontal examinations, the EIC drafts the entry letter template for all firms using the LISCC letterhead found ***[Redacted: hyperlink to internal website to which the entry letter template is posted]*** and shares with relevant PLG for review.
- 2 weeks before transmittal:

    - For all examinations, the EIC shares horizontal exam entry letter draft with Capital LOG for review and approval. For more information on the Capital LOG, please see Section III – Examination Conclusion below.
- 1 week before transmittal:
    - After LOG review and approval, the EIC shares the entry letter with relevant DST(s) for a fatal flaw review (e.g. fatal flaws, obtain DST signature and local Reserve Bank letterhead).

Documentation Requirements

Entry letter documentation requirements are the same for all Capital Program examinations and reviews and are summarized below:

- Once prepared, the draft entry letter should be posted to LFI ExamSpace to facilitate the review and approval process.
- Final copies, prior to signature, are stored in ExamSpace. Once signed, the letter should be converted to a .pdf file and uploaded to the BOND Document Profile for the examination for each firm. The signed letter should not be posted to LFI ExamSpace.
- The DST team, working with RB exam support staff, is responsible for uploading the final entry letter to BOND and associating it with the appropriate C-SCAPE event ID at least 30 calendar days before the Exam Commencement (onsite) Date, though it is ultimately the responsibility of the EIC to ensure documentation is posted into the system. For more details regarding BOND requirements, please refer to the BOND Posting Minimum Requirements.

Approval Process

For firm-specific examinations, the DST/HET Lead (or designee) is responsible for approving the entry letter in ExamSpace prior to issuance. The DST Lead is then responsible for conducting a fatal-flaw review, signing, and issuing the letter to the firm.

- **For DST-led firm-specific examinations only**, the near final entry letter is required to be shared with DST QC via the Supervision Quality Control Tool prior to official Examspace approval. Per DST QC, review and feedback takes up to 48 hours upon submission via the tool. Examiners should consider the timing of QC review, as well as any subsequent need for follow-ups, in order to meet ultimate deliverable deadlines and final approvals. For additional details, please refer to the DST QC manual/procedures.

For horizontal examinations, once the letter is approved by the LOG, the relevant PLG is responsible for approving the letter template in ExamSpace. The EIC then works with the DST for each firm in scope to ensure the individual entry letters are tailored to their firm and approved in ExamSpace. The individual firm letters are then signed by the DST Lead prior to transmittal.

Transmittal

The associated DST sends the entry letter to the firm(s) via secure Outlook email at least 37 calendar days before the Exam Commencement (onsite) Date.

Internal Kick-off Meeting

Before the exam commencement date, the EIC holds an internal kick-off meeting with their team. This is generally a level-setting meeting or conference call in which all staff participating on the exam is expected to attend. The meeting purpose is to:

- Discuss the scope memo including exam objectives; roles and responsibilities including who attends which meetings, who takes notes, and work product expectations including templates; timelines to ensure the exam stays on schedule; and logistics including physical access and technology access.
- Highlight entry letter material received, emphasizing the expectation that examiners review assigned materials in advance and be prepared for meetings.
    - An examiner who identifies a scheduling conflict that prevents him/her from reviewing the materials to be prepared for meetings notifies the EIC. If the conflict cannot be resolved, the EIC elevates the issue to the relevant PLG member, which may suggest other resources or scope modifications.
    - Determine initial questions regarding materials or logistics, if any. Should there be questions, the EIC should review with the DST to ensure they are not asking for information the DST already has access to or is otherwise inappropriate.
- Invitees:
    - All members of the specific exam/review team;
    - A DST member if no DST member is on the examination/review; and
    - Relevant PLG member.
- Documentation:
    - The EIC takes notes in the meeting minutes template and posts them to ExamSpace.

Phase II – Examination Execution

After preparatory work is completed, the kick-off meeting with the firm(s) typically marks the official examination commencement date (ECD). Examiners are expected to follow procedures outlined in this section in executing the onsite portion of the examination. This section covers Capital Program expectations with regards to communication and information sharing, meetings, internal deliverables, and divergent views in order to ensure consistent, high-quality exam execution.

Table 4 gives a high-level overview of the associated activities and deliverables required during the exam execution phase. The complete Exam Cheatsheet is posted on the LISCC Core Program Operating Manuals page on the LISCC SharePoint site and throughout this document.

Table 4: Onsite Activities/Deliverables

ACTIVITY/DELIVERABLE	TIMING	FIRM SPECIFIC		HORIZONTAL				DOCUMENT REPOSITORY
		Responsible	ES Approver	Responsible	ES Approver	Responsible	ES Approver	
				Umbrella		Firm Specific		
KICK OFF MEETING WITH FIRM(S)	ECD	EIC	N/A	N/A	N/A	DST and Horiz EIC	N/A	N/A
BEGIN FILLING OUT WORK PROGRAM (if required by EIC)	Onsite weeks	Exam Team	N/A	N/A	N/A	Exam Team	N/A	ES
INTERNAL PERIODIC CHECK-INS	Onsite weeks	EIC	N/A	Horiz EIC	N/A	Exam Team	N/A	N/A
ONSITE MEETING MINUTES	Due 5 days after meeting	EIC	N/A	N/A	N/A	Exam Team	N/A	ES
BEGIN WRITING EXAMINER CONCLUSION MEMO(S)	---	Exam Team	EIC	N/A	N/A	Exam Team	N/A	ES

It is paramount that all deadlines associated with an exam are clearly communicated by the EIC to the entire exam team. If a situation arises that may impede an exam's ability to meet the required deadlines, the EIC should follow the process as laid out in the capital program missed exam deadline memo.

Communication and Information Sharing

Communication is critical to the success of an examination. Internal and external communications are conducted via Outlook, conference calls, and/or internal work products. Examiners are expected to adhere to communication and documentation standards as outlined in this section to ensure consistent and transparent dialogue between stakeholders in the examination and wider Capital Program.

Internal Communication

Exam teams are expected to regularly communicate internally across team members and constituents for records management purposes, it is imperative that email and skype correspondences that contain supervisory matters/decisions are retained, PDF'd, and stored in ExamSpace.

The EIC discusses expectations with and gives regular progress updates to the exam team, with exam team members responsible for sharing supervisory finding updates, and administrative questions or concerns with the EIC.

The EIC is also expected to update the relevant DST Capital Lead and PLG member or HTL throughout the exam. HETs and DSTs will ensure that periodic check-ins occur during the exam, with more frequent check-ins if/as material supervisory concerns arise.

External Communication

Exam teams are expected to communicate externally with firms and, in certain circumstances, other regulators throughout the examination.[3] For records management purposes, it is imperative that email correspondences that contain supervisory matters/decisions are retained, PDF'd, and stored in ExamSpace. Communications between the exam team and the firm(s) are to be conducted through the DST for each firm and in accordance with the DST's local Reserve Bank policies.

Communication Information Security

Information security is critical. Improper data handling could lead to the inappropriate disclosure of confidential supervisory information, negative impact on supervised firms, and Federal Reserve reputational risk. Supervisory staff must be familiar with policies and procedures for information security, in particular those associated with Information Classification & Handling, Data Loss Protection, and AD Letter 15-3, "Security Requirements for Microsoft Office Documents."

Examiners should share information internally by using hyperlinks to the files posted to the site, as opposed to including documents as attachments.

Emails to firms are marked using the appropriate information security classification. Emails to firms on the Transport Layer Security (TLS) Connections list are to be classified using the "Secure External" Delivery option.[4] The only examination documentation ever shared with firms are the final entry letter, final supervisory letter, and meeting agendas or presentations, via established protocols, without exception. Internal deliverables are never shared with firms.

All email communications to other regulators are marked "Secure External."

Meetings

The EIC holds meetings throughout the examination internally with the exam team and externally with the firm(s). The below procedures govern meeting protocol and describe meeting types.

Internal Meetings

During the examination, the EIC holds regular (e.g., weekly) team meetings. The purpose is to allow examiners to share information, ask questions, and discuss emerging supervisory concerns. The EIC captures notes in the Meeting Minutes Template and posts them to ExamSpace within five business days of the

[3] For videoconference calls, please review Board Supervision and Regulation's guidance on the use of virtual meeting tools such as Zoom and WebEx found ***[Redacted: hyperlink to internal website containing a description of the guidance]*** and ***[Redacted: hyperlink to internal website to which guidance is posted]***.

[4] Selecting "Secure External" routes the email through the ZIX server; either the recipients must also have a ZIX server to receive the email or they must log onto our ZIX server to retrieve the email.

meeting.

External Meetings

During the examination, the exam team meets with the firm(s), following the below protocols. All documentation related to meetings with firms, including minutes, agendas, and shared materials, are stored on ExamSpace. The EIC is responsible for ensuring that a designated note taker uses the Meeting Minutes Template to document the meeting and uploads copies to ExamSpace.

At a minimum, a kick-off meeting is scheduled for the beginning of the examination, typically on the exam commencement date to cover introductions between the exam team and firm management, logistics and the EIC overview of exam objectives. The bank may provide an introductory overview of the area being reviewed. The EIC posts the agenda, minutes and supporting documentation to ExamSpace.

Other meetings with the firm(s) are held at the EIC's discretion. The entry letter lists the initially-proposed meetings and agenda topics. If the exam team determines that additional meetings are necessary, such as status updates or a soft-close/fact verification meeting, the EIC is responsible for working with the DST to schedule them. The EIC or designee posts the agenda, minutes and supporting documentation to ExamSpace within five business days of the meeting.

Internal Deliverables

Internal deliverables during the examination execution phase include a workprogram, if applicable, meetings, and any additional supporting workpapers. Examiners store all firm documents and internal work products in ExamSpace. Internal deliverables are never shared with the firm(s).

Workprogram

As noted in the exam preparation section, the EIC is encouraged to create a workprogram to aid examiners in conducting the review in alignment with the approved scope. The workprogram contains detailed objectives, questions and:

- Granular action items and/or questions for the exam team to answer
    - Examiners are not to give the workprogram questions to the firm(s).
- Approaches to analyze materials received from the firm(s).

Responsible Parties

As part of the scope, the EIC assigns examiners to complete specific sections of the workprogram if a workprogram is required.

Documentation Requirements

Examiners should post completed workprograms to ExamSpace and should ensure completion of the workprogram by the last day of the review (unless otherwise directed by the EIC).

Approval Process

No explicit approval of the completed workprogram is necessary. However, the EIC may require documentation enhancements to meet management standards.

Meeting Minutes

Examiners summarize key internal or external meetings in the Meeting Minutes Template.

Responsible Parties

The EIC designates an examination team member to complete meeting minutes for each internal and external meeting. All meetings must be documented and minutes posted to ExamSpace.

Documentation Requirements

The designated examiner posts the meeting minutes to ExamSpace within five days after the meeting.

Approval Process

No explicit approval of meeting minutes is necessary. However, the EIC may require documentation enhancements to meet high quality management standards.

Phase III – Examination Conclusion

Introduction

Examination conclusion begins after the last day onsite. Examiners finalize their examiner conclusion memos, allowing the EIC to put together his/her EIC conclusion memo and begin the disposition of findings memo. These documents assist the EIC in preparing for the vetting process and serve as point-in-time evidence of examiner and EIC evaluations and assessments. Once vettings are completed, divergent views recorded, and the evolution of findings captured in the Vetting Outcome Template, the EIC will work with the relevant approval party to complete the supervisory letter and send to the firm(s). Prior to sending the supervisory letter, the EIC conducts a final close-out meeting with the firm and certifies the completion of all workpapers. Upon communication of the supervisory letter, the supervisory letter is to be posted to BOND and supervisory findings entered in C-SCAPE.

