

Commercial Bank Examination Manual

Supplement 52—November 2020

Summary of Changes

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 April 2020 supplement.

Section 1000.1

Section 1000.1, “Examination Strategy and Risk-Focused Examinations,” was revised to update the subsection on de novo bank examination frequency and scope. A de novo bank is a bank that has been in operation for three years or less. The section provides information on supervisory expectations for de novo subsidiaries of bank holding companies with assets greater than \$3 billion. In addition, the section explains that de novo state member banks are ineligible for the alternate examination program for the first three years of their operations. See SR-20-16, “Supervision of De Novo State Member Banks.”

Section 1001.1

Section 1001.1, “Community Bank Supervision Process,” was updated to explain the updated template for the report of examination for state member banks with less than \$10 billion in total assets. Significant updates to this template are as follows.

- The former *Matters Requiring Board Attention* page was renamed to the *Matters Requiring Attention* page. The updated page also includes a reference to SR-18-5/CA-18-7, “Interagency Statement Clarifying the Role of Supervisory Guidance.”
- The *Directorate Responsibility* page was updated to include standard language informing the bank of its right to appeal material supervisory determinations. See 85 *Federal Register* 15,175 (March 17, 2020) for more information on the Federal Reserve’s appeals process.
- The former *Summary of Examination Ratings and Conclusions* page was broken into two distinct sections entitled *Summary of Exami-*

nation Ratings and *Examiner Conclusions*. The *Summary of Examination Ratings* section contains the numerical ratings of the bank. The *Examiner Conclusions* section contains a qualitative summary of examiners’ supervisory activity.

- The *Concentrations of Credit* page instructions were updated to note that the “Concentrations of Credit” section to the manual and SR-20-8, “Joint Statement on Adjustment to the Calculation for Credit Concentration Ratios Used in the Supervisory Approach,” provide more information on the calculation of the denominator of concentration ratios.

Sections 2024.1, 2024.2, and 2024.3

Section 2024.1, “Private Placements,” is a new section. This section is based on material from section 4130, which was reorganized to differentiate content explaining risk-management practices at a supervised institution from examination practices and considerations in reviewing private placement activities. Section 2024.1 provides more background information concerning the Securities and Exchange Commission’s rules related to private placements. Sections 2024.2, “Examination Objectives,” and 2024.3, “Examination Procedures,” were also revised.

Sections 2040.1, 2040.2, 2040.3, and 2040.4

Section 2040.1, “Loan Portfolio Management,” was updated to remove material on tying arrangements as this topic is addressed in section 6080.1, “Regulation Y: Prohibitions Against Tying Arrangements.” The discussion of credit risk review systems was also removed. See the explanation of changes to section 2041.1 for more information. The material related to mortgage banking was removed and converted into a new standalone manual section (2044.1). Sections 2040.2, “Examination Objectives,” and 2040.3, “Examination Procedures,” were also revised to align with the interagency examination documentation (ED) modules. Section 2040.4, “Loan Portfolio Management: Internal Control Questionnaire,” was removed from the manual.

Section 2041.1

This new section, “Credit Risk Review Systems,” describes the “Interagency Guidance on Credit Risk Review Systems” issued by the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and National Credit Union Administration (NCUA). The guidance discusses sound management of credit risk, a system of independent, ongoing credit review, and appropriate communication regarding the performance of an institution’s loan portfolio to its management and board of directors. This interagency guidance replaces attachment 1 of the 2006 “Interagency Policy Statement on the Allowance for Loan and Lease Losses.” See 85 *Federal Register* 33,278 (June 1, 2020) and SR-20-13.

Sections 2044.1 and 2044.3

These new sections address “Mortgage Banking” and contain relevant information that was previously in section 2040.1, “Loan Portfolio Management.” While the information pertaining to the risk management of mortgage banking remains relevant, the accounting references are outdated and will be revised in a future update to the manual. In addition, the examination procedures that were previously located in section A.2040.3, “Loan Portfolio Management: Comprehensive Mortgage Banking Examination Procedures,” were moved to section 2044.3, “Mortgage Banking: Examination Procedures.”

