

This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Supervision and Regulation has issued since the publication of the February 2020 supplement.

### *Section 1050.2, “Consolidated Supervision of Regional Holding Companies”*

This section was previously called “Guidance for the Consolidated Supervision of Regional Bank Holding Companies.” The section was revised to note that it applies to domestic bank holding companies (BHCs) and savings and loan holding companies (SLHCs) having between \$10 billion and \$100 billion in total consolidated assets. Several discussions regarding supervisory findings were modified to align more closely with the “Statement Clarifying the Role of Supervisory Guidance” (12 CFR part 262, appendix A). Further, this section was revised to include an outline of the report of inspection that examiners should follow when assigning holding company rating components and sub-components at full-scope or roll-up inspections of BHCs and SLHCs in the regional banking organization portfolio. The section explains the timing expectations for examination staff to complete safety-and-soundness examination and inspection reports for domestic regional financial institutions and the submission of the reports to the institution. Lastly, references to inactive guidance issuances were updated.

### *Section 1060.1, “Large Financial Institution Rating System: Capital Planning and Positions”*

This new section provides an overview of key capital-related regulations and guidance issuances that apply to firms that are subject to the large financial institution (LFI) rating system. The section describes capital stress testing requirements for BHCs and covered SLHCs with total consolidated assets of \$100 billion or more (Regulation YY and Regulation LL). The section also contains an overview of Regulation Q, which establishes minimum capital requirements and overall capital adequacy standards for Federal Reserve-regulated institutions. A fuller discussion of Regulation Q is provided in the “Assessment of Capital Adequacy” section

of the *Commercial Bank Examination Manual*. In addition, the section describes the applicability and purpose of the capital plan rule (Regulation Y and Regulation LL), which requires an LFI to develop an annual capital plan that is approved by its board of directors. This section contains updated information that was previously discussed in section 4060.5, “Capital Adequacy (Advanced Approaches)” and section 4061.0, “Consolidated Capital (Capital Planning).”

### *Section 1060.2, “Supervisory Assessment of Capital Planning and Positions for Category I Firms”*

This new section contains guidance that was previously in section 4063.0, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms.” This material was moved closer to the other sections in the manual that provide guidance on the assessment of capital planning and positions at LFIs. Further, this section was modified to cover U.S. BHCs that are subject to category I standards under the Board’s tailoring framework. These applicability modifications align with the Board’s tailoring rules. See 84 Fed. Reg. 59,032 (November 1, 2019) for more information. See also SR-15-18, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for Firms Subject to Category I Standards.”

### *Section 1060.3, “Supervisory Assessment of Capital Planning and Positions for Category II or III Firms”*

This new section contains guidance that was previously in section 4065.0, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for Large and Noncomplex Firms.” The material was moved closer to the other sections in the manual that provide guidance on the assessment of capital planning and positions at LFIs. Further, this section was modified to cover U.S. BHCs, U.S. intermediate holding companies of foreign banking organizations, and covered SLHCs that are subject to category II or III standards under the Board’s tailoring framework. These applicability modifica-

tions align with the Board’s tailoring rules. See 84 Fed. Reg. 59,032 (November 1, 2019); and SR-15-19, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for Firms Subject to Category II or III Standards.”

*Section 1060.30, “Supervisory Guidance on Board of Directors’ Effectiveness (Governance and Controls)”*

This new section is based on SR-21-3/CA-21-1, “Supervisory Guidance on Board of Directors’ Effectiveness.” The guidance in this section explains key attributes of effective boards at BHCs and SLHCs that are LFI. Specifically, this guidance notes that boards of directors at LFIs should: (1) set clear, aligned and consistent direction regarding the firm’s strategy and risk appetite; (2) direct senior management regarding the board’s information needs; (3) oversee and hold senior management accountable; (4) support the independence and stature of independent risk management and internal audit; and (5) maintain a capable board composition and governance structure. The section also provides an explanation of supervisory considerations in assessing board effectiveness as part of the LFI rating system.

*Section 1060.31, “Assessment of Risk-Management Processes and Internal Controls of BHCs Having \$100 Billion or More in Total Assets”*

This new section was previously section 4070.1. The material was moved closer to the manual’s sections on the assignment of ratings for holding companies subject to the LFI rating system. The section was revised to cover the supervision of BHCs having \$100 billion or more in total consolidated assets. Further, this section was updated to reflect the Federal Reserve’s guidance for boards of directors in SR-21-3/CA-21-1, “Supervisory Guidance on Board of Directors’ Effectiveness.” Specifically, the section was revised to better reflect the roles and responsibilities of the board of directors and the roles and responsibilities of senior management.

*Section 1062.1, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion”*

This new section was previously section 4071.0. The material in this section was moved closer to the manual’s sections on the assignment of ratings for holding companies with less than \$100 billion in assets (RFI/C(D) rating system). In addition, the section was revised to cover the supervision of Federal Reserve-regulated institutions with total consolidated assets of less than \$100 billion, including state member banks, BHCs, and SLHCs (including insurance and commercial SLHCs); as well as foreign banking organizations with consolidated U.S. assets of less than \$100 billion. Previously, the guidance in the section generally applied to the supervision of Federal Reserve-regulated institutions with total consolidated assets of less than \$50 billion. Outdated references to SR letters also were removed from the section. See SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 billion.”

*Section 1070.1, “Communication of Supervisory Findings”*

This section was revised to include a reference to the “Statement Clarifying the Role of Supervisory Guidance.” This statement, as codified in 12 CFR part 262, implements a September 2018 statement clarifying the differences between regulation and guidance. Unlike a law or regulation, supervisory guidance does not have the force and effect of law, and the Board does not take enforcement actions based on supervisory guidance. Rather, guidance outlines expectations and priorities, or articulates views regarding appropriate practices for a specific subject. See 12 CFR part 262, appendix A; 86 Fed. Reg. 18,179, (April 8, 2021).

*Section 1072.0, “Considerations in Assigning and Revising Supervisory Ratings”*

This new section was previously section 4070.3, “Revising Supervisory Ratings.” The material was moved closer to the other sections in the manual covering aspects of the Federal Reserve’s supervisory process. The section was revised to

describe considerations for upgrading supervisory ratings at community banking organizations. See SR-12-4, “Upgrades of Supervisory Ratings for Banking Organizations with \$10 Billion or Less in Total Consolidated Assets.” In addition, the section describes how examiners provide timely and accurate assessments of larger holding company through the LFI rating system.

### *Section 1080.0, “Federal Reserve System Holding Company Surveillance Program”*

This section was formerly section 4080.0, “Federal Reserve System BHC Surveillance Program.” The material was moved to be closer to the other sections in the manual covering aspects of the Federal Reserve’s supervisory process. Minor technical edits were made to the section.

### *Section 1080.1, “Surveillance Program for Small Holding Companies”*

This section was formerly section 4080.1, “Surveillance Program for Small Holding Companies.” The material was moved closer to the other sections in the manual covering aspects of the Federal Reserve’s supervisory process. Minor technical edits were made to the section.

### *Section 2010.12, “Fees Involving Investments of Fiduciary Assets in Mutual Funds and Potential Conflicts of Interest”*

This section was updated to reflect the Federal Reserve’s guidance for boards of directors in SR-21-3/CA-21-1, “Supervisory Guidance on Board of Directors’ Effectiveness,” and SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion.” Specifically, the section was revised to better reflect the roles and responsibilities of the board of directors and the roles and responsibilities of senior management with regards to this activity.