Table 5 below provides an overview of the deliverables and timelines associated with Phase 3 of a Capital Program exam. The complete Exam Cheatsheet is posted on the LISCC Core Program Operating Manuals page on the LISCC SharePoint site and throughout this document.

Table 5: Post Examination Activities/Deliverables

ACTIVITY/DELIVERABLE	TIMING	FIRM SPECIFIC		HORIZONTAL				DOCUMENT REPOSITORY
		Responsible	ES Approver	Responsible	ES Approver	Responsible	ES Approver	
				Umbrella		Firm Specific		
POST EXAMINER CONCLUSION MEMO(S)	Close Date + 7	Exam Team	N/A	Exam Team	Horiz EIC	Exam Team	EIC	ES
EC APPROVES EXAMINER CONCLUSION MEMO(S)	Before drafting EIC memo	Exam Team	EIC	N/A	Des. PLG or Designee	N/A	Horiz EIC	ES
POST EIC CONCLUSION MEMO	Close Date + 21	EIC	N/A	Horiz EIC	Des. PLG or Designee	EIC	Horiz EIC	ES
REVIEW MANAGER APPROVES EIC MEMO	Before vetting	EIC	DST/HET Lead or Designee	Horiz EIC	Des. PLG or Designee	EIC	Horiz EIC	ES
DISPOSITION OF FINDINGS MEMO (DOF)	Before vetting	EIC	DST/HET Lead or Designee	Horiz EIC	Des. PLG or Designee	EIC	Horiz EIC	ES
EXAM TEAM VETTING	---	EIC	N/A	Horiz EIC	N/A	EIC	N/A	N/A
PLG VETTING	---	EIC	N/A	Horiz EIC	N/A	N/A	N/A	N/A
SC VETTING	---	N/A	N/A	Horiz EIC/Capital PM	N/A	N/A	N/A	N/A
COMPLETE VETTING OUTCOME MEMO	Within 5 days of meeting	EIC	N/A	Horiz EIC	N/A	EIC	N/A	ES
SEND SUPERVISORY LETTER TO LOG FOR REVIEW	Letter mail date -10	EIC	N/A	Horiz EIC	N/A	EIC	N/A	ES
CONDUCT FINAL EXIT WITH FIRM(S)	Prior to letter mail date	EIC	N/A	Horiz EIC	N/A	EIC	Horiz EIC	N/A
PRIMARY APPROVAL - ENSURE COMPLETION OF	Prior to letter	EIC	EIC	Horiz EIC	Horiz EIC	EIC	EIC	ES

ALL WORKPAPERS IN EXAMSPACE: EIC SIGN OFF	mail date							
SECONDARY APPROVAL - ENSURE COMPLETION OF ALL WORKPAPERS IN EXAMSPACE	Prior to letter mail date	DST/HET Lead or Desig	DST/HET Lead or Desig	Designated PLG or Designee	Des. PLG or Designee	DST Lead	DST Lead	ES
COMPLETE IVE CHECKLIST AND POST TO EXAMSPACE	Prior to letter mail date	EIC	N/A	Horiz EIC	N/A	EIC	N/A	ES
SUPERVISORY LETTER SIGNED AND MAILED TO FIRM	Close Date + 60	DST Lead	N/A	N/A	N/A	DST Lead	N/A	Outlook

As mentioned in earlier sections, all deadlines associated with an exam must be clearly communicated by the EIC to the entire exam team. If a situation arises that may impede an exam's ability to meet the required deadlines, the EIC should follow the process as laid out in the capital program missed exam deadline memo.

Development of Supervisory Findings

EIC and examiners communicate with each other throughout the exam so the EIC can understand and appropriately consider the examiner viewpoints. Examiners also write an examiner conclusion memo at the end of the onsite period documenting the overall conclusions for their specific scope objective or firm, using a workprogram as appropriate. The EIC then summarizes and aggregates the exam results, including proposed supervisory findings in the EIC conclusion memo; this serves as the basis for the DOF memo, vettings and supervisory letter development.

EIC and examiners should ensure that each scope objective and the overall exam are rated using the below language:

- ***Satisfactory***: Issues are minor and correctable in the normal course of business without undue management effort.
- ***Needs Improvement***: Issues are numerous in nature or warrant concerted management effort to address. Process and/or controls are not commensurate with the inherent risk level at this point in time; however, management has the ability to address the issues. This rating could also apply when management is taking steps to address issues, but there has not been enough time for demonstrated performance.
- ***Unsatisfactory***: Weaknesses need immediate attention and board attention. Management's ability to address the issues/weaknesses is questionable.

Additionally, the EIC completes the Vetting Outcome Template during the post-exam phase. The vetting outcome memo tracks supervisory issues identified during the examination and those that arise from/are eliminated or changed as a result of the vetting process. Additionally, the vetting outcome memo captures any divergent views raised during the vetting and ultimately, the resolution of those divergent views.

Examiner Conclusion Memo

Examiners document their individual work and conclusions for each assigned scope objective, including objective rating(s), in the Examiner Conclusion Memo Template. If there is a workprogram, it is a key source

of information for examiners to use in filling out the examiner conclusion memo. The EIC relies on these memos when writing the EIC conclusion memo, which is essentially an aggregation of all examiner conclusion memos.

Responsible Parties

Each examiner is responsible for completing an examiner conclusion memo that covers the assigned scope objectives. If more than one examiner is assigned to a scope objective, the examiners should work together to complete one examiner conclusion memo covering the shared scope objective. However, assignments and completed memos should identify the examiners responsible for each sub-objective as identified in the scope memo, if applicable. Examiner conclusion memos should clearly indicate individual examiner analyses and assessments, particularly in instances where divergent views amongst examiners arise related to objective ratings, assessments, and/or findings.

EICs may determine whether it is more prudent for examiners to work together to complete one examiner conclusion memo to cover the shared scope objective OR for each examiner to complete their own examiner conclusion memo to cover their assigned sub-objectives. Either method is acceptable as long as the expectation is defined in the scope memo, and subsequently, individual examiner analyses and conclusions are clearly evidenced within the conclusion memo.

Documentation Requirements

Once completed, and within seven days of the exam close date, the examiner posts the examiner conclusion memo to LFI ExamSpace to facilitate the review and approval process. EIC and examiner comments and edits should be captured within the draft examiner conclusion memo. Once ready for approval, a clean version of the examiner conclusion memo should be posted for the EIC to approve in ExamSpace.

Approval Process

The examiner submits the examiner conclusion memo to the EIC for review and signoff within ExamSpace. The EIC may require documentation enhancements to meet high quality management standards, but the examiner conclusion memo reflects findings that the examiner recommends, even if they differ from the EIC's opinion, and should not be directly edited by the EIC. The examiner will have the option to make the recommended EIC changes or not. This will maintain the integrity of the individual examiner's assessment. If the EIC disagrees with the examiner's final assessment, this should be reflected in the EIC conclusion memo and disposition of findings memo.

Disposition of Findings (DOF)

The Disposition of Findings Memo (DOF) tracks the proposed MRIAs, MRAs, and/or other supervisory recommendations as they evolve from the examiner conclusion memos to the EIC conclusion memo, and any subsequent reviews up until the vetting. The draft DOF memo is due prior to the exam team vetting. Any changes/updates to proposed findings subsequent will be documented in the Vetting Outcome Template.

Responsible Parties

The EIC completes the DOF template, copying findings/assessments from the examiner conclusion memos,

and documenting any significant changes made by the EIC and rationale for such changes. The DOF is then reviewed, per the below. Rationale for suggested changes by each level of review is required.

Documentation Requirements

The EIC posts the DOF memo to LFI ExamSpace prior to the internal team vetting for approval and then shares the hyperlink with the exam team.

Approval Process

The EIC is responsible for ensuring that issues are properly reflected in the DOF as evidence that they were adequately considered. All diverging views expressed prior to vetting should be in the DOF memo and in EIC conclusion memo, if applicable. Prior to exam vetting, the following approval process must occur within LFI ExamSpace:

- *Firm-specific examination*:
  - The HET/DST Capital lead or designee is responsible for reviewing and approving the DOF within LFI ExamSpace.
  - **For DST-led firm-specific examinations only**, the near final DOF is required to be shared with DST QC via the Supervision Quality Control Tool prior to official Examspace approval. Per DST QC, review and feedback takes up to 48 hours upon submission via the tool. Examiners should consider the timing of QC review, as well as any subsequent need for follow-ups, in order to meet ultimate deliverable deadlines and final approvals. For additional details, please refer to the DST QC manual/procedures.
- *Horizontal examination*: The relevant PLG member or designee is responsible for reviewing and approving the DOF. To the extent that a horizontal examination also has firm-specific or risk-specific EIC conclusion memos, the Horizontal EIC is responsible for reviewing and approving within LFI ExamSpace.

EIC Conclusion Memo

For Capital exams, the EIC prepares a single memo using the EIC Conclusion Memo Template to summarize the examination's key information and takeaways. The EIC conclusion memo is an aggregation and synthesis of the individual examiner conclusion memos and summarizes the overall conclusions of the examination, including proposed horizontal and firm-specific findings and an overall exam rating. The EIC conclusion memo is used for the vetting process.

Responsible Parties

For firm-specific exams, the EIC creates a single EIC conclusion memo.

For horizontal examinations, each firm-specific EIC(s) create a single EIC conclusion memo for each firm within the horizontal exam. The horizontal EIC/Lead is then responsible for an aggregate EIC conclusion memo summarizing the overall examination from a horizontal perspective.

Documentation Requirements

As the EIC conclusion memo is a key input for vettings, the EIC must ensure that:

- All examiner assignments and scope objectives listed in the scope memo are completed.
    - If not completed, the reason for deviating from the scope documented in the relevant examiner conclusion memo is documented in the conclusion memo.
    - If the scope was altered (expanded or reduced, and approved), this is documented in the EIC conclusion memo and a scope addendum.
- The EIC conclusion memo is completed fully and accurately using the required template and all proposed findings are clearly supported in accordance with FR standards outlined in
- All workpapers supporting the EIC conclusion memo are uploaded to LFI ExamSpace.
- All workpapers are properly classified (e.g., Restricted FR).

As with other internal deliverables, once completed, the EIC posts the draft EIC conclusion memo to LFI ExamSpace to facilitate the review and approval process.

Approval Process

Because the EIC conclusion memo serves as a key input into the vetting process. However, the EIC should share the memo with the relevant individual, identified below, within 21 days of the exam close date and before the vetting process for approval.

This expectation varies slightly for firm-specific and horizontal examinations:

- *Firm-specific examination*:
    - The HET/DST Capital lead or designee is responsible for reviewing and approving the EIC conclusion memo within LFI ExamSpace.
    - **For DST-led firm-specific examinations only**, the near final EIC conclusion memo is required to be shared with DST QC via the Supervision Quality Control Tool prior to official Examspace approval. Per DST QC, review and feedback takes up to 48 hours upon submission via the tool. Examiners should consider the timing of QC review, as well as any subsequent need for follow-ups, in order to meet ultimate deliverable deadlines and final approvals. For additional details, please refer to the DST QC manual/procedures.
- *Horizontal examination*: The relevant PLG member or designee is responsible for reviewing and approving the aggregate EIC conclusion memo. To the extent that a horizontal examination also has firm-specific or risk-specific EIC conclusion memos, the Horizontal EIC is responsible for reviewing and approving within LFI ExamSpace.