Sections 2050.1, 2050.2, 2050.3, and 2050.4

Section 2050.1, “Concentrations of Credit,” incorporates guidance issued by the Federal Reserve, FDIC, and OCC (agencies) on a common approach for defining credit concentration ratios. As of March 31, 2020, for banks that have adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 326, Financial Instruments—Credit Losses that implements the current expected credit losses (CECL) methodology, the agencies’ examiners will calculate credit concentration ratios using tier 1 capital plus the allowance for credit losses attributed to loans and leases as the denominator. For insti-

tutions that have not adopted CECL, the agencies’ examiners calculate credit concentration ratios using tier 1 capital plus the entire allowance for loan and lease losses as the denominator. Further, section 2050.1 was reorganized and a new subsection on supervisory considerations for assessing concentrations was added. Section 2050.2, “Concentrations of Credit: Examination Objectives,” section 2050.3, “Concentrations of Credit: Examination Procedures,” and section 2050.4, “Concentrations of Credit: Internal Control Questionnaire,” were removed from the manual.

Sections 2070.1, 2070.2, 2070.3, and 2070.4

Section 2070.1, “Allowance for Loan and Lease Losses,” which contains the 2006 “Interagency Policy Statement on the Allowance for Loan and Lease Losses,” (SR-06-17) was revised to remove the attachment to the policy statement on loan review systems. This guidance on loan review systems was superseded by SR-20-13 and is available in section 2041.1, “Credit Risk Review Systems.” Section 2070.3, “Examination Procedures,” has been revised to align with the interagency ED modules. Sections 2070.2, “Examination Objectives,” and section 2070.4, “Internal Control Questionnaire, were removed from the manual. See the explanatory note on SR-06-17 for more information.

Sections 2071.1 and 2071.3

Section 2071.1, “Allowance for Credit Losses,” is a new section that incorporates the “Interagency Policy Statement on Allowances for Credit Losses.” (See SR-20-12.) The Federal Reserve, OCC, FDIC, and NCUA issued this statement to address the changes to U.S. generally accepted accounting principles as promulgated by the FASB in Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and subsequent amendments issued since June 2016. The May 2020 statement describes the measurement of expected credit losses under the CECL methodology and the accounting for impairment on available-for-sale debt securities in accordance with FASB ASC 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 responsibilities of boards of directors and management; and examiners' review of a bank's ACLs. With the issuance of the May 2020 statement, the 2006 "Interagency Policy Statement on the Allowance for Loan and Lease Losses" is partially superseded for institutions that have adopted the CECL methodology. The 2006 statement will be made inactive after all institutions have adopted the CECL methodology in 2023. Section 2071.3, "Allowance for Credit Losses: Examination Procedures," was added to the manual.

Sections 2072.2 and 2072.3

Section 2072.2, "ALLL Methodologies and Documentation: Examination Objectives" and 2072.3, "ALLL Methodologies and Documentation: Examination Procedures" were removed from the manual. The examination objectives and procedures for assessing an institution's ALLL methodology are fully incorporated into sections 2070.2 and 2070.3. In addition, procedures for assessing an institution's allowance for credit losses methodology are found in section 2071.3.

Sections 2080.1 and 2080.4

Section 2080.1, "Commercial and Industrial Loans," was revised to remove the discussion on the shared national credits program, which is now a standalone section to the manual. *See* section 2089.1. Much of the content in the subsection on "Tie-In Arrangements," was removed because this topic is covered in this manual's section 6080.1, "Regulation Y: Prohibitions Against Tying Arrangements." Section 2080.4, "Commercial and Industrial Loans: Internal Control Questionnaire," was removed from the manual.

Section 2088.1

This section, "Off-site Review of Loan Files," was revised to modify the applicability of the guidance in the section. The guidance applies to the assessment of state member banks with less than \$100 billion in total assets that are in the

community banking organization (CBO) and regional banking organization (RBO) supervisory portfolios. Previously, the guidance applied to the assessment of state member banks with less than \$50 billion in the CBO and RBO supervisory portfolios. The section also notes that Reserve Banks and the state member bank should discuss the technical procedures and security practices for conducting off-site loan reviews when contingency operating circumstances necessitate a full-time telework environment.

Section 2089.1

This new section, "Shared National Credits," provides a high-level description of the Shared National Credits (SNC) supervisory program. The Federal Reserve, OCC, and FDIC established the SNC program to evaluate large and complex syndicated credits. The program provides for uniform treatment and increased efficiency in shared-credit risk analysis and classification of the largest and most complex credits shared by multiple financial institutions.