### *Section 2065.2, “Maintaining and Documenting the Allowance for Loan and Lease Losses”*

Section 2065.2, “Determining an Adequate Level for the Allowance for Loan and Lease Losses (Accounting, Reporting, and Disclosure Issues),” was renamed “Maintaining and Documenting

the Allowance for Loan and Lease Losses.” Section 2065.2 was modified to summarize the contents of the following manual sections, which were based on several SR letters:

- Section 2065.3, “Maintenance of an Appropriate Allowance for Loan and Lease Losses (Accounting, Reporting, and Disclosure Issues)” (See SR-06-17);
- Section 2065.4, “ALLL Methodologies and Documentation (Accounting, Reporting, and Disclosure Issues)” (See SR-01-17); and
- Section 2065.5, “ALLL Estimation Practices for Loans Secured by Junior Liens” (See SR-12-3)

As a result of the changes to section 2065.2, sections 2065.4, and 2065.5 have been removed from the manual. Section 2065.3 “Maintenance of an Appropriate Allowance for Loan and Lease Losses (Accounting, Reporting, and Disclosure Issues),” has been replaced with entirely new content on the “Allowance for Credit Losses.” In addition, references to the 2020 interagency guidance on credit-risk review systems were added to section 2065.2. See SR-20-13, “Interagency Guidance on Credit Risk Review Systems.”

### *Section 2065.3, “Allowance for Credit Losses”*

This new section provides an overview of the Financial Accounting Standards Board’s (FASB) Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The section highlights the Interagency Policy Statement on Allowances for Credit Losses,” which was issued by the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and National Credit Union Administration. (See SR-20-12.) The statement describes the measurement of expected credit losses under the current expected credit losses (CECL) methodology and the accounting for impairment on available-for-sale debt securities in accordance with FASB Accounting Standards Codification Topic 326; the design, documentation, and validation of expected credit loss estimation processes, including the internal controls over these processes; the maintenance of appropriate allowances for credit losses (ACLs); the responsibili-

ties of boards of directors and management; and examiners' review of a bank's ACLs. The section also explains the Board's rules providing institutions the option to phase in the day-one adverse effects on regulatory capital that may result transitioning from the incurred loss methodology to the CECL methodology.

*Section 2065.4, "ALLL Methodologies and Documentation (Accounting, Reporting, and Disclosure Issues)"*

This section has been removed from the manual. See the description above for section 2065.2 for more information on the removal of this section from the manual.

*Section 2065.5, "ALLL Estimation Practices for Loans Secured by Junior Liens"*

This section has been removed from the manual. See the description above for section 2065.2 for more information on the removal of this section from the manual.

*Section 2090.0, "Control and Ownership (General)"*

This section was revised to provide an overview of the concept of control as it is applied by the Federal Reserve under the relevant banking and savings and loan-related statutes. The section was revised to include key concepts from a final rule that the Board issued in 2020 on control and divestiture proceedings. See 85 Fed. Reg. 12,398 (March 2, 2020).

*Section 2122.0, "Internal Credit-Risk Ratings at Large Firms"*

This section was renamed and updated to reflect the Federal Reserve's guidance for boards of directors in SR-21-3/CA-21-1, "Supervisory Guidance on Board of Directors' Effectiveness," and SR-16-11, "Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion." Specifically, the section was revised to better reflect the roles and responsibilities of the board of directors and the roles and

responsibilities of senior management with regards to this activity. Outdated guidance references in the section were updated. In addition, the inspection objectives and procedures were removed.

*Section 2124.01, "Risk-Focused Supervision Framework for Large Complex Banking Organizations"*

Section 2124.01 was removed from the manual as SR-97-24, "Risk-Focused Framework for Supervision of Large Complex Institutions," has been made inactive. Refer to SR-21-4/CA-21-2, "Inactive or Revised SR Letters Related to the Federal Reserve's Supervisory Expectations for a Firm's Boards of Directors."

*Section 2124.07, "Compliance Risk-Management Programs and Oversight at Large Firms"*

This section was renamed and updated to reflect the Federal Reserve's guidance for boards of directors in SR-21-3/CA-21-1, "Supervisory Guidance on Board of Directors' Effectiveness," and SR-16-11, "Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion." Specifically, the section was revised to better reflect the roles and responsibilities of the board of directors and the roles and responsibilities of senior management with regards to implementing compliance risk-management programs.

*Section 2124.1, "Assessment of Information Technology in Risk-Focused Supervision"*

This section was updated to reflect the Federal Reserve's guidance for boards of directors in SR-21-3/CA-21-1, "Supervisory Guidance on Board of Directors' Effectiveness," and SR-16-11, "Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion." Specifically, the section was revised to better reflect the roles and responsibilities of the board of directors and the roles and responsibilities of senior management with regards to institutions' use of information technology. Outdated references to information technology tools or processes were removed. Further, the inspection objectives and inspection procedures were

removed from the section. More information on inspection objectives and procedures is provided in the *FFIEC IT Examination Handbook*.

### *Section 2124.3, “Managing Outsourcing Risk”*

This section was updated to reflect the Federal Reserve’s guidance for boards of directors in SR-21-3/CA-21-1, “Supervisory Guidance on Board of Directors’ Effectiveness,” and SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion.” Specifically, the section was revised to better reflect the roles and responsibilities of the board of directors and the roles and responsibilities of senior management with regards to outsourcing risk.

### *Section 2125.0, Trading Activities of Banking Organizations (Risk Management and Internal Controls)*

Section 2125.0 was removed from the manual as SR-93-69, “Examining Risk Management and Internal Controls for Trading Activities of Banking Organizations,” has been made inactive. Refer to SR-21-4/CA-21-2, “Inactive or Revised SR Letters Related to the Federal Reserve’s Supervisory Expectations for a Firm’s Boards of Directors.”

### *Section 2126.5, “Volcker Rule (Section 13 of the Bank Holding Company Act)”*

This section’s title was revised from “Procedures for a Banking Entity to Request an Extended Transition Period for Illiquid Funds.” Further, the section was revised to provide an overview of section 13 to the Bank Holding Company Act of 1956 (BHC Act), commonly referred to as the Volcker rule. The Volcker rule generally prohibits any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund, subject to certain exemptions. The section provides background information on the applicability of the Volcker rule, as well as Regulation VV, which implements the Volcker rule. The section retained salient information related to the procedures that institutions could follow to request an extended transition period for illiquid funds.

### *Section 2129.05, “Risk and Capital Management—Secondary-Market Credit Activities (Risk Management and Internal Controls)”*

This section was updated to reflect the Federal Reserve’s guidance for boards of directors in SR-21-3/CA-21-1, “Supervisory Guidance on Board of Directors’ Effectiveness,” and SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion.” The material related to SR-97-21, “Risk Management and Capital Adequacy of Exposures Arising from Secondary Market Credit Activities,” was removed from the section as this letter was made inactive. Refer to SR-21-4/CA-21-2, “Inactive or Revised SR Letters Related to the Federal Reserve’s Supervisory Expectations for a Firm’s Boards of Directors.” SR-21-4/CA-21-2 notes that the expectations related to the responsibilities of board of directors will be revised in the *Bank Holding Company Supervision Manual* to be consistent with the guidance in SR-21-3/CA-21-1 as well as SR-16-11.