In reviewing and approving the EIC conclusion memo, the responsible reviewer is to ensure the EIC conclusion memo is:

- written in a logical, clear and concise manner, and
- fully supported by appropriate facts, statistical data, and analysis; and
- the focus, tone, and conclusions are consistent with facts.

Divergent Views

Supervisory outcomes are strengthened through the sharing of viewpoints and debating ideas, as discussed in AD Letter 17-7, “List of Guiding Principles and Suggested Practice for the Divergent Views Framework.” LISCC expectations surrounding divergent views are available in the LISCC Program Divergent Views policy.

Examiners are expected to share supervisory matters including views and concerns, throughout the exam in ongoing communication within the exam team and with the EIC, and document them in the examiner conclusion memo.

The EIC is made aware of examiner divergent views through ongoing communications with the exam team, and the review of examiner conclusion memos in which the examiner documents his/her conclusions and issues. The EIC tracks the evolution of supervisory issues from examiner to EIC in the Disposition of Findings memo, which documents viewpoints that were considered during the examination and review process.

The EIC ensures the appropriate consideration of divergent views by:

- Encouraging the exam team to discuss divergent views throughout the examination in order to gain consensus, if possible, on conclusions and issues;
- Coordinating with the PLG or HTL to resolve matters that can be addressed, wherever possible, in advance of the vetting, and
- Documenting significant differences of opinion or viewpoints in the conclusion memo and DOF, for the exam team, HTL, PLG and SC to consider during the conclusion vetting process. Divergent views that occur during the vetting should be included in the Vetting Outcome Template.

If an examiner believes that his/her views are not considered properly, the examiner:

- Ensures the examiner summary of findings clearly documents his/her views;
- Expresses the view(s) during the vetting process outlined in this document;
- May communicate the views to the PLG at any time;
- Complete the Divergent Views Template and share with the Capital Program Operations Lead;
- May raise the material divergent view to the Independent Channel Point of Contact.

Vettings

The Capital Program vetting process is a formal venue for participants and constituents (including exam team members, the DST, and the PLG member, and potentially the SC, relevant risk specialists and additional members of other LISCC programs), to make a careful and critical examination of supervisory conclusions and foster an exchange of opinions. Staff is strongly encouraged to respectfully and professionally share opinions as robust discussions strengthen the quality and consistency of supervisory findings, ratings, and key messages across the supervised firms. Vettings also enable collaboration in developing supervisory solutions, and the sharing of knowledge, supervisory perspectives, horizontal perspectives and divergent views. Ultimately, this process serves to refine findings into formal supervisory feedback to be sent to the firm(s).

For firm-specific examinations, the Capital Program requires two levels of vetting: 1) internal exam team vetting; and 2) PLG Subcommittee vetting.

For horizontal examinations, the Capital Program requires three levels of vettings: 1) internal exam team vetting; 2) PLG Subcommittee vetting; and 3) SC vetting.

The SC reserves the right to request vettings/read-outs for any firm-specific examinations. All vetting results are documented via the Vetting Outcome Template. The vetting process is outlined in greater detail below.

Documentation Expectations

The EIC uploads all vetting documents to LFI ExamSpace. In addition, the EIC is responsible for completing the Vetting Outcome Template, to record:

- Attendees and date of meeting;
- Approval of memo and changes required to vetting documents and/or conclusions;
- Required follow-ups and owners; and
- Vetting highlights including decisions made, feedback given, questions and answers, divergent views raised, and proposed changes to document and, to the extent possible, who made the comments.

The completed vetting outcome memo should be shared within 48 hours with DST Lead/Deputy and active vetting participants so they can be aware of documented meeting outcome to ensure agreement.

Attendance Expectations

<table>
<tr><th colspan="3">Invitees</th></tr>
<tr><td rowspan="11">Required Attendees</td><td colspan="2">The EIC and Vetting Coordinator determine who are in these roles and invite them as Required Attendees to the meeting:</td><td></td></tr>
<tr><td></td><td>Internal Exam Team Vetting</td><td>PLG Vetting</td><td>Capital SC Vetting (Horizontals and IDRs only)</td></tr>
<tr><td>Exam team</td><td>X</td><td>X</td><td>X</td></tr>
<tr><td>EIC</td><td>X</td><td>X</td><td>X</td></tr>
<tr><td>Relevant HTL and/or Deputy</td><td>X</td><td>X</td><td>X</td></tr>
<tr><td>DST Capital Lead</td><td>X</td><td>X</td><td>X</td></tr>
<tr><td>DST Lead and/or Deputy</td><td></td><td>X</td><td>X</td></tr>
<tr><td>Relevant PLG</td><td>X</td><td></td><td></td></tr>
<tr><td>PLG</td><td></td><td>X</td><td>X</td></tr>
<tr><td>SC</td><td></td><td></td><td>X</td></tr>
<tr><td colspan="3">To hold the meeting, Required Attendees (or their designated replacement) must (1) accept the meeting invitation or (2) have given feedback in advance to the EIC. If a Required Attendee accepts but does not attend the meeting, the meeting may proceed; in this case, the EIC solicits the Required Attendee's feedback immediately following the vetting. The EIC documents the feedback from the absent Required Attendee. If the Required Attendee does not give feedback within 48 hours of the vetting, the EIC documents the effort in the workpaper database.

For PLG Subcommittee vettings, a quorum of PLG members is required to move forward with the vetting as scheduled. If a PLG member cannot attend, but a quorum of PLG members is available, EICs do not need to seek feedback from the other PLG members prior to or following the vetting.</td></tr>
<tr><td>Additional Invitees (required to invite but optional to attend)</td><td colspan="3">The EIC and Vetting Coordinator determine who are in these roles and invites them as additional optional invitees (who are not required to attend):
• Relevant risk specialists
• Any additional DST members
• Additional members of other LISCC programs

The meeting may proceed even if Additional Invitees do not accept the meeting invitation.</td></tr>
</table>

Vetting Stages

The Capital Program conducts the vetting of examinations through a staged approach, with each vetting building on the subsequent stage in order to hone in on the supervisory message and findings to be sent to the firm(s). The procedures and expectations for the vettings are largely consistent for Capital examinations. The expectations as described below are applicable to firm-specific and horizontal examinations. All vetting feedback is documented using the vetting outcome template.

Internal Exam Team Vetting

- The first vetting occurs after all exam work and examiner conclusion memos have been completed;
- The EIC leads this vetting, which includes all exam participants, as well as team leads and deputies from the relevant HTL and DST. If DST members were not on the exam, the EIC contacts the DST Capital Lead to secure representation. In addition, the relevant PLG member should be invited to attend the exam team vetting in listen-only mode to remain apprised of progress of exam conclusions and potential supervisory findings. The relevant PLG member may provide feedback to the relevant HTL/deputy post vetting
    - The EIC is responsible for ensuring that preliminary exam and objective ratings, as well as supervisory findings are vetted with the exam team.
- The EIC records the vetting outcome, using the Vetting Outcome Template. Any divergent views that arise are required to be documented in accordance with the divergent views process as described in subsection Phase II – Examination Execution;
- All vetting documentation is stored on ExamSpace; and
- Communications with the DST:
    - If a DST member is on the exam, the DST member communicates with DST leadership.
    - If no DST member is on the exam, the EIC communicates with the DST contact.

PLG Subcommittee Vetting

- Required attendance is the PLG Subcommittee and the examination team, including DST representatives;
    - A qurorum of PLG members is required if all members are not available
- The second vetting is led by the relevant PLG member to validate and finalize findings and ratings for firm-specific exams, and to validate and refine findings and ratings before the Capital SC vetting for horizontal exams;
    - Previous divergent views are considered and settled, where possible.
    - In reaching decisions on the issuance of findings and the assignment of ratings, the relevant PLG member, in coordination with the DST Lead, will seek consensus among all PLG members. In the absence of consensus, the PLG Lead and DST Lead will make the decisions and any dissenting viewpoints are to be documented in the vetting outcome. If the PLG lead and DST lead disagree, the disagreement will be escalated to the SC co-chairs.
    - Any divergent views that cannot be settled are documented in accordance with the divergent views process;
- The EIC may designate an exam team member to record the vetting outcome, using the Vetting Outcome Template; and
- All vetting documentation is stored on LFI ExamSpace.

- In addition, the Capital Operations team is available to assist in scheduling and documenting the outcome of the PLG vetting.

Capital SC Vetting

- Unless requested by the Capital SC, this vetting stage is only for horizontal examinations;
- Any relevant materials needed for the Capital SC vetting, including EIC conclusion memo, are to be sent to the Capital Program Operations Team and will be stored in the designated meeting material folder on the Capital SharePoint site for SC review prior to vetting.
- The relevant PLG member leads this final vetting to get final approval from the Capital SC. Divergent views are considered and settled by the Capital SC by vote in accordance with the established divergent views process;
- In reaching decisions on the issuance of findings and the assignment of ratings, the SC Co-Chairs seek consensus among all SC members. In the absence of consensus, the SC Co-Chairs will make the decisions and any dissenting viewpoints are to be documented in the vetting outcome.
- Participants are the full Capital SC, PLG, HTLs and relevant deputies, examination team leads, and the DST Lead and/or deputies of each firm;
- The Operations Team is designated as vetting scribe to capture the vetting outcome using the Vetting Outcome Template. Any divergent views that arise must be documented in accordance with the divergent views process; and
- All vetting documentation is stored on LFI ExamSpace.

To the extent that a vetting results in the need for additional examination work or review, the EIC should use the LISCC Capital Memo Template to document the work and any changes in findings. Changes should not be made to previously approved examiner or EIC conclusion memos.

Supervisory Feedback Development and Transmittal

Introduction

An important part of the examination and inspection is the communication of supervisory messages and/or findings to the directors and senior management of the firm(s). To be effective, communications must be: (1) written in clear and concise language; (2) prioritized based upon importance; and, (3) focused on the more significant matters that require attention. Supervisory feedback is drafted in accordance with SR Letter 13-13 and as outlined in the LISCC Manual Part III: Supervisory Feedback.

Prior to transmittal of the supervisory letter(s), examination workpapers should be reviewed.

Supervisory Letter

To close an examination, supervisory feedback is sent to the firm(s) in a supervisory letter. The supervisory letter captures the key messages that exam staff wish to communicate to the board of directors and senior management regarding the firm's capital position and risk management practices or examination conclusions. The letter completion is a collective effort of exam team staff, DST risk specialists, and the Capital Program leadership feedback.

The Supervisory Letter should follow the LISCC Supervisory Letter Template and include:

- Brief description of scope;
- Date of the close-out meeting with the firm and list of key participants from the institution management and FR;
- Overall assessment or executive summary of the areas reviewed using the language below:

> ❖ ***Satisfactory***: Issues are minor and correctable in the normal course of business without undue management effort.
> ❖ ***Needs Improvement***: Issues are numerous in nature or warrant concerted management effort to address. Process and/or controls are not commensurate with the inherent risk level at this point in time; however, management has the ability to address the issues. This rating could also apply when management is taking steps to address issues, but there has not been enough time for demonstrated performance.
> ❖ ***Unsatisfactory***: Weaknesses need immediate attention and board attention. Management's ability to address the issues/weaknesses is questionable.