Section 3020.1

This section, "Assessment of Capital Adequacy," was revised to include

- A revised definition to high volatility commercial real estate (HVCRE). Section 214 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) modified the capital treatment of HVCRE by adding section 51 to the Federal Deposit Insurance Act (FDIA).
- A discussion on the community bank leverage ratio (CBLR) framework. The CBLR framework provides for a simple measure of capital adequacy for certain community banking organizations, consistent with section 201 of the EGRRCPA.
- Updated information regarding supervisory leverage ratio expectations for de novo banks. In general, the Federal Reserve expects each de novo bank to maintain a tier 1 leverage ratio of at least 8 percent for the first three years of its existence. *See* SR-20-16.
- Updates to the stress capital buffer and the countercyclical capital buffer requirements.

- References to adjusted allowances for credit losses, which applies to institutions that have adopted the CECL methodology.

Sections 3035.1 and 3035.3

The material in these new sections on “Prompt Corrective Action” was previously in section 4133. These sections were created so that the material would be closer to other sections in the manual related to capital. Section 3035.1 was revised to describe the prompt corrective action (PCA) implications for institutions that qualify for and opt in to the CBLR framework. A depository institution or depository institution holding company that qualifies for and opts in to the CBLR framework will be considered to have met the “well capitalized” ratio requirements for PCA purposes. For more information on the CBLR framework, *see* 84 *Federal Register* 61,797 (November 13, 2019). The section was also revised to describe how the supplementary leverage ratio factors into the PCA ratios for an advanced approaches bank or bank that is a Category III Board-regulated institution (as defined in 12 CFR 217.2). Section 3035.3, “Examination Procedures,” was revised to include several minor technical edits.

Section 4060.1

This section, “Information Technology,” was revised to remove the section’s Appendix A—Risk Management of Outsourced Technology Services that was rescinded by the Federal Financial Institutions Examination Council (FFIEC). *See* the FFIEC’s July 15, 2004, press release. With the release of the Outsourcing Technology Services Booklet, the FFIEC decided to rescind the November 2000 guidance on “Risk Management of Outsourced Technology Services.” Refer to the FFIEC Outsourcing Technology Services Booklet on the FFIEC website for current information on this topic.

Sections 4090.1, 4090.2, 4090.3, and 4090.4

Significant organizational revisions were made to section 4090.1, “Interest Rate Risk Manage-

ment.” This section continues to align with existing guidance on interest rate risk management. *See* SR-96-13, “Joint Policy Statement on Interest Rate Risk,” and SR-10-1, “Interagency Advisory on Interest Rate Risk.” Section 4090.1 was reorganized to differentiate content explaining effective interest rate risk management practices at a supervised institution from examination practices and considerations in assessing the effectiveness of an institution’s interest rate risk management. Sections 4090.2, “Examination Objectives,” and 4090.3, “Examination Procedures,” were also revised to align with the interagency ED modules. Section 4090.4, “Interest Rate Risk Management: Internal Control Questionnaire,” was removed from the manual.

Sections 4130.1, 4130.2, 4130.3, and 4130.4

The material in section 4130.1, “Private Placements,” section 4130.2, “Examination Objectives,” and section 4130.3, “Examination Procedures,” was updated and moved to sections 2024.1, 2024.2, and 2024.3, respectively. Section 4130.4, “Private Placements: Internal Control Questionnaire,” was removed from the manual.

Sections 4133.1, 4133.2, and 4133.3

Section 4133.1, “Prompt Corrective Action,” and section 4133.3, “Prompt Corrective Action: Examination Procedures” were updated and moved to sections 3035.1 and 3035.3, respectively. Section 4133.2, “Prompt Corrective Action: Examination Objectives,” was moved to section 3035.2 without revision.

Sections 4180.1, 4180.2, 4180.3, and 4180.4

The content of sections 4180.1, 4180.2, 4180.3, and 4180.4, collectively describing “Investment-Funds Support,” was moved to section 6074 and renamed “Regulation W: Investment-Funds Support.”

*Sections 6074.1, 6074.2, 6074.3,
and 6074.4*

Section 6074.1 on “Regulation W: Investment-Funds Support,” section 6074.2, “Examination Objectives,” section 6074.3, “Examination Procedures,” and section 6074.4, “Internal Control Questionnaire,” are based on material previously in section 4180. No substantive edits were made to these sections.

Section 6080.1

This new section, “Regulation Y: Prohibitions Against Tying Arrangements” provides an overview of Section 106 of the Bank Holding Company Act Amendments of 1970 (section 106). Section 106, as implemented by the Federal Reserve Board’s Regulation Y (12 CFR 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. The outdated content related to section 106 was removed from other manual sections, namely section 2040.1, “Loan Portfolio Management,” and section 2080.1, “Commercial and Industrial Loans.”