### *Section 3500.0, “Prohibitions Against Tying Arrangements”*

This section was revised to provide an overview of section 106 of the BHC Act amendments of 1970 (section 106). Section 106, as implemented by the Federal Reserve Board’s Regulation Y (12 CFR part 225), prohibits a bank from conditioning the availability or price of one product on a requirement that the customer also obtain another product from the bank or an affiliate of the bank. The statute is intended to prevent banks from using their ability to offer bank products in a coercive manner to gain a competitive advantage in markets for other products and services. Several legal interpretations about the application of section 106 were removed from the section because legal interpretations are available on the Board’s public website. The inspection objectives and inspections procedures were updated.



*Section 3909.0, “Supervisory Guidance on Equity Investment and Merchant Banking Activities (Section 4(k) of the BHC Act)”*

This section was updated to reflect the Federal Reserve’s guidance for boards of directors in SR-21-3/CA-21-1, “Supervisory Guidance on Board of Directors’ Effectiveness,” and SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion.” Specifically, the section was revised to better reflect the roles and responsibilities of the board of directors and the roles and responsibilities of senior management with regards to this activity.

*Section 4020.9, “Supervision Standards for De Novo State Member Banks of Bank Holding Companies”*

This section was revised to incorporate updated guidance on the supervision program for de novo state member banks. The section was revised to explain that a state member bank is considered to be in the de novo stage until it has been operating for at least three years. In addition, the section was updated to note that as a condition of membership, the Federal Reserve typically requires each de novo to maintain a tier 1 leverage ratio of at least 8 percent for the first three years of its existence. See SR-20-16, “Supervision of De Novo State Member Banks.”

*Section 4060.3, “Consolidated Capital (Examiners’ Guidelines for Assessing the Capital Adequacy of BHCs)”*

Section 4060.3 has been removed from the manual. This section contained outdated information describing the capital adequacy guidelines for BHCs that was previously found in appendix A to Regulation Y (12 CFR part 225). Supervised institutions should refer to the Board’s capital rule (12 CFR part 217 or Regulation Q) and the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (12 CFR part 225, appendix C). For more information on Regulation Q, see the *Commercial Bank Examination Manual’s* section entitled, “Assessment of Capital Adequacy.” For more information on the Small Bank Holding Company and Savings and Loan Holding Com-

pany Policy Statement, see this manual’s section 2090.2, “Control and Ownership (BHC Formations).”

*Section 4060.5, “Capital Adequacy (Advanced Approaches)”*

Section 4060.5 has been removed from the manual. This section described the advanced approaches framework, which provides a risk-based capital framework that requires some bank holding companies to use an internal ratings-based approach to calculate credit-risk capital requirements and advanced measurement approaches in order to calculate regulatory operational-risk capital requirements. The relevant information on the advanced approaches framework is located in section 1060.1, “Large Financial Institution Rating System: Capital Planning and Positions,” in the subsection entitled, “Regulation Q (12 CFR 217): Capital Positions.” For more information on the advanced approaches framework see 12 CFR part 217, subpart E, as well as the Basel Coordination Committee Bulletins on the [Board’s public website](#).

*Section 4061.0, “Consolidated Capital (Capital Planning)”*

Section 4061.0 has been removed from the manual. Relevant guidance on the capital plan rule (12 CFR 225.8) is in section 1060.1, “Large Financial Institution Rating System: Capital Planning and Positions,” in the subsection entitled, “Regulation Y: Capital Plan Rule and Stress Capital Buffer.” Section 1060.1 explains the purpose of a firm’s capital plan; the applicability of the rule; and the mandatory elements of a capital plan. The tailored capital plan rule sets forth requirements for firms that are subject to category IV standards.

*Section 4063.0, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms”*

This section has been removed from the manual. See the description above for section 1060.2 for more information on the removal of this section from the manual.

*Section 4065.0, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for Large and Noncomplex Firms”*

This section has been removed from the manual. See the description above for section 1060.3 for more information on the removal of this section from the manual.

*Section 4070.1, “Rating Risk-Management Processes and Internal Controls of BHCs Having \$50 Billion or More in Total Assets”*

This section has been removed from the manual. See the description above for section 1060.31 for more information on the removal of this section from the manual.

*Section 4070.3, “Revising Supervisory Ratings”*

The content of this section was revised and moved to section 1072.0, “Considerations in Assigning and Revising Supervisory Ratings.” As a result, this section has been removed from the manual. See the description above for section 1072.0 for more information.

*Section 4071.0, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion”*

This section has been removed from the manual. See the description above for section 1062.1 for more information on the removal of this section from the manual.

*Section 4080.0, “Federal Reserve System BHC Surveillance Program”*

The material in this section has been moved to section 1080.0. As a result, this section has been removed from the manual. See the description above for section 1080.0 for more information.

*Section 4080.1, “Surveillance Program for Small Holding Companies”*

The material in this section was moved to section 1080.1. As a result, this section has been removed from the manual. See the description above for section 1080.1 for more information.

# Bank Holding Company Supervision Manual

## Supplement 54—February 2020

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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Supervision and Regulation has issued since the publication of the February 2019 supplement.

### *Section 1045.0*

The contents of this new section, “Supervision of Holding Companies with Total Consolidated Assets of \$10 Billion or Less,” were previously in this manual’s section 5000.0, “BHC Inspection Program (General).” A standalone section was developed to help clarify the supervisory program for smaller holding companies. The content of the section was revised to modify inspection frequency and scope expectations for holding companies with total consolidated assets between \$1 billion and \$3 billion. The inspection frequency and scope expectations were modified for this population of holding companies to align with updated statutory requirements as authorized by the Economic Growth, Regulatory Relief, and Consumer Protection Act. References were also updated to reflect that non-commercial and non-insurance savings and loan holding companies (SLHCs) are assigned RFI ratings, effective February 1, 2019. See SR-13-21, “Inspection Frequency and Scope Requirements for Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of \$10 Billion or Less.”

### *Section 1063.0*

This new section, “Holding Company Ratings Applicability and Inspection Frequency,” provides an overview of the inspection scope and frequency expectations for bank holding companies (BHCs) and SLHCs supervised by the Federal Reserve. The section explains the applicability of the two rating systems Federal Reserve examiners use to assess the condition of BHCs and SLHCs. The section also provides a table illustrating the inspection scope and frequency expectations for holding companies with less than \$10 billion in assets, which is described in more detail in section 1045.0. See also SR-19-4/CA-19-3, “Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than \$100 billion”; SR-19-3/

CA-19-2, “Large Financial Institution (LFI) Rating System”; and SR-13-21.

### *Section 1065.0*

This new section, “Nondisclosure of Supervisory Ratings and Confidential Supervisory Information,” was previously section 4070.5. The section was moved to section 1065.0 so it would be located closer to the manual’s sections on the assignment of ratings for holding companies. In addition, the section was revised to reference the large financial institution (LFI) rating system as another example of confidential supervisory information. Superfluous historical background information was removed from the section. In addition, outdated references to the Office of Thrift Supervision and their holding company rating system were removed from the section.

### *Section 1070.1*

The content of this new section was previously part of section 5000.0, “BHC Inspection Program (General).” The content of section 1070.1 primarily is based on the guidance in SR-13-13/CA-13-10, “Supervisory Considerations for the Communication of Supervisory Findings.” Section 1070.1 highlights that examiners should convey, if evident, both the root cause of the finding and the potential effect of the finding on the organization. The section also includes a reference to SR-18-5/CA-18-7, “Interagency Statement Clarifying the Role of Supervisory Guidance,” which examiners should also consider when communicating supervisory findings. Lastly, the section describes key factors examiners should consider in determining whether to recommend additional formal or informal investigation or enforcement action for a holding company.