- Relevant findings and conclusions, including MRIAs and MRAs, as applicable;
    - MRIAs/MRAs must be written to align with the expectations outlined in SR Letter 13-13.
        - *Matters Requiring Immediate Attention*, matters arising from the examination/inspection that the Federal Reserve is requiring a banking organization to address immediately;
        - *Matters Requiring Attention*, matters that are important and that the FR is expecting a banking organization to address over time
    - Each MRIA/MRA must have a timeline associated with it per SR Letter 13-13.
- A deadline of 45 days from the report disposition date for management to respond to any issues.

Responsible Parties

While expectations are generally consistent for firm-specific and horizontal examinations, the review process of the supervisory findings letter differs:

- For *firm-specific examinations*, the EIC takes the lead on drafting the supervisory letter using the LISCC Supervisory Letter Template, working closely and extensively with the DST Capital Lead and exam staff as appropriate to ensure that the right message is sent to the firm.
- For *horizontal examinations*, the EIC takes the lead on drafting the supervisory letter for each firm using the LISCC Supervisory Letter Template. The EIC may delegate the initial drafting to members of the exam team, but is responsible for ensuring high-quality drafts for each firm.
- For all examinations, the EIC is responsible for sending the draft letter(s) to the Capital LOG for additional editing and review.
    - The Capital LOG will review and edit, but not draft, supervisory letters.
    - The LOG reviewed letter (both the LOG edited and final versions) should be posted to LFI ExamSpace. The Capital Program's PLG and SC Co-Chairs may review and edit the letters, as appropriate or if requested by the LOG. Details on the LOG's review process can be found below.
- For all examinations, letter writing is expected to be a collaborative process between the EIC, program leadership, and the DST. Steps should be taken to ensure all parties are comfortable with the letter language, while remaining consistent with vetted decisions. The DST is responsible for

adding the DST Lead's signature and ensuring the letter is addressed to the appropriate firm contact(s).

Documentation Requirements

The supervisory letter documentation requirements are the same for firm-specific and horizontal examinations. Requirements are summarized below.

- The draft and final supervisory letter(s) are to be stored in LFI ExamSpace.
- Additionally, a copy of all final, signed supervisory letters should be converted to a .pdf file and uploaded to the BOND Document Profile for the examination for each firm. The signed supervisory letter should not be posted to LFI ExamSpace.
- The DST is responsible for uploading the final, signed supervisory letter to BOND and associating it to the appropriate event C-SCAPE ID.

Approval Process

For firm-specific and horizontal examinations, the EIC, in coordination with the DSTs and exam team, drafts the supervisory letter. Upon drafting, all supervisory letters should be reviewed by the relevant PLG member prior to sending to the Capital LOG for review. Please see below for details on the LOG review process.

After LOG review, ensuring that all LOG comments have been addressed, the LOG chair will approve the letter within LFI ExamSpace.

- **For DST-led firm-specific examinations only**, the near final supervisory letter is required to be shared with DST QC via the Supervision Quality Control Tool prior to official Examspace approval. Per DST QC, review and feedback takes up to 48 hours upon submission via the tool. Examiners should consider the timing of QC review, as well as any subsequent need for follow-ups, in order to meet ultimate deliverable deadlines and final approvals. For additional details, please refer to the DST QC manual/procedures.

Once the letter has been reviewed by both the LOG, and DST QC as required, the letter(s) is then sent to the relevant DST for a fatal flaw review and signature.

Capital Letter Oversight Group (LOG)

The Capital LOG is responsible for overseeing the production and review of (but not the drafting of) entry letters and supervisory letters issued in connection with all examinations of firms. The Capital LOG is chaired by the PLG operations and communications lead and its membership may be expanded, as needed, to include a subset of members of the Capital PLG and one or more DST Capital Leads.[5] Additional members of the Capital LOG may include members of the Capital SC, as well as staff with responsibility for oversight of broader supervisory communications across the LISCC portfolio.

[5] The DST Capital Lead for an event for which a supervisory letter is being prepared will be a part of the LOG for the purposes of that exercise and will work with the LOG Chair to edit the letter on behalf of their DST.

Key responsibilities of the Capital LOG include:

- Ensure that conclusions reached during vetting sessions are appropriately reflected and translated into the letters;
- Ensure that all external communications are consistent with applicable capital rules and regulations
- Ensure all supervisory messages are clear and concise;
- Review and adjust all introductory and common language components of the letters;
- Review and adjust thematic issues in the letters; and
- Coordinate with stakeholders to receive and incorporate any feedback prior to final letter issuance.

LOG Process Flow and Description

Table 6: LOG Process Flow and Description

Task	Role	Task Description	Timeline
Complete Initial Draft Letter	DST/EIC/Designee	The event participants will complete a draft version of the letter for review by the LOG. A link to the letter should be sent via email to the relevant PLG member(s), with a cc to the exam team, upon completion.	No later than 20 days from the letter transmission date
Relevant PLG Review & Edits	Relevant PLG member(s)	The relevant PLG member(s) will review and edit the letter prior to review by the LOG. A link to the letter should be sent via email to the LOG Chair, with a cc to the EIC, upon completion.	No later than 15 days from the letter transmission date
LOG Draft Letter Review & Edits	Capital LOG member(s)	A member of the Capital LOG will acknowledge receipt and one or more members of the LOG will be responsible for editing the letter. The edits will occur directly in ExamSpace in a separately saved LOG version of the letter and be in the form of line edits and bubble comments. This review and editing period will include consultation with the full Capital LOG, if required. The LOG Chair will evidence this consultation and any divergent views resulting from it within the bubble comments.	No later than 10 days from the letter transmission date
Feedback Consolidation	DST/EIC/Designee with assistance from LOG Chair or designee	The DST/Exam Team will review and respond to any LOG feedback.	No later than 7 days from the letter transmission date
Final LOG Review	Capital LOG	The LOG will have a chance to make final edits via ExamSpace prior to finalization. Upon agreement, a third, final, clean version of the letter will be provided back to the LOG Chair.	No later than 5 days from the letter transmission date
Distribution	LOG Chair/DST/EIC/ Designee	The LOG Chair will confirm the final by approving the letter in ExamSpace, signifying that letter is ready for signature and and transmittal to the firm, by the DST.	No later than 5 days from the letter transmission date.

Capital Program Operating Manual

Workpaper Approval in LFI ExamSpace

LFI ExamSpace includes features that allow for documenting the approval of workpapers in order to meet LISCC expectations that a review of workpapers associated with the Supervisory Letter is conducted prior to their issuance. There are two types of approvals for work papers: i) approval of individual documents associated with an event, and ii) approval of the complete set of work papers for an event as part of completing/closing the event.

NOTE: Workpaper approval in LFI ExamSpace is expected to follow the protocol (as described below), not the System guidance as outlined in the LFI ExamSpace User Guide. How to perform the approvals remains unchanged.

Both the EIC and the relevant HTL or DST Capital Lead or designee are required to review and certify that the work papers are complete and fully support the findings and conclusions as described below and adhere to G&C Program guidance. Refer to the LFI ExamSpace User Guide for how to perform approvals using the Overall Approval Functionality in LFI ExamSpace.

Primary Approval

For all examinations, the EIC is required to review the work papers stored in ExamSpace Event to ensure that findings and assessment are fully supported and that scope objectives and any changes have been addressed by the review team. This review should occur prior to the letter being mailed to the firm. The ExamSpace Event should be closed only after the EIC has completed his/her comprehensive review of the work papers to determine if the examination team:

- Followed the approved scope (including addendums);
- Completed all scope objectives and assessed each as appropriate;
- Identified and fully analyzed, supported, and documented all findings in the work papers, and
- Provided reasonable conclusions based on well-supported findings.

The EIC should be able to certify that the set of workpapers:

- Is complete and can independently stand on their own, and
- Fully support the findings and final assessment. Any open items, unanswered questions, or missing conclusions should be explained and documented in the work papers.

The EIC Checklist, posted on the LISCC Core Program Operating Manuals page should be used throughout the examination and during this primary approval process to ensure that all workpapers and products were uploaded, completed, and approved as required. The completed EIC Checklist must be uploaded to ExamSpace, prior to primary approval, to serve as evidence of the EICs review process.

Secondary Approval

A secondary level of review should be performed for all examinations. Secondary reviews should be primarily focused on whether work paper documentation fully supports the supervisory findings and conclusions included in the final Supervisory Letter or Report. The reviewer should be focusing on information from vettings (or other discussions); whether the vetting session summary and disposition of

findings documents accurately reflect information from vettings or discussions and provide adequate support for the final Supervisory Letter or Report. This review should occur prior to the letter being mailed to the firm.

The below notes who the secondary approval should be for each examination type:

- *Firm-specific examinations*: The secondary approval should be performed by the HET/DST Capital Lead or their designee.
- *Horizontal examinations*: The secondary approval within the umbrella LFI ExamSpace section should be conducted by the relevant PLG or their designee. Within the firm-specific LFI ExamSpace sections, the secondary approval should be performed by the DST Lead or their designee.

Note: Each LFI ExamSpace Event will be archived (Read only) automatically 60 days following the Actual Completion Date of the supervisory event in C-SCAPE. The Actual Completion Date is the date on the letter to the firm, if one is prepared, or when all on-site and off-site supervisory work is complete.

For more detail, please reference LFI ExamSpace User Guide, LFI ExamSpace Information User Guide - Document Properties, and Quick Reference.

Divergent Views

Any divergent views that arise during the letter writing process are required to be documented in accordance with the divergent views process. Please follow LISCC Program-wide Divergent Views guidance for more information on how to handle divergent views.

Transmittal

The final supervisory letters are expected to be delivered to the firm(s) from the DST via Outlook secure email 60 days after the exam close date (letter transmission date). In all instances, supervisory letters must be submitted to DSTs with sufficient time (e.g. at least 2 days) for the DST to review the letter prior to signing and sending to the firm.

Exam Closure

After feedback is formally sent to the films, the exam is considered “closed.” The EIC is responsible for working with Reserve Bank Exam Support to ensure the postings of all appropriate documents to [BOND and supervisory findings to C-SCAPE in a timely manner.

BOND and C-SCAPE

- After feedback is formally sent to the firms, the EIC works with local Reserve Bank Exam Support to ensure all appropriate documents are posted to BOND within 7 days of communication of the letter, as well as all MR(I) As associated with the examination are inputted into C-SCAPE within 10 days of communication of the letter.
- The EIC works with local Reserve Bank Exam Support to close out the exam in C-SCAPE. Here, the EIC ensures that each firm specific event in C-SCAPE is marked closed prior to closing out the overall horizontal event. Here, the completion date should align with the letter transmittal date.

Phase IV – Issues Management and Management Response

Introduction

After an examination is closed and supervisory feedback is sent to the firm, the DST staff should work with a local examination support team to prepare to input issued findings (if applicable) into C-SCAPE and conduct any follow-up work as necessary. This last phase of exam execution closely ties with the third phase of the supervisory cycle: supervisory follow-up and remediation.

In addition, after each examination in which supervisory feedback is sent, the firm(s) will be expected to provide a firm management response letter via secure email to the DST. Upon receiving this letter, the DST is to share the response with the EIC and exam team and upload a copy into BOND within 7 days. The DST, in coordination with the EIC and issue owners, is also responsible for preparing an acknowledgement letter to the firm that addresses the adequacy of the institutions' response, sufficiency of remediation action plans, and expectations for additional follow-up.