Section A.2040.3

This section, “Loan Portfolio Management: Comprehensive Mortgage Banking: Examination Procedures” was incorporated into section 2044.3, “Mortgage Banking: Examination Procedures.” As a result, section A.2040.3 was removed from the manual.

Commercial Bank Examination Manual

Supplement 51—April 2020

Summary of Changes

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 May 2019 supplement.

Table of Contents

The Table of Contents was updated to reflect the changes described below. In addition, the 6000 series major section heading was updated to remove the commercial bank report of examination template and instructions, which are in section 1001.1 of the manual. Going forward, the 6000 series major section heading will contain sections on key regulations that pertain to safety and soundness examinations of state member banks. These sections summarize and explain the rules, as amended, but are not substitutes for the rules themselves.

Section 1000.1

This section, “Examination Strategy and Risk-Focused Examinations,” was updated to note that examiners should convey, if evident, both the root cause of a supervisory finding and the potential effect of a finding on the organization. The section also describes key factors examiners should consider in determining whether to recommend additional formal or informal investigation or enforcement action for an organization. Lastly, 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.

Section 1001.1

Minor updates were made to section 1001.1, “Community Bank Supervision Process.” This section includes references to SR-20-8, “Joint Statement on Adjustment to the Calculation for Credit Concentration Ratios Used in the Supervisory Approach,” and SR-19-9, “Bank Exams

Tailored to Risk (BETR).” Minor typographical errors were corrected.

Sections 1020.1, 1020.2, and 1020.3

Section 1020.1, “Federal Reserve System Bank Surveillance Program,” was updated to include information on the Federal Reserve’s use of outlier metrics to assist examiners and other supervisory staff in determining the scope of safety-and-soundness examinations. The role of outlier metrics is particularly important in pre-examination planning at community and regional state member banks. Combined with examiner judgment, outlier metrics are used to classify the levels of risk at a state member bank within individual risk dimensions, such as credit, liquidity, and operational risk. Federal Reserve examiners then tailor the bank examination to reflect the levels of risk present. See SR-19-9, “Bank Exams Tailored to Risk (BETR),” for more information. The examination objectives (section 1020.2) and examination procedures (section 1020.3) also were revised.

Section 2040.1

This section, “Loan Portfolio Management,” was updated to remove the discussion related to Regulation O, which is now covered in section 6050.1 of the manual.

Sections 2110.1, 2110.2, 2110.3, and 2110.4

This section, “Floor Plan Loans,” was revised to improve its clarity and to add additional guidance references. For instance, material in the section was revised to consolidate supervisory considerations in the review of a bank’s floor plan loans into one part of the section. The examination procedures in section 2120.3 were also revised to align with the interagency examination documentation (ED) modules. Section 2120.2, “Floor Plan Loans: Examination Objectives” and section 2120.4, “Floor Plan Loans: Internal Control Questionnaire,” were removed from the manual.

Sections 2120.1, 2120.2, 2120.3, and 2120.4

Section 2120.1, “Direct Financing Leases,” was revised to provide updated accounting references for lease accounting. The section states that leases should be accounted for in accordance with accounting standards issued by the Financial Accounting Standards Board (FASB). The lease accounting standard currently applied by public business entities, “Leases (Topic 842),” was issued by FASB in February 2016, and supersedes ASC Topic 840, Leases, by 2021. The examination procedures in section 2120.3 were revised to align with the interagency ED modules. Section 2120.2, “Direct Financing Leases: Examination Objectives” and section 2120.4, “Direct Financing Leases: Internal Control Questionnaire,” were removed from the manual.

Sections 3025.1 and 3025.3

This new section, “Dividends,” was previously section 4070.1. In addition to moving the section closer to the other sections in the manual related to capital, this section was revised to include references to guidance on capital planning processes, including the issuance of dividends, for bank subsidiaries of large holding companies. The section also includes a new discussion on the capital conservation buffer, which limits capital distributions and discretionary bonus payments for banking organizations that do not hold a specified amount of common equity tier 1 capital in addition to the amount of regulatory capital necessary to meet the minimum risk-based capital requirements. (See 12 CFR 217.) The examination procedures in section 3025.3 were also revised.

Sections 4050.1, 4050.2, 4050.3, and 4050.4

The contents of “Transactions Between Member Banks and Their Affiliates” (sections 4050.1, 4050.2, and 4050.3), were moved to section 6070 and renamed “Regulation W: Transactions Between Member Banks and Their Affiliates.” Section 4050.4 was removed from the manual.