### *Section 2231.0*

Section 2231.0, “Real Estate Appraisals and Evaluations,” has been revised significantly. This section provides a brief summary of the Board’s appraisal regulations and directs readers to the key pieces of guidance that the Board and other banking agencies have issued relating to real



estate appraisals and evaluations. Previously, the section contained the entire contents of the December 2010 “Interagency Appraisal and Evaluation Guidelines.” The revised manual section includes a brief summary of the December 2010 Interagency Appraisal and Evaluation Guidelines, as well as a hyperlink to the guidelines. (See SR-10-16.)

#### *Section 4060.4*

Section 4060.4, “Consolidated Capital (Tier 1 Leverage Measure),” has been removed from the manual. The section was outdated and based on regulations that no longer exist. For more information on the leverage ratio, including leverage ratio components and requirements, see the Board’s Regulation Q (12 CFR part 217). In addition, the instructions to the FR Y-9C, “Consolidated Financial Statements for Holding Companies,” (Schedule HC-R) outline the reporting requirements for the leverage capital ratios.

#### *Section 4070.5*

This section, “Nondisclosure of Supervisory Ratings,” has been removed from the manual. See the description above for section 1065.0 for more information on the removal of this section from the manual.

#### *Section 4080.1*

This section, “Surveillance Program for Small Holding Companies,” was modified to alter the applicability of the Federal Reserve’s surveillance program for holding companies. The small holding company surveillance program covers holding companies having total consolidated assets of less than \$3 billion. Previously, the

program covered holding companies having total consolidated assets of less than \$1 billion. (See SR-13-21.)

#### *Section 5000.0*

Section 5000.0, “BHC Inspection Program (General),” has been revised significantly and is now focused on the coordination of holding company supervisory activities. Much of the relevant content in section 5000.0 was moved to other sections to improve the manual’s organization. More specifically, information related to the supervision of holding companies with total consolidated assets \$10 billion or less was removed, revised, and incorporated into section 1045.1 of the manual. The section’s content related to the communication of supervisory findings was removed and incorporated into section 1070.1 of the manual. In addition, outdated content on the inspection frequency and scope of holding companies was removed from this section. Section 1063.0 contains consolidated and updated inspection frequency and scope expectations for holding companies.

#### *Section Table of Contents*

The detailed table of contents sections, which listed the subheadings within each major part of the manual (parts 2000, 3000, 4000, and 5000) have been removed. Because the Board no longer offers print versions or subscriptions for the manual, these detailed tables of contents sections are obsolete. Manual readers can use the search function within the online version of the manual to find material. The General Table of Contents (section 1010.0) at the beginning of the manual, which provides a broad overview, has been retained.

# Bank Holding Company Supervision Manual

## Supplement 53—February 2019

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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Supervision and Regulation has issued since the publication of the September 2017 supplement.

### *Section 1000.0*

This section was renamed from “Foreword” to “About this Manual” and now includes the relevant content from sections 1020.0 and 1030.0. In addition, the section clarifies the role of supervisory guidance. A statute or regulation has the force and effect of law. Unlike a law or regulation, supervisory guidance does not have the force and effect of law. Rather, supervisory guidance outlines the agencies’ supervisory expectations or priorities and articulates the agencies’ general views regarding appropriate practices for a given subject area. See SR letter 18-5/CA letter 18-7, “Interagency Statement Clarifying Role of Supervisory Guidance,” for more information.

### *Section 1020.0*

The relevant content of this section, “Preface,” was moved to section 1000.0 of this manual. As a result, section 1020.0 was removed from the *Bank Holding Company Supervision Manual*.

### *Section 1030.0*

The relevant content in this section, “Use of the Manual,” has been moved to section 1000.0 of this manual. As a result, section 1030.0 was removed from the *Bank Holding Company Supervision Manual*.

### *Section 1060.0*

This new section, “Large Financial Institution Rating System,” presents the supervisory rating system adopted in November 2018 for

- bank holding companies with total consolidated assets of \$100 billion or more;
- all non-insurance, non-commercial savings and loan holding companies with total consolidated assets of \$100 billion or more; and
- U.S. intermediate holding companies of for-

eign banking organizations with combined U.S. assets of \$50 billion or more established pursuant to the Federal Reserve’s Regulation YY.

The large financial institution (LFI) rating system represents a supervisory evaluation of whether a firm possesses sufficient financial and operational strength and resilience to maintain safe-and-sound operations and comply with laws and regulations, including those related to consumer protection, through a range of conditions. The LFI rating system is composed of the following three components: (1) Capital Planning and Positions; (2) Liquidity Risk Management and Positions; and (3) Governance and Controls. The Federal Reserve will assign initial LFI ratings to firms in the Large Institution Supervision Coordinating Committee portfolio in early 2019. For all other firms subject to the LFI rating system, the Federal Reserve will assign initial LFI ratings in early 2020. See 83 Fed. Reg. 58,724 (November 21, 2018) and 84 Fed. Reg. 4309 (February 15, 2019). See also SR letter 19-3/CA letter 19-2, “Large Financial Institution (LFI) Rating System.”

### *Section 1062.0*

This new section, “RFI Rating System,” primarily clarifies which supervisory rating system applies to holding companies with total consolidated assets less than \$100 billion. In 2018, the Board adopted the LFI rating system for bank holding companies and non-insurance and non-commercial savings and loan holding companies (SLHCs) with total consolidated assets of \$100 billion or more (see section 1060.0). Also in 2018, the Board adopted the RFI rating system for non-insurance and non-commercial SLHCs with total consolidated assets less than \$100 billion. See 83 Fed. Reg. 56,081 (November 7, 2018). This section notes all of the bank holding companies and savings and loan holding companies that are subject to the RFI rating system. The elements of the RFI rating system and the ratings’ definitions have not changed. The majority of the content in this section, was previously in section 4070, “Bank Holding Company Rating System.” See also 69 Fed. Reg. 70,444 (December 6, 2004). However, the RFI rating system guidance was revised to provide

current references to regulations and guidance. The manual references have also been revised. See SR letter 19-4/CA letter 19-3, “Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than \$100 billion,” for more information.

### *Section 2020.7*

This section was renamed from “Intercompany Transactions (Transfer of Low-Quality Loans or Other Assets)” to “Intercompany Transactions (Transfer of Low-Quality Assets).” The section was updated to provide the current definition of low-quality assets, as per the Federal Reserve Board’s Regulation W (12 CFR 223.3(v)). Outdated references were removed from the section.

### *Section 2090.2*

This section, “Control and Ownership (BHC Formations),” was revised to reflect the Board’s August 30, 2018 (effective date) amendment of the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (12 CFR 225, appendix C) to expand the applicability of the policy statement. The interim final rule raised the asset threshold of the policy statement from \$1 billion to \$3 billion in total consolidated assets. All firms covered by the policy statement must meet certain qualitative requirements, including those pertaining to non-banking activities, off-balance sheet activities, and publicly registered debt and equity. For the interim final rule, see 83 Fed. Reg. 44,195 (August 30, 2018).

### *Section 2100.0*

This section, “International Banking Activities,” was revised to remove outdated information from year-end 2009 regarding the number of member banks, Edge Act corporations and agreement corporations operating in foreign countries and overseas areas of the United States, and entities representing foreign banking organizations operating in the United States. The section also was revised to note that in 2014, the Federal Reserve Board approved a final rule required by section 165 of the Dodd-Frank Act, which requires enhanced prudential standards

for large U.S. bank holding companies. Section 165 directed the Board to strengthen supervision and regulation of foreign banking organizations. The section also includes a reference to the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which amended section 165 of the Dodd-Frank Act.