Post Event Activities

Table 7: Follow-Up Activities/Deliverables

ACTIVITY/DELIVERABLE	TIMING	FIRM SPECIFIC/HORIZONTAL		DOCUMENT REPOSITORY
		Responsible	Approver	
NOTIFY/SHARE LETTER WITH EXAM SUPPORT FOR BOND ENTRY	Letter mail date + 7	EIC/DST/Exam Support	N/A	BOND
NOTIFY/SHARE ISSUES WITH EXAM SUPPORT FOR C SCAPE ENTRY	Letter mail date + 10	EIC/DST/Exam Support	N/A	C-SCAPE
RECEIVE MANAGEMENT RESPONSE LETTER	Letter Mail Date + 45	DST	N/A	N/A
NOTIFY EXAM SUPPORT FOR BOND ENTRY	Receipt of response letter + 7	DST	N/A	BOND
REVIEW MANAGEMENT RESPONSE LETTER	---	DST and Primary Issue Owner	DST/HET Lead or Desig	N/A
DRAFT ACKNOWLEDGEMENT LETTER	---	DST and Primary Issue Owner	DST/HET Lead or Desig	N/A
ACKNOWLEDGEMENT LETTER REVIEW/APPROVAL	---	DST/HET Lead or Desig	N/A	N/A
SEND ACKNOWLEDGMENT LETTER TO FIRM	Receipt of response letter + 30	DST	N/A	Outlook
NOTIFY EXAM SUPPORT FOR BOND ENTRY	Acknowledgement letter mail date + 7	DST	N/A	BOND

All deadlines associated with an exam must be clearly communicated by the EIC to the entire exam team. If a situation arises that may impede an exam's ability to meet the required deadlines, the EIC should follow the process as laid out in the capital program missed exam deadline memo.

C-SCAPE: Opening and Closing Issues

Upon approval and issuance of the supervisory letter, the primary and secondary issue owners are assigned to all new issues. The primary issue owner ensures that all issues are entered into C-SCAPE within 10 days of the letter mail date, and notifies the secondary issue owner once inputted.

In instances where an issue is being closed as the result of an examination, the primary issue owner ensures that all issues are appropriately updated and closed in C-SCAPE within 10 days of the letter mail date, and

notifies the secondary issue owner once updated. In instances where an existing issue is escalated from an MRA to MRIA, the MRA will be considered closed and transformed in C-SCAPE to an MRIA. Please refer to C-SCAPE User Guide for step-by-step instructions in inputting and transforming issues.

Note: For the initial issue entry, the local Reserve Bank exam support team will generally perform the physical entry. The primary issue owner should follow up to ensure this is completed within the 10-day window.

Management Response

Unless granted an exception, firms are given 45 days from the date that they received the supervisory letter to provide a remediation plan. If the supervised institution requests an extension for a management response, action plans, or timeframe for completion, the primary and secondary issue owners need to assess the request's reasonableness, document their response, and communicate the response to the firm via secure email.

Receipt and Sharing of Management Response

Within 45 days, the firm's management response will be sent to the DST. Upon receipt, the DST will share the response, via Outlook, with the primary issue owner if the DST Capital lead is not designated as such.

Assessing Management Response

Upon receipt of the management response, the primary issue owner, in conjunction with the secondary issue owner, is responsible for assessing the responsiveness or reasonableness of the firm's remediation plan. For instances where the primary issue owner is the HET, the DST should be informed of the assessment prior to the drafting of the acknowledgment letter.

Acknowledgement Letter

Within 30 days of receipt of the management response, the relevant DST, in conjunction with the EIC and primary issue owners, are required to send an acknowledgement letter to the firm using the Acknowledgement Letter Template. The acknowledgement addresses the adequacy of the firm's response, sufficiency of remediation action plans, and any expectations for additional follow-up. If the response requires additional work and/or meetings with the firm to evaluate the adequacy of the response or action plans, the primary issue owner can work with the DST to request an acknowledgement letter extension via secure email.

Drafting Responsibility

The DST Capital Lead is responsible for the overall acknowledgement letter to their firm and is expected to work directly with the primary issue owners and EIC, as appropriate, in drafting content specific to MRIA/MRA as well as the overall letter.

Approval Process

Unless specifically requested, there is no required involvement from the Capital LOG in the drafting and distributing of the acknowledgment letter. DSTs are to distribute the letter in accordance with the

transmittal expectations as outlined in the Supervisory Feedback Development subsection.

Transmittal

The DST Capital lead sends the letter to the firm via secure email.

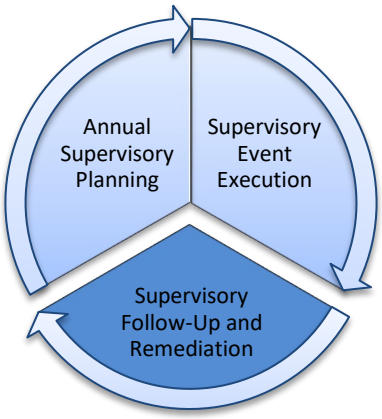
In instances where the firm's remediation action plans is deemed insufficient, the firm is required to provide a second submission. Should the second submission remain insufficient, the DST Capital lead will inform the firm (either via secure email or in person) that it will be reviewed as part of the coming round of CCAR. A second acknowledgement letter will not be issued.

After each examination in which supervisory letter is sent, within 45 days, the firm(s) will be expected to provide a firm management response letter via secure email to the DST. Upon receiving this letter, the DST is to share the response with the EIC and exam team and upload a copy into BOND. The primary issue owner is also responsible for preparing an acknowledgement letter to the firm that addresses the adequacy of the institutions' response, sufficiency of remediation action plans and expectations for additional follow-up. The acknowledgement letter is due to the firm within 30 days of receipt of the firm management response.

Supervisory Follow-Up and Remediation

Overview

The following guidance complements that of the broader LISCC Program Issues Management Guidance, the minimum expectations and standards for managing supervisory issues set forth in SR Letter 13-13, "Supervisory Considerations for the Communication of Supervisory Findings," and other related Board guidance. This guidance sets forth roles, responsibilities, and minimum expectations for the management of the Capital Program supervisory issues, from issue origination and entry into the System's official issues tracking repository, C-SCAPE, to issue monitoring, and ultimately to issue closure.



Roles and Responsibilities

Issues management involves the collective efforts of the Capital SC, PLG, HETs, and DSTs. Their general roles and responsibilities are as follows (for detailed roles and responsibilities, please see each phase of the issues management cycle as described in Table 8 below):

Table 8: Roles and Responsibilities

Governance Group	Roles and Responsibility
Capital Steering Committee (SC)/PLG Subcommittee	The Capital SC delegates its authority to the SC Designee, also known as the "PLG Subcommittee" comprised of the PLG Lead (chair) and all PLG members, in instances of issue closure arising from routine continuous monitoring or via RVEs. The PLG is also responsible for vetting and approving the closure of supervisory issues resulting from firm-specific examinations.
Primary Issue Owner	The primary issue owner is the horizontal or DST team member who originally authored the issue (e.g., the examiner-in-charge (EIC) or subject matter expert (SME) designee) under the direction of the core assessment programs or DST.[6] The primary issue owner is responsible for actively monitoring the supervisory issue

[6] In limited circumstances, a **single** MRIA may consist of sub-issues that, while thematically similar, are authored by SMEs from different risk stripes. Currently, C-SCAPE does not possess the functionality to designate more than one primary issue owner per MRIA, therefore, it is important that the primary issue owner be well-positioned to evaluate whether the firm has remediated the issue in its entirety and ensure C-SCAPE remains updated in an accurate and timely manner.

Governance Group	Roles and Responsibility
	throughout its lifecycle, from opening to closure. This includes: 1. Ensuring periodic C-SCAPE commentary (at least every 90 days) reflects the current status of the issue: an assessment of the firm's progress towards business line remediation and internal audit validation, and a description of and timing for the next remediation or validation milestone; 2. Maintaining the accuracy and completeness of the C-SCAPE record and compliance with system and LISCC standards throughout the lifecycle of the issue; including quality and accuracy of comments, and providing links to supporting documentation. 3. Coordinating with any relevant stakeholders (DSTs, HETs, LISCC EST) when monitoring, changing the status of, transforming, and/or closing an issue; 4. Collaborating with relevant LISCC Program stakeholders (HET or DST) throughout the lifecycle of an issue, including collaborating on the best course of action once it is determined an issue is ready to be verified for potential closure; and 5. Facilitating adequate knowledge transfer, as appropriate (i.e. if either Owner transitions away from coverage).
Secondary Issue Owner (PLG member or DST Lead/designee)[7]	The secondary issue owner is generally the relevant PLG member or DST Lead (or a designee). The Secondary Issue Owner should be in the same reporting line as the Primary Issue Owner (i.e. Program or DST). The Secondary Issue Owner's responsibilities include: 1. Setting the overall supervisory strategy with respect to open issues remediation in her/his respective team/area; 2. Coordinating with Primary Issue Owner and soliciting feedback on firm-provided remediation/action plans in order to provide feedback to the firm (to be delivered to the firm by the DST); 3. Escalating matters that cannot be resolved and/or when divergent views arise; 4. Monitoring issue remediation progress of all MRAs, MRIAs, and Provisions where she/he have been designated as the Secondary Issue Owner; 5. Supporting the Primary Issue Owner in the scheduling and execution of the jointly determined course of action in order to verify the issue for potential closure; 6. Ensuring all issues in their reporting line are assigned a Primary Issue Owner and ownership transition occurs in accordance with the IMG and the LISCC Onboarding and Off-boarding Policy; and 7. Collaborating with relevant LISCC Program stakeholders (HET or DST) throughout the lifecycle of an issue, including collaborating on the best course of action once the Primary Issue Owner determines an issue is ready to be verified for potential closure.
LISCC Exam Support Team (EST)	The EST is responsible for entering new supervisory finding information into C-SCAPE based on the supervisory letter and information received from the EIC. The EST is also

[7] The PLG member or DST lead may delegate this responsibility to an HET or DST management, respectively. Regardless of delegation, the PLG member or DST lead are responsible for the accurate and timely execution of the duties outlined in the secondary issue owner responsibility section.

Governance Group	Roles and Responsibility
	responsible for cancelling and closing supervisory events. The EIC is responsible for reviewing and verifying the accuracy and completion of the information after it is entered into C-SCAPE, as well as closing the issue in C-SCAPE following the verification phase.

Issues Management Lifecycle

After the closure of an exam and the issuance of supervisory feedback, as described in the previous section, examiners are required to ensure all supervisory issues to firm(s) are remediated. This section provides expectations for how MRAs and MRIAs are tracked and followed up on throughout the issue lifecycle – from issue identification, through monitoring, verification, and finally through issue closure.

When supervisory issues are severe enough, the DST and Capital Program will collaboratively initiate a supervisory enforcement action (often made up of several provisions). Information on the types of enforcement actions, and provisions of enforcement actions, and details on the initiation, monitoring, and closure phases is available via the LISCC Enforcement Actions Policy.

Issue Identification (following Supervisory Letter Issuance)

After an examination is closed and supervisory feedback is sent to the firm, the EIC, in coordination with the issue owners and DST, should work with the LISCC EST to input new issues (if applicable) into C-SCAPE. In addition, after each examination in which supervisory findings are issued, the firm(s) will be expected to provide a firm management response letter via secure email to the DST. Upon receiving this letter, the DST is to share the response with the EIC and issue owners and upload a copy into BOND within 7 days. The DST, in coordination with the EIC and issue owners, is also responsible for preparing an acknowledgement letter to the firm that addresses the adequacy of the institutions' response, sufficiency of remediation action plans, and expectations for additional follow-up.

Please see the previous section of this operating manual for details on the responsibilities for entering new issues into C-SCAPE, assigning issue owners, and assessing the firm's management response.

Issue Monitoring

Once identified, primary issue owners are responsible for the overall quality, completeness, and accuracy of the C-SCAPE records for the findings assigned to them. Regular engagement with management, the firm's internal audit, and review of firm MIS allow the LISCC Program to address any instances of non-compliance.

At least quarterly (90 calendar days or less), the primary issue owner is expected to provide an update of the issue's status to ensure the LISCC firm is effectively remediating its open issues in a timely, thorough, and effective manner. The status of open issues should be updated via the comments section in C-SCAPE.

In addition to updating the status of the issue in C-SCAPE, the Primary Issue Owner is responsible for providing a brief monitoring update to the Secondary Issue Owner and other relevant stakeholders (HET and/or DST) on their current assessment of the firm's remediation progress, making sure to highlight any areas of concern.

Quarterly C-SCAPE Updates

The quarterly issue update in C-SCAPE should include the following:

- Date of follow-up/interaction or exchange of information
- If follow-up involved meeting with the firm, the name of the parties involved in the discussion
- Outcome of the discussion that includes:
    - A concise summary and assessment of the firm's progress to address the issue
    - Whether this assessment results in a change in status of timeframe for completion of an MRA/MRIA
    - Any supplementary link/directions to sources that support the summary and/or assessment.

Pending Verification

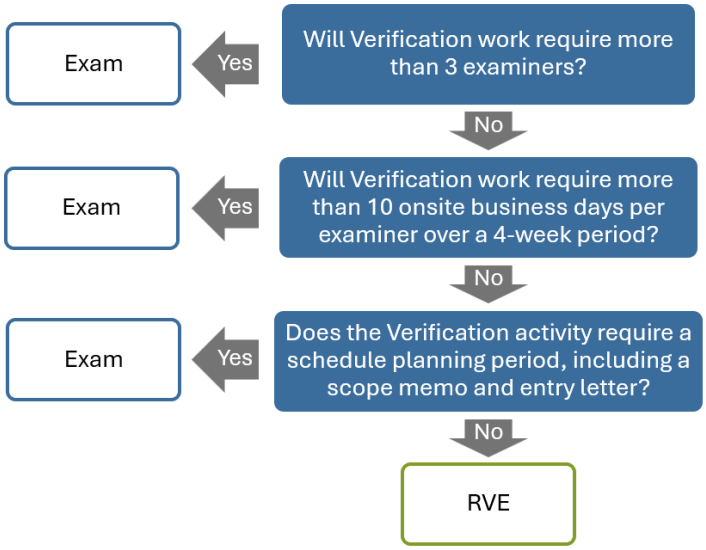
Once a firm notifies the issue owners and/or DST that the firm's business line has remediated an open supervisory issue and the firm's internal audit (IA) function has completed validation of the issue, the primary issue owner:

- Marks the issue as 'Pending Verification' within C-SCAPE by selecting "Yes" in the 'Pending Verification' field,
- Includes the date the issue is considered to have 'Pending Verification' status by entering the date internal audit validated the issue in the 'Firm Close Date' field, and
- Determines the appropriate supervisory activity for issue verification.

Issue Verification

The supervisory activity necessary to determine whether an issue is ready to be closed varies based on the issue's nature and severity. Examiners must exercise judgment to determine which supervisory activity is best suited for evaluating an issue when proposing verification activities as part of the supervisory planning process.

The below decision tree can help determine the verification activity best suited to meet issue owners' needs:



Exams and RVEs proposed as part of the annual supervisory planning process would follow the normal supervisory planning documentation procedures. In instances where a verification activity is proposed outside of the supervisory planning process, the primary issue owner must work with the Capital Operations Team for out-of-cycle approval. Out-of-cycle requests should be added to the supervisory plan on a flow basis with the requisite approvals and supporting documentation as described in the LISCC Program Supervisory Planning Process procedure.

Exceptions for Conducting a Verification Activity

It is generally required that an open issue be validated by the firm's IA function, as noted above, **prior** to independently verifying the issue for potential closure. However, there may be circumstances where team's cannot or choose not to wait for an open issue to be validated by the firm's IA. Any such exceptions must be approved by the Capital SC and documented in accordance with the LISCC Program's supervisory planning process. Once approved by the SC via the supervisory planning process, issue verification may be conducted through a standard examination or an RVE.

Verification via Examination

Issue verification may be conducted as a stand-alone remediation exam or as an objective of a broader exam. In conducting an examination, EICs and primary issue owners should follow the examinations procedures set forth earlier in this program manual. Examiners will utilize the standard exam templates found on the LISCC SharePoint site under the Examiner Tools and Templates page, with the examiner and EIC conclusion memos containing evidence and support of issue closure or non-closure. All supporting documentation should be maintained in ExamSpace.

<u>Requirements if Proposed for Closure</u>

If after conducting the exam, the EIC and primary issue owner determines the issue has been satisfactorily remediated and should be closed, the proposed closure should be vetted via the PLG Subcommittee as noted below.

Upon approval by the PLG Subcommittee, the firm must be notified via a written letter that the supervisory issue is considered remediated and closed. The EIC and primary issue owner should follow the supervisory feedback development and transmittal procedures set forth above in this operating manual.

PLG Subcommittee Vetting

For MRAs, with the exception of regulatory reporting findings, after submission of closure information to the Capital Program Operations Team, the Operations Team will upload the completed memo to the PLG Subcommittee Vetting library in Sharepoint and circulate to the PLG Subcommittee via email. The body of the email will include the direct link to the closure document and provide a high-level summary on the issue and rationale for closure. The PLG Subcommittee will then have 10 business days to provide a disposition on the recommended closure.[8] If the PLG Subcommittee expresses concerns within 10 business days, the Operations Team will send a Vetting Outcome Template back to the primary issue owner that notes the PLG Subcommittee's concerns and requested next steps. If no concerns are expressed within the 10 business day period, the Operations Team will send a follow-up email to the PLG Subcommittee noting that the MRA will be considered closed before following up with the primary issue owner. As part of this communication, the Operations Team will send a Vetting Outcome Template back to the primary issue owner that includes the summary of the meeting and any requested follow-up. The primary issue owner and relevant DST will then be responsible for ensuring that the MRA closure is communicated to the firm and is documented in line with LISCC Issues Management Framework and Capital Program Manual guidance.

The closure of MRIAs and all regulatory reporting findings cannot occur via email and are required to be scheduled for a PLG Subcommittee meeting. To close an MRIA, after verifying that the submitted issue closure information confirms with requirements, the Operations Team will schedule the required PLG Subcommittee meeting. After the vetting, the Capital Program Operations Team will complete the Vetting Outcome Template, memorializing the discussion and the outcomes and next steps to send back to the primary issue owner.

If approved for closure, the primary issue owner and relevant DST will then be responsible for ensuring that the MRIA closure is communicated to the firm and is documented in line with LISCC Issues Management Framework and Capital Program Manual guidance.

Requirements if Remediation Deficient

If after conducting the exam, the EIC and primary issue owner determines an open issue is not satisfactorily remediated, the issue is considered remediation deficient and the firm must be notified.

The EIC and primary issue owner should follow the supervisory feedback development and transmittal procedures, including LOG review and approval, set forth above in this operating manual to notify the firm of failed remediation. Remediation deficient issues will require the firm to provide a revised action plan and timeframe for completion outlining the remediation approach to address outstanding deficiencies.

In addition, the issue will continue to remain open in C-SCAPE. The primary issue owner will need to:

[8] A quorum of 4 of 6 PLG members is required to close MRAs in this process. If a quorum is not reached within 10 days, the primary issue owner will be notified and provided with an updated timeframe of expected completion.

- provide a summary comment in C-SCAPE explaining the deficiency, with links to relevant reference materials;
- remove the 'Pending Verification' status in C-SCAPE by selecting "no" in the 'pending verification' field; and
- update the timeframe for completion and link to the management's response upon receipt of the updated action plan.

The primary issue owner is expected to continue to monitor the outstanding issue, in accordance with the Issue Monitoring section above, until the issue is ready for closure.

Verification via Remediation Verification Event

An RVE is a *streamlined supervisory activity* that can be used to conduct independent verification on open supervisory issues (MRAs and MRIAs). RVEs have reduced documentation requirements and, as such, should be completed with less time and fewer resource than an examination.

RVEs should generally last no more than 10 business days, but may extend to 4 weeks under certain circumstances (i.e. resource constraints). In addition, RVEs should require no more than 1-3 examiner resources as RVEs are intended to review supervisory issues that are less complex or narrower in scope.

The previous issue verification decision tree can help determine if an RVE is the appropriate verification activity.

Table 9 below provides an overview of the deliverables and timelines associated with RVEs. The complete Exam Cheatsheet is posted on the LISCC Core Program Operating Manuals page on the LISCC SharePoint site and throughout this document.

Table 9: RVE Activities/Deliverables

Remediation Validation Event (REV):				
A streamlined supervisory activity that can be used to conduct independent validation on open supervisory issues.				
ACTIVITY/DELIVERABLE	**TIMING**	**RVE**		**DOCUMENT REPOSITORY**
		Responsible	**ES Approver**	
INTERNAL KICK OFF PREP	ECD - 7	EIC	N/A	N/A
INTERNAL PERIODIC CHECK-INS	Onsite weeks	EIC	N/A	N/A
ONSITE MEETING MINUTES	Due 5 days after meeting	EIC	N/A	ES
BEGIN WRITING RVE ISSUE REVIEW MEMO(S)	---	Exam Team	EIC	ES
POST RVE ISSUE REVIEW MEMO(S)	Prior to vetting	Exam Team	N/A	ES
EXAM TEAM VETTING	---	EIC	N/A	N/A
PLG VETTING	---	EIC	N/A	N/A
COMPLETE VETTING OUTCOME MEMO	Within 5 days of meeting	EIC	N/A	ES
SEND SUPERVISORY LETTER TO LOG FOR REVIEW	Letter mail date - 10	EIC	N/A	ES
PRIMARY APPROVAL - ENSURE COMPLETION OF ALL WORKPAPERS IN EXAMSPACE: EIC SIGN-OFF	Prior to letter mail date	EIC	EIC	ES
SECONDARY APPROVAL - ENSURE COMPLETION OF ALL WORKPAPERS IN EXAMSPACE	Prior to letter mail date	DST/HET Lead or Desig	DST/HET Lead or Desig	ES

COMPLETE RVE CHECKLIST AND POST TO EXAMSPACE	Prior to letter mail date	EIC	N/A	N/A
SUPERVISORY LETTER SIGNED AND MAILED TO FIRM	Close Date + 60	DST Lead	N/A	Outlook

All deadlines associated with a RVE must be clearly communicated by the EIC to the entire exam team. If a situation arises that may impede an RVE's ability to meet the required deadlines, the EIC should follow the process as laid out in the capital program missed exam deadline memo.

Documentation Requirements

RVEs do not require the completion of pre-planning documentation such as scope memos or first day letters. However, the EIC and primary issue owner, as well as any other examiners participating in the RVE, are required to maintain all supporting documentation, supervisory issue remediation memos, vetting outcomes, and supervisory letters in LFI ExamSpace.

RVE documentation should include:

- firm materials reviewed as part of the RVE;
- supporting analyses and workpapers;
- the RVE issue review template;
- the completed vetting outcome template, if applicable; and
- the supervisory letter.

All significant drafts and final versions of supervisory products (i.e. RVE issue review template and supervisory letter), meeting minutes, firm MIS, divergent views, and the decisions/outcome made via the formal vetting process should be included in RVE documentation within ExamSpace.