### *Section 2170.0*

This section, “Purchase and Sale of Loans Guaranteed by the U.S. Government,” has been removed from the manual. The contents of the section were based on a Federal Financial Institutions Examination Council (FFIEC) policy statement from 1985 on supervising banking organizations that participate in the purchase and sale of loans guaranteed by the U.S. government. The 1985 FFIEC policy statement was rescinded in 1997. See 62 Fed. Reg. 16,158 (April 4, 1997) for more information.

### *Section 2178.0*

This section, “Support of Bank-Affiliated Investment Funds,” was revised to clarify that a state member bank’s management should notify and consult with the Federal Reserve prior to the bank providing material financial support to its advised funds. The section also was revised to remove a reference to the abolished Office of Thrift Supervision and to update an accounting standards reference. The inspection objectives and inspection procedures were removed from the section. Examination objectives and procedures to review banks providing financial support to advised funds are available in the “Investment-Funds Support” section of the *Commercial Bank Examination Manual*.

### *Section 4000.0 and section 4020.5*

Section 4000.0, “Financial Factors (Introduction),” and section 4020.5, “Banks (Summary Analysis),” were updated to remove references to section 4070.0, which is no longer a section in the *Bank Holding Company Supervision Manual*.

### *Section 4060.8*

Section 4060.8 has been significantly revised. The section was renamed from “Consolidated Risk-Based Capital—Direct-Credit Substitutes

Extended to ABCP Programs” to “Overview of Asset-Backed Commercial Paper Programs.” The section was substantially revised because the material did not reflect the current capital rules. The previous capital rules permitted banking organizations with qualifying internal risk-rating systems to use those systems to apply the internal-ratings approach to their un-rated direct-credit substitutes extended to asset-backed commercial paper programs that they sponsored by mapping internal risk ratings to external rating equivalents. The revised capital rules (78 Fed. Reg. 62,018 (October 11, 2013)) replaced references to credit ratings with new measures of creditworthiness.

### *Section 4069.0*

Section 4069.0, “Dodd-Frank Act Company-Run Stress Testing for Banking Organizations with Total Consolidated Assets \$10–50 Billion,” has been removed from the *Bank Holding Company Supervision Manual*. Eighteen months after the Economic Growth, Regulatory Relief, and Consumer Protection Act’s (EGRRCPA) enactment (May 24, 2018), financial companies with total consolidated assets of less than \$250 billion that are not bank holding companies (BHCs) will no longer be subject to the company-run stress testing requirements in section 165(i)(2) of the Dodd-Frank Act. In contrast, on EGRRCPA’s date of enactment, BHCs under \$100 billion in total consolidated assets were no longer subject to section 165(i)(2). The agencies’ regulations implementing company-run stress testing provide that the agencies may extend any deadline relating to company-run stress testing. In order to avoid unnecessary burden for depository institutions and to maintain consistency between BHCs and depository institutions, the agencies are extending the dead-

lines for all regulatory requirements related to company-run stress testing for depository institutions with average total consolidated assets of less than \$100 billion until November 25, 2019 (at which time both statutory exemptions will be in effect). For more information, see the [Inter-agency statement regarding the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act](#) issued on July 6, 2018.

### *Section 4070.0*

The majority of the content in this section, “Bank Holding Company Rating System,” has moved to section 1062.0, “RFI Rating System.” In addition to moving the contents to section 1062.0, the information was revised to clarify the applicability of the RFI rating system and to provide current references to regulations and guidance. The elements of the RFI rating system and the ratings’ definitions are unchanged. As a result, section 4070.0 was removed from the *Bank Holding Company Supervision Manual*. See section 1062.0 and SR letter 19-4/CA letter 19-3, “Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than \$100 billion,” for more information.

### *Section 6000.0*

This section, the “Alphabetical Subject Index,” was removed from the *Bank Holding Company Supervision Manual*. Effective December 31, 2017, the Board no longer offers print versions or subscriptions for the manual, which has rendered the Alphabetical Subject Index obsolete. Manual readers can use the search function within the online version of the manual to find material.

# Bank Holding Company Supervision Manual

## Supplement 52—September 2017

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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Supervision and Regulation has issued since the publication of the January 2017 supplement.

### SUMMARY OF CHANGES

#### *Section 2010.13*

Section 2010.13, “Supervision of Subsidiaries (Establishing Accounts for Foreign Governments, Embassies, and Political Figures),” was updated to provide additional guidance, which was conveyed in a 2011 interagency advisory entitled, “Guidance on Accepting Accounts from Foreign Embassies, Consulates and Missions.” This interagency advisory provides information to financial institutions providing account services to foreign missions in a manner that fulfills the needs of those foreign governments while complying with the provisions of the Bank Secrecy Act. It advises that financial institutions are expected to demonstrate the capacity to conduct appropriate risk assessments and implement the requisite controls and oversight systems to effectively manage the risk identified in these relationships with foreign missions. The 2011 advisory also confirms that it is the financial institution’s decision to accept or reject a foreign mission account. See SR letter 11-6, “Guidance on Accepting Accounts from Foreign Embassies, Consulates and Missions.”

#### *Section 4060.9*

Section 4060.9, “Consolidated Capital Planning Processes (Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding

Companies),” was updated to clarify that the guidance in the section does not apply to U.S. bank holding companies or intermediate holding companies of foreign banking organizations with \$50 billion or more in total consolidated assets. Capital planning guidance for the previously mentioned firms is provided in SR letter 15-18, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms” (section 4063.0.1 of this manual) and SR letter 15-19, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for Large and Noncomplex Firms” (section 4065.0.1 of this manual). In addition, inactive guidance references in this section have been updated.

#### *Section 4069.0*

This section, “Dodd-Frank Act Company-Run Stress Testing for Banking Organizations with Total Consolidated Assets of \$10–50 Billion,” was updated to address changes to the agencies’ rules implementing Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) company-run stress testing disclosure requirements since the issuance of SR letter 14-3, “Supervisory Guidance on Dodd-Frank Act Company-Run Stress Testing for Banking Organizations with Total Consolidated Assets of More Than \$10 Billion but Less Than \$50 Billion.” For more information on the changes to the Board’s stress testing rules, see 80 *Fed. Reg.* 75419 (December 2, 2015).



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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Supervision and Regulation has issued since the publication of the July 2016 supplement.

### SUMMARY OF CHANGES

#### *Section 2126.5*

Section 2126.5, “Procedures for a Banking Entity to Request an Extended Transition Period for Illiquid Funds,” is a new section that provides applicable banking entities with information on the procedures for submitting a request for an extended transition period for a hedge fund or private equity fund that qualifies as an illiquid fund pursuant to section 13 of the Bank Holding Company Act of 1956 (BHC Act), also known as the Volcker rule. Under the statute, a banking entity must apply to the Board for an extended transition period for an illiquid fund regardless of the banking entity’s primary financial regulatory agency. The term “banking entity” is defined by statute to include, with limited exceptions: (i) any insured depository institution (IDI) (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)); (ii) any company that controls an IDI (including

a bank holding company (BHC), savings and loan holding company (SLHC), and any other company that controls an insured depository institution but that is not a BHC or SLHC, such as the parent company of an industrial loan company); (iii) any company that is treated as a BHC for purposes of section 8(a) of the International Banking Act of 1978 (for example, any foreign bank operating a branch or agency in the United States); and (iv) any affiliate or subsidiary of any of the foregoing (for example, a broker–dealer subsidiary of a BHC). (Refer to SR-16-18.)

#### *Section 3140.0*

This section, “Section 4(c)(8) of the BHC Act (Leasing Personal or Real Property),” has been revised to include a brief summary of a June 10, 2016, Board order (FRB Order no. 2016-07) that approved a notice by a foreign bank holding company and its foreign wholly owned subsidiary bank to engage in permissible nonbanking activities under section 4(c)(8) of the BHC Act and section 225.24 of the Board’s Regulation Y. The nonbanking activities include railcar leasing and the provision of certain railcar fleet management services pursuant to sections 225.28(b)(3) and 225.21(a)(2) of Regulation Y. The corresponding table of Laws, Regulations, Interpretations, and Orders has been amended to include the order.

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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Banking Supervision and Regulation has issued since the publication of the January 2016 supplement.

### SUMMARY OF CHANGES

#### *Section 1050.2*

Section 1050.2, “Guidance for the Consolidated Supervision of Regional Bank Holding Companies,” is revised (beginning at subsection 1050.2.5) to include guidance for regional banking organizations based on SR-16-4, “Relying on the Work of the Regulators of Subsidiary Insured Depository Institution(s) of Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of Less than \$50 Billion.” The letter was issued by the Federal Reserve to explain its expectations for its examiners’ reliance on the work of the regulators of insured depository institution subsidiaries of these holding companies. The letter presents a tailored supervisory approach for regional banking organizations, which are defined as companies with total consolidated assets of between \$10 billion and \$50 billion.

#### *Section 4066.0*

Section 4066.0, “Consolidated (Funding and Liquidity Risk Management),” is amended at subsection 4066.0.2 to include “Appendix B - Interagency Guidance on Funds Transfer Pricing Related to Funding and Contingent Liquidity Risks,” issued March 1, 2016. The guidance was issued to address weaknesses observed in some large financial institutions’ funds transfer pricing practices related to funding risk (including interest rate and liquidity components) and contingent liquidity risk. (Refer to SR-16-03 and to the March 1, 2016, attachment to the interagency guidance, “Illustrative Funds Transfer Pricing Methodologies.”)

#### *Section 4070.1*

Section 4070.1, “Rating...Risk Management Processes and Internal Controls of BHCs...” is partially superseded as the result of the issuance of SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion.” With the issuance of SR-16-11, SR-95-51 (section 4070.1) is applicable only to bank holding companies and state member banks having \$50 billion or more in total assets.

#### *Section 4071.0*

Section 4071.0, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion,” is a new section that reaffirms the Federal Reserve’s long-standing supervisory approach that emphasizes the importance of prudent risk management. This section’s guidance and SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less Than \$50 Billion,” outlines core risk categories and risk-management principles. This supervisory guidance reflects updates to, and partially supersedes, SR-95-51, “Rating the Adequacy of Risk Management and Internal Controls at State Member Banks and Bank Holding Companies.” The guidance in SR-16-11 provides clarifications on, and distinguishes supervisory expectations for, the roles and responsibilities of the board of directors and senior management. The risk-management expectations within this guidance are applicable to all supervised institutions with total consolidated assets of less than \$50 billion, including bank holding companies, state member banks, savings and loan holding companies, and foreign banking organizations with total combined U.S. assets of less than \$50 billion. The guidance also applies to insurance and commercial savings and loan holding companies with total consolidated assets of less than \$50 billion.

Substantive changes that are included in SR-16-11 (when compared to SR-95-51) are:

1. Certain major risk categories are modified.
  - a. Compliance risk is a separate core risk;
  - b. Reputation risk is not considered a core risk
  - c. Risk definitions that are revised:
    - i. Operational risk is the risk resulting from inadequate or failed internal processes, people, and systems or from external events.
    - ii. Market risk includes commodity prices
    - iii. Legal risk includes legal sanctions
2. The responsibilities of the board of directors versus senior management are separated across all risk-management components.
  - a. Senior management is responsible for risk identification.
  - b. Senior management is responsible for the establishment and maintenance of effective information systems.
  - c. Both the board of directors and senior management are responsible for an effective system of internal controls.

3. Additional risk-management concepts are included:

- a. Information systems should consist of a consolidated and integrated view of risks.
- b. The board of directors should approve significant policies to establish risk tolerances for the institution's activities.

### *Section 5000.0*

Section 5000.0, "BHC Inspection Program (General)," is revised at subsection 5000.0.4.3.05 to provide additional guidance on the supervisory approach to be used for holding companies with total consolidated assets of \$10 billion or less. The guidance pertains to relying on the work of insured depository institution (IDI) regulators for community banking organizations. Examiners are to rely substantially on the findings of the IDI regulator in evaluating the overall condition of the holding company. Reserve Bank reviews are to evaluate the condition, performance, and prospects of a subsidiary IDI based on the conclusion of the IDI regulator and are not to duplicate the IDI regulator's work. (Refer to SR-16-4.)



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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Banking Supervision and Regulation has issued since the publication of the July 2015 supplement.

## SUMMARY OF CHANGES

### *Section 2060.1*

Section 2060.1, “Audit (Management Information Systems),” is revised (beginning at subsection 2060.1.8) to include an Overview and Appendix A—“Interagency Advisory on External Audits of Internationally Active U. S. Financial Institutions.” The federal banking agencies<sup>1</sup> (the agencies) issued the advisory to communicate their support for the principles and expectations that are set forth in Parts 1 and 2, respectively, of the Basle Committee on Banking Supervision (the BCBS) March 2014 guidance on “External audits of banks.”

The agencies acknowledge that the existing standards and practices in the United States are broadly consistent with the BCBS external audit guidance. Because of the legal and regulatory framework in the United States, certain differences exist between the standards and practices followed in the United States and the principles and expectations in the BCBS external audit guidance. These differences are addressed in this advisory, which also describes the agencies’ supervisory expectations for U. S. financial institutions within the scope of the advisory for incorporating the principles and expectations in the BCBS external audit guidance into their practices. The advisory also outlines examiner responsibilities related to these supervisory expectations.

The BCBS external audit guidance is intended for “internationally active banks,” which, the agencies defined in the advisory (Refer to SR-16-2 and its attachment.)

### *Section 2093.0*

Section 2093.0, “Control and Ownership (Shareholder Protection Arrangements)” is a new

section that discusses Federal Reserve supervisory concerns and issues regarding the establishment of arrangements by some bank and savings and loan holding companies (collectively, “holding companies”) to protect the financial investments made by shareholders (collectively, “shareholder protection arrangements”). There has been an increase in interest by some holding companies to benefit certain shareholders, enhance short-term investor returns, and/or provide a distinct disincentive for investors to acquire or increase ownership in a holding company’s common stock and other capital instruments. Such shareholder protection arrangements raise concerns because they could have negative implications on a holding company’s capital or financial position, limit a holding company’s financial flexibility and capital raising capacity, or otherwise impair a holding company’s ability to raise additional capital in the future. These arrangements impede the ability of a holding company to serve as a source of strength to its insured depository institutions subsidiaries and are considered unsafe and unsound. A holding company, regardless of its asset size, should be aware that the Federal Reserve may object to a shareholder protection arrangement based on the facts and circumstances and the features of the particular arrangement. Examples of shareholder protection arrangements that have raised supervisory issues are discussed. (Refer to SR-15-15.)