RVE Issue Review Template

After the RVE EIC has reviewed the supervisory issue(s) for remediation, he/she should document his/her rationale to support the closure or non-closure of the issue within the RVE Issue Review Template, available on the LISCC Exam Tools and Templates page. The template should include:

- A summary of the rationale for closure/non-closure;
- Validation work to show that the issue was successfully remediated, or not (with reference to documents supporting your conclusions);
- Severity and impact to the rating/assessment of firm;
- Sustainability of the remediation action;
- Whether relevance of the MR(I)A played a role in your determination (i.e., issue is no longer relevant due to a change in business strategy);
- Whether you propose the issue be transformed, examples of this include:
    - Escalating an MRA into an MRIA;
    - Combining multiple MRAs into a single new MRIA; and
    - Combining MRIAs into a provision of an enforcement action.

The EIC and primary issue owner should ensure all sections of the RVE issue review template have been completed, ensure collaboration between the DST and horizontal teams occurred, and ensure the memo is reviewed by the EIC's and/or primary issue owner's manager prior to vetting. The RVE issue review template

is then sent to vetting participants for use in any vetting discussions.

Requirements if Proposed for Closure

If after conducting the RVE, the EIC and primary issue owner determines the issue has been satisfactorily remediated and should be closed, the proposed closure should be vetted via the PLG Subcommittee vetting process, as noted above.

Upon approval by the PLG Subcommittee, the firm must be notified via a written letter that the supervisory issue is considered remediated and closed. The primary issue owner should follow the below procedures on communicating RVE results.

Requirements if Remediation Deficient

If after conducting the RVE, the EIC and primary issue owner determines an open issue is not satisfactorily remediated, the issue is considered remediation deficient and the firm must be notified.

The EIC and primary issue owner should follow the below procedures on communicating RVE results for notifying the firm of failed remediation. Remediation deficient issues will require the firm to provide a revised action plan and timeframe for completion outlining the remediation approach to address outstanding deficiencies.

In addition, the issue will continue to remain open in C-SCAPE. The primary issue owner will need to:

- provide a summary comment in C-SCAPE explaining the deficiency, with links to relevant reference materials;
- remove the 'Pending Verification' status in C-SCAPE by selecting "no" in the 'pending verification' field; and
- update the timeframe for completion and link to the management's response upon receipt of the updated action plan.

The primary issue owner is expected to continue to monitor the outstanding issue, in accordance with the Issue Monitoring section above, until the issue is ready for closure.

Communicating RVE Results

Firms must be notified via a written letter when a supervisory issue is considered remediated and closed or whether it is considered remediation deficient. Firms must be notified of the results of an RVE within 60 days of the RVE close date, consistent with the operating procedures for firm-specific exams, including required LOG review and approval. Remediation deficient issues will require the firm to provide a revised action plan and timeframe for completion outlining the remediation approach to address outstanding deficiencies.

All final correspondence with the firm regarding RVEs are to be posted to BOND. The EIC and primary issue owner may assign a designee or work with the EST to perform postings, but ultimately, are responsible for ensuring that document postings are in compliance.

RVE Workpaper Approval in LFI ExamSpace

Similar to the LFI ExamSpace approval process for examinations, the EIC and a DST/HET Lead or designee are required to review and certify that the RVE work papers are complete and fully support the findings and conclusions as described below. Refer to the LFI ExamSpace User Guide for how to perform approvals using the Overall Approval Functionality in LFI ExamSpace.

Primary Approval

For all RVEs, the EIC is required to review the work papers stored in the LFI ExamSpace event to ensure that assessments are fully supported by the review team. This review should occur prior to the letter being mailed to the firm. The LFI ExamSpace event should be closed only after the EIC has certified that the set of workpapers:

- Is complete and can independently stand on their own, and
- Fully support the review's assessment.

The RVE Checklist, posted on the LISCC Exam Tools and Templates page, should be used throughout the RVE and during this primary approval process to ensure that all workpapers and products were uploaded, completed, and approved as required. The completed RVE Checklist must be uploaded to ExamSpace, prior to primary approval, to serve as evidence of the EIC's review process.

Secondary Approval

A secondary level of review should also be performed for all RVEs. Secondary reviews should be primarily focused on whether work paper documentation fully supports the team's conclusions included in the final Supervisory Letter. The reviewer should be focusing on whether the vetting outcome accurately reflects information from vettings or discussions and provide adequate support for the final Supervisory Letter. This review should occur prior to the letter being mailed to the firm.

The secondary approval should be performed by the HTL/DST Capital Lead or their designee.

Note: Each LFI ExamSpace Event will be archived (read only) automatically 60 days following the Actual Completion Date of the supervisory event in C-SCAPE. The Actual Completion Date is the date on the letter to the firm or when all on-site and off-site supervisory work is complete.

For more detail, please reference LFI ExamSpace User Guide, LFI ExamSpace Information User Guide - Document Properties, and Quick Reference.

Issue Closure

All proposals to close supervisory issues (through either an exam or an RVE) must be vetted and approved by the PLG subcommittee, in collaboration with the DST, and in accordance with these operating manual guidelines.

Upon approval by the PLG subcommittee, as well as LOG review of the letter, firms will be notified via supervisory letter of issue closure. Supervisory letters must be mailed to firms no later than 60 days following the Exam Close Date or RVE Close Date, consistent with the operating manuals.

In addition, primary issue owners must update C-SCAPE to reflect issue closure.

Communicating Issue Closure

Firms will be notified via a written letter when a supervisory issue is considered remediated and closed. Letters must be mailed to firms no later than 60 days following the exam or RVE close date (the last day onsite).

Drafting Responsibility

The primary issue owner is responsible for drafting the rationale for issue closure and then shares with the DST Capital lead. The DST Capital Lead has the overall responsibility for drafting the letter using the required LISCC supervisory letter template. Prior to issuance, the letter must be shared with the LOG, in line with expectations noted in previous sections, for review and approval.

Transmittal

The DST Capital lead sends the letter to the firm via secure email.

Please see program operating manuals for additional requirements on communicating issue closure to firms to ensure compliance with examination or RVE program processes.

C-SCAPE and BOND Requirements

The primary issue owner should ensure that all issues are appropriately updated and closed in C-SCAPE within 10 days of the letter mail date by providing a closure date, summary comment, and links to supporting documentation in ExamSpace, including the supervisory issue remediation memo or conclusion memo. The primary issue owner is also responsible for ensuring that the supervisory letter is appropriately linked to the issue in C-SCAPE. The primary issue owner may work with EST to upload documents to BOND and update C-SCAPE.

The primary issue owner is also responsible for working with LISCC EST to ensure:

- all final correspondence with the firm(s) regarding supervisory issue closure is posted to BOND within 7 days of the letter mail date. The EST or a designee may perform postings, but ultimately, the primary issue owner is responsible for ensuring that document postings are in compliance with guidance.
- the issue is appropriately updated and closed within C-SCAPE, including a link to the supervisory closure letter in BOND.

Please refer to C-SCAPE User Guide for step-by-step instructions on closing issues.

Reliance on Internal Audit and Work Completed by Other Supervisors

Supervisory issues may be closed through independent examiner assessment or through the leveraging or reliance upon the work of a LISCC firm's Internal Audit function. The following sections describe how and when to rely or leverage the work of internal audit.

Reliance on Firm's Internal Audit[9]

If an internal audit function is deemed effective, examiners **may place full reliance** on audit for all MRAs, allowing for the closure of MRAs based exclusively or primarily internal audit's work. Examiners are required to review the firm's relevant issue validation reports and internal audit workpapers to ensure the quality of audit's work is sufficient, but no additional examiner testing is required.

Examiners **may leverage** the work of an internal audit function:

- For MRIAs when internal audit functions are effective, and
- For MRAs and MRIAs when internal audit functions are rated less than fully effective.

However, examiners must use judgement when reviewing internal audit workpapers in these instances to determine the appropriate amount of independent examiner assessment or transaction testing required to support closure. In addition, an explanation of the criteria used and validation actions conducted as part of the examiner assessment in support of the closure recommendation is required, including reference both to internal and firm submitted documents, as applicable.

Examiners **may not rely or leverage** the work of internal audit if deemed not effective. In addition, examiners may not rely or leverage the work of third party auditors in instances where a LISCC firm uses an outside firm to conduct validation work. Provisions cannot be closed based on reliance or leveraging of internal audit work.

Table 10 below summarizes the instances in which examiners may rely on or leverage the work of internal audit:

Table 10: Reliance on Internal Audit

	Reliance on Internal Audit		
	IA is effective	*IA is less than fully effective*	*IA is not effective*
MRA	Examiners may fully rely on the work of Internal Audit. Examiners must review Internal Audit workpapers to ensure the quality of work conducted is sufficient.	Examiners may leverage the work of Internal Audit. However, examiners will need to review Internal Audit workpapers and determine the appropriate level of additional independent assessment/transaction testing required to support closure.	Examiners may not rely on or leverage the work of Internal Audit.
MRIA	Examiners may leverage the work of Internal Audit. However, examiners will need to review Internal	Examiners may leverage the work of Internal Audit. However, examiners will need to review Internal Audit workpapers and determine the	Examiners may not rely on or leverage the work of Internal Audit.

[9] Current LISCC firm's internal audit function ratings can be found ***[Redacted: hyperlink to internal website to which the ratings are posted]***.

	Audit workpapers and determine the appropriate level of additional independent assessment/transaction testing required to support closure.	appropriate level of additional independent assessment/transaction testing required to support closure.	
Provision	Examiners may not rely on or leverage the work of Internal Audit.	Examiners may not rely on or leverage the work of Internal Audit.	Examiners may not rely on or leverage the work of Internal Audit.

APPENDIX A: Additional LISCC Program Policy Links

For a description of the overall policy applicable to any of the topics listed, please click on the item.