### *Section 4061.0*

Section 4061.0, “Consolidated Capital (Capital Planning),” is revised for amendments to Regulation Y, 12 C.F.R. 225.8 “Capital Planning.” The rule was amended to limit the ability of a bank holding company with \$50 billion or more in total consolidated assets to make capital distributions under the rule if the bank holding company’s net capital issuances are less than the amount indicated in its capital plan. The tier 1 common capital ratio requirement was removed, and certain mandatory capital action assumptions were modified. (Refer to 79 *Fed. Reg.* 64040 (October 27, 2014) and 80 *Fed. Reg.* 75424 (December 2, 2015)).

1. The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

### Section 4060.7

Section 4060.7, Consolidated Capital (Assessing Capital Adequacy and Risk at Large Banking Organizations and Others with Complex Risk Profiles) is deleted. The section was derived from SR-99-18, superseded by SR-15-18 and SR-15-19, both issued on December 18, 2015.

### Section 4063.0

Section 4063.0, “Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms,” is a new section consisting of Federal Reserve guidance that was issued to explain its expectations for capital planning at Large Institution Supervision Coordinating Committee (LISCC) firms and large and complex bank holding companies and intermediate holding companies of foreign banking organizations. This guidance is consistent with the broad supervisory expectations set forth in SR-12-17/CA-12-14, “Consolidated Supervision Framework for Large Financial Institutions.” It sets forth the Federal Reserve’s core capital planning expectations for LISCC and large and complex firms. Several appendices are included that detail supervisory expectations on a firm’s capital planning processes. The new guidance largely consolidates the Federal Reserve’s existing capital planning guidance.

The expectations for LISCC Firms and Large and Complex Firms are higher than the expectations for Large and Noncomplex Firms. Within the group of firms subject to this guidance, the Federal Reserve has significantly heightened expectations for the LISCC Firms. This guidance sets forth only minimum expectations, and LISCC Firms are consistently expected to exceed those minimum standards and have the most sophisticated, comprehensive, and robust capital planning practices for all of their portfolios and activities. Refer to SR-15-18 and its attachment.

### Section 4065.0

Section 4065.0, “Federal Reserve Supervisory Assessment of Capital Planning And Positions

for Large and Noncomplex Firms,” The Federal Reserve’s guidance explains its supervisory expectations for capital planning at large and non-complex bank holding companies and intermediate holding companies of foreign banking organizations, consistent with the broad supervisory expectations set forth in SR-12-17/CA-12-14, “Consolidated Supervision Framework for Large Financial Institutions.” This guidance applies to U.S. bank holding companies and intermediate holding companies of foreign banking organizations that have total consolidated assets of at least \$50 billion but less than \$250 billion, have consolidated total on-balance sheet foreign exposure of less than \$10 billion, and are not otherwise subject to the Federal Reserve’s LISIC framework (referred to as a “Large and Non-complex Firm”). Refer to SR-15-19 and its attachment.

### Section 4080.0

Section 4080.0, “Federal Reserve System Bank Holding Company Surveillance Program,” is revised to discuss the Federal Reserve’s revision of its safety-and-soundness surveillance program (the Surveillance Program) for top-tier bank holding companies and savings and loan holding companies (HCs). The revised program includes a new early warning model for HCs, the “*Holding Company Statistical Assessment of Bank Risk*” or “HC-SABR” model. It deploys risk identification algorithms (“Outlier Metrics”) and other surveillance products to process financial and economic data and generate forward-looking, actionable intelligence on HCs that will provide examiners and other supervisory staff with early signals by which to monitor risk-taking. Results are used to assess exposures, outlooks, and possible compliance shortcomings, with the goal of calibrating supervisory resources to risk. The Surveillance Program’s objectives, structure, and maintenance are discussed along with additional information on the metrics, procedures, and write-up requirements used to monitor HCs. The program also distributes surveillance results across the Federal Reserve’s supervision function. (Refer to SR-15-16 and its attachment.)

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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Banking Supervision and Regulation has issued since the publication of the January 2015 supplement.

### SUMMARY OF CHANGES

#### *Section 2010.2*

Section 2010.2, “Supervision of Subsidiaries (Loan Administration and Lending Standards),” is revised (subsection 2010.2.4.1.9) to remove a footnote reference to SR letter 02-16, “Interagency Questions and Answers on Capital Treatment of Recourse, Direct Credit Substitutes and Residual Interests in Asset Securitizations,” which is superseded by SR letter 15-6, “Interagency Frequently Asked Questions (FAQs) on the Regulatory Capital Rule.”

#### *Section 2090.2*

Section 2090.2, “Control and Ownership (BHC Formations),” has been revised to include the Board’s April 9, 2015, approval of its Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (effective May 15, 2015). This policy statement expands the applicability of the former policy statement to include savings and loan holding companies (SLHCs). The policy applies to those bank holding companies (BHCs) and certain SLHCs that have consolidated assets of less than \$1 billion. Previously, the policy only applied to BHCs having consolidated assets of less than \$500 million.

#### *Section 2128.03*

Section 2128.03, “Credit-Supported and Asset-Backed Commercial Paper (Risk Management and Internal Controls) is revised (subsection

2128.03.3.3) to delete a footnote reference to SR letter 05-13 and its attachment, “Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Program Liquidity Facilities and the Resulting Risk-Based Capital Treatment,” which is superseded by SR letter 15-6 “Interagency Frequently Asked Questions on the Regulatory Capital Rule.”

#### *Section 2500.0*

This section, “Supervision of Savings and Loan Holding Companies” was revised to include a reference to SR letter 14-9, “Incorporation of Federal Reserve Policies into the Savings and Loan Holding Company Supervision Program,” which provides a listing of supervisory guidance documents (SR letters) that were issued prior to July 21, 2011. The Federal Reserve has determined that these SR letters are applicable to savings and loan holding companies.

#### *Section 3070.3*

This section, “Section 4(c)(8) of the BHC Act (Non-Traditional Mortgages—Associated Risks),” is revised to delete a footnote reference to SR letter 02-16, “Interagency Questions and Answers on Capital Treatment of Recourse, Direct Credit Substitutes, and Residual Interests in Asset Securitizations,” and its attachment, which is superseded by SR letter 15-6 “Interagency Frequently Asked Questions on the Regulatory Capital Rule.” Refer to subsection 3070.3.2.5. “Secondary Market Activity.”

#### *Section 3111.0*

This section, “Section 4(c)(8) of the BHC Act (Acquisition of Savings Associations)” includes (subsection 3111.0.3) reference corrections to listed Board orders that authorized the acquisition of savings associations.



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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Banking Supervision and Regulation has issued since the publication of the July 2014 supplement.

### SUMMARY OF CHANGES

#### *Sections 1050.0, 1050.1, 1050.2, 3900.0, and 4070.0*

These sections have been revised to refer to SR-12-17/CA-12/14, “Consolidated Supervision Framework for Large Financial Institutions,” which superseded SR-99-15, “Risk-Focused Supervision of Large Complex Banking Organizations.”

#### *Section 2010.2*

Section 2010.2, “Supervision of Subsidiaries (Loan Administration and Lending Standards),” is revised to include a new subsection 2010.2.6, “Guidance on Private Student Loans with Graduated Payment Terms of Origination.” The guidance provides principles that financial institutions should consider in their policies and procedures for originating these loans. Financial institutions should prudently underwrite their private student loans in a manner consistent with safe and sound lending practices. Financial institutions should also comply with all applicable federal and state consumer laws and regulations, including providing disclosures that clearly communicate the timing and the amount of payments to facilitate borrower understanding of loan terms and features. Refer to SR-15-2/CA-15-1.