Universal LISCC Program Policies

Access Controls

Annual Assessment (to be created)

BOND Posting Minimum Requirements

Divergent Views

Info Security and CSI (Including Breach Protocol)

Issues Management Framework

Enforcement Actions

Examination Workpapers Expectations and Approval Requirements

Examination Workpapers Requirements for Participation on Other Agencies' Exams

Meeting and Calendar Management

Records Management

Supervisory Planning

LISCC Capital Program Specific Policies

Capital Program QC Processes Guidelines

Capital Program Missed Exam Deadline Process

Capital Program Exam Cheatsheet

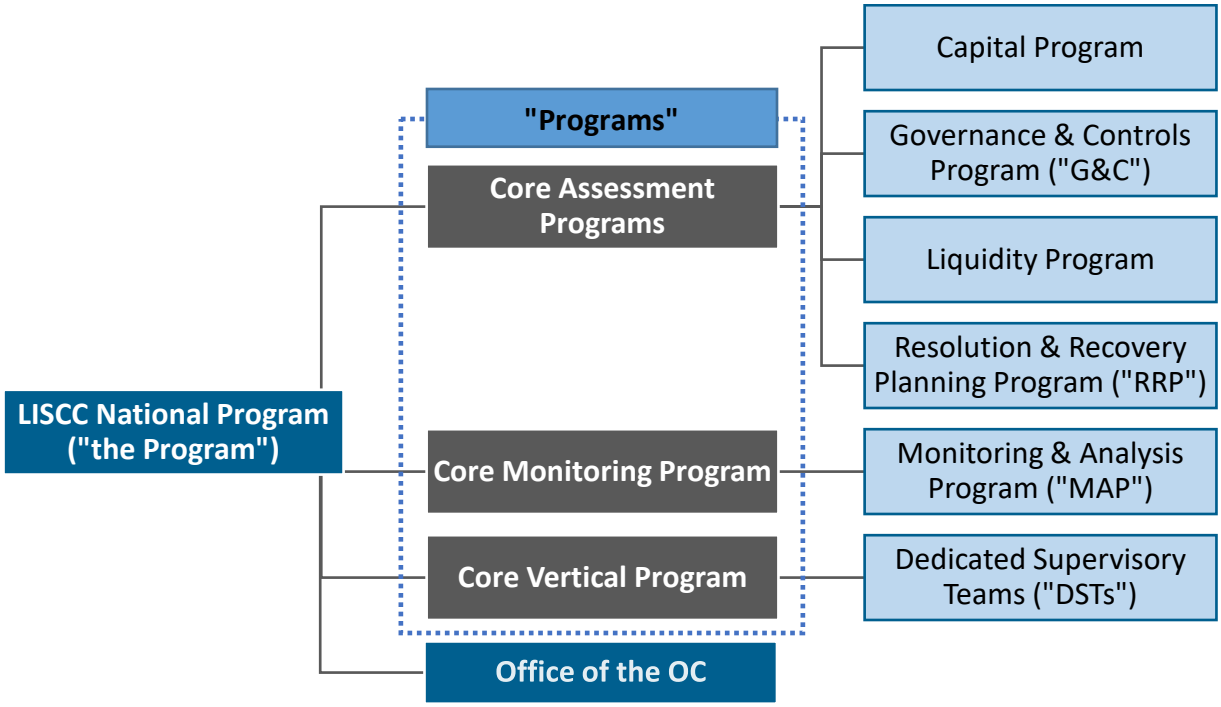
Capital Program Helpful Exam Tools and Links

Capital Program C-SCAPE Comments Guidance and Tips

Capital SC Charter

APPENDIX B: LISCC Program Structure and Acronyms

LISCC Program Structure, Titles, and Abbreviations:



The following acronyms are used throughout LISCC Program and Operating Manuals and tools/templates:

Acronym	Definition
ALM	Asset and Liability Management
AML	Anti-Money Laundering
BCBS	The Basel Committee on Banking Supervision
BHC	Bank Holding Company
BSA	Bank Secrecy Act
CBEM	Commercial Bank Examination Manual
CCAR	Comprehensive Capital Assessment Review
CFP	Contingency Funding Planning
CLAR	Comprehensive Liquidity Assessment Review
CMG	Crisis Management Group
COG	Coordination and Oversight Group
CPU	Central Production Unit
CRA	Community Reinvestment Act
CSI	Confidential Supervisory Information
CSR	Committee on Supervision and Regulation
DCCA	Division of Consumer and Community Affairs
DFAST	Dodd Frank Act Stress Test
DST	Dedicated Supervisory Teams
EAC	Edge Act corporation

Capital Program Operating Manual

ECB SSM	European Central Bank Single Supervisory Mechanism
FBO	Foreign Banking Organization
FDIC	Federal Deposit Insurance Company
FHC	Financial Holding Company
FOMC	Federal Open Market Committee
FRS	Federal Reserve System
FSB	Financial Stability Board
G&C	Governance and Controls
HET	Horizontal Evaluation Teams
HTL	Horizontal Team Lead
ICOG	Information Collection Oversight Group
IRM/IC	Independent Risk Management and Internal Controls
LCR	Liquidity Coverage Ratio
LISCC	Large Institution Supervision Coordinating Committee
LOG	Letter Oversight Group
MAP	Monitoring and Analysis Program
MCAT	Model Coordination and Advisory Team
MCBL	Management of Core Business Lines
MOG	Model Oversight Group
MRA	Matters Requiring Attention
MRIA	Matters Requiring Immediate Attention
OC	LISCC Operating Committee
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
PLG	Program Leadership Group
RRP	Resolution and Recovery Program
SC	Steering Committee
SDG	Scenario Design Group
SMB	State Member Bank
SMV	Supervisory Model Validation Unit
SNC	Shared National Credit
SR	Supervision & Regulation
SR Director	Director of Supervision and Regulation at the Board of Governors
SRP	The Supervisory Assessment of Recovery and Resolution Preparedness
SSTMGC	Supervisory Stress Test Model Governance Committee
UFIRS	Uniform Financial Institutions Rating System

APPENDIX C: Market Risk Rule Procedures

Overview

As part of its responsibilities, the LISCC Capital Program focuses on assessing the capital adequacy and capital planning processes for LISCC firms.[10] The following procedure addresses how the LISCC Capital Program works with Board policy groups to meet supervisory responsibilities for oversight of the LISCC firms' compliance with market risk rules.

Market Risk Rule[11]

The Federal Reserve's market risk rule (MRR) establishes regulatory capital requirements for bank holding companies (BHCs) and state member banks (collectively, banking organizations) with significant exposure to certain market risks. The MRR also sets out certain key market-risk management requirements for banking organizations subject to the rule, including the need for appropriate stress testing and independent market risk management. The MRR applies to each banking organization that has gross trading assets and liabilities of $1 billion or more, or gross trading assets and liabilities of 10 percent or more of total consolidated assets. For more information regarding the requirements and capital computation under the MRR, please refer to SR 09-01.

Delegation of Authority

The following groups collaborate where appropriate to identify and assess new trading-related models and model changes and to vet potential supervisory findings that can arise in assessing firms' compliance with MRR.

- The Dedicated Supervisory Team (DST), as the core vertical program, is the point of contact with the firm in cases of new models and/or model changes. In addition, the DST conducts ongoing quarterly touchpoints with the firm.

- The Trading and Capital Markets group, otherwise known as Quantitative Risk Management (QRM), within the Board's Division of Supervision & Regulation's Policy Research & Analytics section, reviews and approves new models, as well as determines the materiality of model changes.

- Within the LISCC Capital Program, the Trading Risk Team assists QRM in reviewing model changes as it relates to MRR. In addition, the Capital Trading team will lead and conduct MRR exams related to risk management and supervisory findings remediation, as needed.

The following sets forth procedures for these groups to follow in assessing firms' new models and model changes.

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[10]Expectations for capital planning processes established by the Federal Reserve's capital plan rule and SR 15-18 are out of scope for this document.

[11] Market Risk Rule description is subject to change upon the release of the new Fundamental Review of the Trading Book (FRTB) framework.

Data Collection

The data collection process can occur in three ways:

- Notification from the firm: When model implementation or changes require review and approval from the FRS, firms must notify in writing the relevant DST Lead and relevant member of QRM.
- Official collections of data required as part of the MRR.
- Quarterly status update meetings: DST Capital Leads are responsible for holding quarterly meetings with the firms to collect and review data on the relevant models, model testing, and model changes. DST is responsible for including QRM and Capital Trading in these quarterly meetings. Capital Trading team members may participate in these meetings, though attendance is not required. Meeting takeaways are documented and stored in line with DST policies (DST Operating Manual).

  The following information should be requested in the quarterly meeting:
  - *Planned model changes and firms own assessment of the materiality of the change*
  - *Model validation status*
  - *Backtesting exception root cause analysis*
  - *As developed by firms as part of the fundamental review of the trading book (or plans for development of these items)[12]:*
    - *Desk level backtesting*
    - *Desk level PLA tests*
    - *Desk modeling status and planned remediation*
    - *Risk factor eligibility tests and changes in Non-modelable risk factors*

Following each quarterly status update meeting with the firm or upon notification of new models or model changes, each DST Capital Lead is required to post meeting materials and takeaways to the DST continuous monitoring ExamSpace. A link to this document set will be shared with QRM and Trading. Key takeaways from quarterly meetings are factored into Capital Trading's BMR. Model status as a result of tests discussed at a Quarterly Status update meeting may be elevated to QRM for action. QRM will notify DST and Capital trading before taking action.

Model Approval and Model Changes

Should the firm propose new MRR models, QRM is responsible for determining approval and other decision authority delegated to QRM. Similarly, should the firm propose changes to existing MRR models, QRM owns the process for determining whether the changes are material or non-material under the MRR. In both instances, QRM undertakes the work pursuant to their own policies and procedures as this is a delegated authority that is outside of the remit of the Capital Program. For additional information and guidance on this approval process, please contact the deputy associate director of QRM.

[12] Several of the information requests in meetings (for example, desk-level backtesting) are elements of the new FRTB framework.

Model Approval and Change Reviews

As QRM is the sole owner of standalone model approval and change reviews, it is the expectation that QRM:

- leads/EICs the review, and as such, owns all relevant administrative items as it relates to the EIC role;
- is responsible for the maintenance of all relevant workpapers in appropriate repositories and;
- the crafting and communication of supervisory messages as it relates to model approvals and changes.

In these reviews, Capital Trading will provide staffing support, but will rely on QRM for all review expectations and procedures. [13]

Communication of Model Approval and Model Changes

Following the review of model approval and model change, QRM is responsible for working with the relevant firm's DST Capital Lead to craft the supervisory message. These letters will be issued by the Office of the Secretary, and as such, have Board letterheads as well as signed by the Secretary of the Board.

MRR Risk Management Concerns and Remediation Follow Up

Outside of standalone model approval and model change reviews, broader risk management concerns and/or remediation follow up for outstanding MRR supervisory findings may exist. These concerns may arise throughout the normal quarterly data collection process, or can surface during a model approval/change review. In these instances, Capital Trading may require additional review in the form of a firm specific examination. Here, Capital Trading is responsible for conducting the examination and required vettings, as well as the drafting, review, and transmittal of the supervisory letter; QRM may be involved in the work, but only in the capacity of consultants. The occurrence of such exams, however, will depend on the approval of the Capital Steering Committee, as well as availability of Capital resources and time, or otherwise be a part of the following cycle of supervisory planning.

MRR Risk Management and Remediation Exams

Capital Trading will conduct MRR risk management and remediation exams according to the timeline and expectations of the Capital Program Manual. In addition, these exams will utilize LISCC exam templates, and workpapers will be stored within ExamSpace.

Communication of Risk Management and Remediation Exams

Following the exam, Capital Trading will own the vetting process and will work with the relevant firm's DST Capital Lead to craft the supervisory message. Similar to normal Capital Program examination expectations,

[13] As part of a transitional agreement, a co-EIC model will be implemented on all model approval exams through 2021. Capital Trading will provide a co-EIC for all model approval exams, through 2021, to assist and help transition EIC responsibilities to QRM. In addition, the Capital Operations team will advise QRM on the development of QRM specific policies, procedures, templates, and the relevant exam infrastructure (C-SCAPE, ExamSpace, BOND).

these supervisory letters will undergo the letter review process with the Capital LOG and be communicated to the firm on LISCC letterhead by the DST within 60 days of the exam close date.

Issuance and Remediation of Findings

If a supervisory finding, in the form of a matter requiring attention (MRA) or matter requiring immediate attention (MRIA), is proposed as a result of the exam, Capital Trading will take ownership of the findings – including the input and maintenance within C-SCAPE, and all subsequent remediation work. The Capital Trading Team will follow the Capital PLG Subcommittee MRA Vetting process, in line with the LISCC issues management guidance and expectations, until the findings are deemed ready for closure. Should an issue be deemed ready for closure, the issue closure will be drafted by the primary issue owner, undergo the letter review process with the Capital LOG, and be communicated to the firm on LISCC letterhead by the DST within 60 days of exam close date.

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