#### *Section 2124.0*

This section was revised to include a footnote reference to SR-14-4, “Examiner Loan Sampling Requirements for State Member Bank and Credit Extending Nonbank Subsidiaries of Banking Organizations with \$10–\$50 Billion in Total Consolidated Assets.” The guidance in SR-14-4 clarifies the expectations for the assessment of material retail credit portfolios for these institutions. The guidance in SR-14-4 superseded SR-94-13, “Loan Review Requirements for On-Site Examinations,” but only for these banking organizations. (For the SR-14-4 guidance, refer to subsection 2010.2.11, appendix I.)

#### *Section 2124.01*

This section, “Risk-Focused Supervision for Large Complex Banking Organizations,” was revised to (1) include 10 additional risk-focused SR letters to the listing in appendix A and (2) remove two inactive letters from this list.

#### *Section 3110.0*

This section, “Section 4 (c)(8) of the BHC Act (Industrial Banking)” was revised to amend the beginning discussion and to include statutory and regulatory citations and a current Board order reference within section 3110.0.4.

#### *Section 3111.0*

This section, “Section 4(c)(8) of the BHC Act (Acquisition of Savings Associations)” was revised to include a Dodd-Frank Act provision pertaining to a bank holding company’s application to acquire an insured depository institution when it is located in a home state other than the home state of the bank holding company. See subsection 3111.0.2.5. In addition, subsection 3111.0.3 lists additional Board orders that have authorized the acquisition of savings associations.

#### *Section 4069.0*

This new section, “Dodd-Frank Act Company Run Stress Testing for Banking Organizations with Total Consolidated Assets of \$10–\$50 Billion,” provides guidance on the supervisory expectations for the Dodd-Frank Wall Street Reform and Consumer Protection Act stress test practices for these companies and offers additional details about methodologies that should be employed. Refer to SR-14-3 and the 2014 interagency “Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of More Than \$10 Billion but Less than \$50 Billion” (see 79 Fed. Reg. 14153, March 13, 2014).

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This supplement reflects decisions of the Board of Governors, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Banking Supervision and Regulation has issued since the publication of the January 2014 supplement.

### SUMMARY OF CHANGES

#### *Section 2010.2*

The section, “Supervision of Subsidiaries (Loan Administration and Lending Standards),” is revised to include Appendix I — “Examiner Loan Sampling Requirements For Credit-Extending Nonbank Subsidiaries of BHCs with \$10-50 Billion in Total Consolidated Assets.” The subsection sets forth the loan sampling expectations that apply to the Federal Reserve’s inspection of credit-extending nonbank subsidiaries of bank holding companies (BHCs). Examiners will also have the flexibility, depending upon the structure and size of a nonbank subsidiary, to utilize the guidance so that it’s applicable to a smaller BHC with credit-extending nonbank subsidiaries having total assets below \$10 billion. Refer to SR-14-4 and its attachment.

#### *Section 2020.1*

This section, “Intercompany Transactions (Transactions Between Member Banks and Their Affiliates — Sections 23A and 23B of the Federal Reserve Act)” is revised to discuss statutory amendments to these sections of the Federal Reserve Act resulting from the Dodd-Frank Act. One amendment involved the definition of an “affiliate,” with regard to an investment fund when an insured depository institution (IDI) or one of its affiliates is an investment adviser. Also, the definition of “covered transactions” was revised to include the credit exposure resulting for derivative and securities lending and borrowing transactions between the IDI and its affiliates. In addition, the Dodd-Frank Act removed the quantitative 10 percent exemption limit between financial subsidiaries of an IDI. The retained earnings of a financial subsidiary are to be included as part of the IDI’s investment. The amendments were effective on July 21, 2012. (See sections 608(a)(1)(A), 608(a)(1)(B), and 609(a) of the Dodd-Frank Act.) A few additional or revised inspection objectives and procedures are included.

#### *Section 2070.0*

This revised section, “Taxes (Consolidated Tax Filing)” includes a June 13, 2014, Interagency Addendum to the 1998 “Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure” (Addendum). The federal banking agencies<sup>1</sup> (Agencies) announced the Addendum’s issuance to ensure that insured depository institutions (IDIs) in a consolidated group maintain an appropriate relationship regarding the payment of taxes and treatment of tax refunds. The Addendum is to ensure that tax allocation agreements expressly acknowledge an agency relationship between a holding company<sup>2</sup> and its IDI subsidiary to protect the IDI’s ownership rights in tax refunds. State member banks and holding companies should implement the guidance as soon as reasonably possible, which the Agencies expect would not be later than October 31, 2014. The Addendum clarifies and supplements but does not replace the 1998 Interagency Policy Statement. (Refer to SR-14-6 and its attachment.)

#### *Section 2124.05*

This section, “Consolidated Supervision Framework for Large Financial Institutions” is revised to include Appendix B — “Managing Foreign Exchange Settlement Risks for Physically Settled Securities.” (See SR-13-24 and its February 2013 attachment.) This guidance sets forth seven principles or “guidelines” for managing foreign exchange transaction settlement risks. The Federal Reserve supports these principles as part of its continuing effort to promote the global financial system’s ability to withstand severe market disruptions. Institutions covered by SR-13-24 should apply the seven guidelines to their foreign exchange activities with the stated clarifications regarding application of the guidance in the United States.

1. The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

2. For the purpose of this guidance, the term, “holding company” refers to a bank holding company or a savings and loan holding company.

### Section 3070.0

This revised section, “Section 4(c)(8) of the BHC Act (Mortgage Banking),” includes a brief discussion of the December 13, 2013, “Inter-agency Statement on Supervisory Approach for Qualified and Non-Qualified Mortgage Loans” that was issued to clarify the safety-and-soundness expectations and Community Reinvestment Act (CRA) considerations for regulated institutions engaged in residential mortgage lending. The section references the Consumer Financial Protection Bureau’s (CFPB) Ability-to-Repay and Qualified Mortgage Standards Rule that was issued on January 10, 2013 (effective on January 10, 2014). Institutions may issue qualified mortgages or non-qualified mortgages, based on their business strategies and risk appetites. Refer to SR-13-20 and its attachment.

### Section 4080.1

This section, “Surveillance Program for Small Holding Companies,” is modified to reflect changes to the small holding company surveillance program. The surveillance program for holding companies under \$1 billion in total consolidated assets includes both BHCs and SLHCs. (Refer to SR-13-21.)

### Section 5000.0

This section, “BHC Inspection Program (General)” is revised to include supervisory guidance

on the periodic on- and off-site inspections that assess the safety and soundness of supervised BHCs and SLHCs (referred to as holding companies). The guidance updates the minimum inspection frequency and scope requirements for supervised holding companies with total consolidated assets of \$10 billion or less to

- conform inspection frequency and scope requirements for SLHCs with total consolidated assets of \$10 billion or less to those applicable to BHCs of the same size;
- clarify the scoping requirements for targeted inspections conducted at BHCs and SLHCs with total consolidated assets between \$1 billion and \$10 billion; and
- modify the requirement for targeted inspections for “3,” “4,” and “5”-rated BHCs with total consolidated assets between \$1 billion and \$10 billion.

Except for the addition of SLHCs, the inspection scope and frequency expectations for holding companies with less than \$1 billion in total consolidated assets have not changed.

These frequency and scope requirements vary depending on whether a holding company has been designated “complex,” with more complicated holding companies subject to more frequent and in-depth review. If needed for supervisory purposes, Reserve Banks may inspect a holding company with greater frequency and scope than described in this guidance. (Refer to SR-13-21 and its attachment.)

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