Sections 4052.1, 4052.2, 4052.3, and 4052.4

The contents of “Bank-Related Organizations” (sections 4052.1, 4052.2, and 4052.3), were moved to section 6072 and renamed “Regulation W: Bank-Related Organizations.” Section 4052.4 was removed from the manual.

Sections 4070.1, 4070.2, 4070.3, and 4070.4

The contents of sections 4070.1, “Dividends,” and 4070.3, “Dividends: Examination Procedures,” were updated and moved to sections 3025.1 and 3025.3 of the manual, respectively. Section 4070.2, “Dividends: Examination Objectives,” and section 4070.4, “Dividends: Internal Control Questionnaire,” were removed from the manual.

Section 5000.1

This section, “Duties and Responsibilities of Directors,” was updated to remove contents related to the Depository Institution Management Interlocks Act as implemented by Regulation L. The relevant content on Regulation L was moved to section 6040.1, “Regulation L: Depository Institution Management Interlocks Act.”

Section 5020.1

This section, “Overall Conclusions Regarding Condition of the Bank,” was updated to remove the contents related to the review of Bank Secrecy Act (BSA) and anti-money-laundering (AML) compliance at state member banks. Section 6010.1, “Regulation H: Bank Secrecy Act and Anti-Money-Laundering,” was developed to provide a brief description of supervisory activities related to the review of BSA and AML compliance programs at state member banks.

Section 6000.1

Section 6000.1, “Commercial Bank Report of Examination,” was removed from the manual. The primary report of examination template is located in section 1001.1, “Community Bank

Supervision Process.” The 6000 series major section heading will contain sections on key regulations that pertain to safety-and-soundness examinations of state member banks.

Section 6010.1

This new section, “Regulation H: Bank Secrecy Act and Anti-Money-Laundering,” was developed to provide a brief introduction of the BSA and AML compliance program and suspicious activity reporting requirements for banks under Regulation H. The section notes that additional details on the BSA/AML program, suspicious activity reporting requirements, and all other laws, regulations, and examination procedures pertaining to the BSA, are described in the *Federal Financial Institutions Examination Council (FFIEC) BSA/AML Examination Manual*.

Section 6040.1

This new section, “Regulation L: Depository Institution Management Interlocks Act,” provides an overview of the Depository Institution Management Interlocks Act, as implemented by Regulation L (12 CFR 212) and subpart J of Regulation LL (12 CFR 238.91-99). These regulations prohibit a management official of a depository institution or depository institution holding company from serving simultaneously as a management official of another depository organization if the organizations are not affiliated and both either are very large or are located in the same local area.

Sections 6050.1 and 6050.3

This new section, “Regulation O: Loans to Executive Officers, Directors, And Principal Shareholders of Member Banks,” provides an overview of the Federal Reserve Board’s Regulation O (12 CFR 215), which implements many of the laws pertaining to extensions of credit by banks to their insiders. Regulation O is designed to mitigate the potential for conflicts of interest and self-dealing by individuals who may be in a position to influence a bank’s lending decisions. The section outlines Board staff legal opinions on Regulation O and supervisory considerations for assessing compliance with Regulation O. The content in section 2040.1 related to Regulation O was removed from the manual. Examination procedures (refer to section 6050.3) were developed.

Sections 6070.1, 6070.2, and 6070.3

This new section, “Regulation W: Transactions Between Member Banks and Their Affiliates,” contains the content that was previously in section 4050. No substantive edits were made to this content. As a result, section 4050 was removed from the manual.

Sections 6072.1, 6072.2, and 6072.3

This new section, “Regulation W: Bank-Related Organizations,” contains the content that was previously in section 4052. No substantive edits were made to this content. As a result, section 4052 was removed from the manual.

Commercial Bank Examination Manual

Supplement 50—May 2019

Summary of Changes

Section 1000.1

Section 1000.1, “Examination Strategy and Risk-Focused Examinations,” was significantly revised and reorganized. This section addresses key aspects of the Federal Reserve’s supervisory process for safety and soundness examinations for state member banks. Some of the most significant topics covered in this section include examination authority, compliance with laws and the role of guidance, applications under Regulation H (12 CFR part 208), state member bank examination frequency, coordinating supervisory activities, and communicating supervisory findings. Subsequent sections in the manual further describe the examination and supervisory practices that apply to particular supervisory portfolios of state member banks.

Section 1001.1

This new section, “Community Bank Supervision Process,” discusses some of the most significant aspects in the preparation and execution of an examination of a state member bank with \$10 billion or less in total assets. The section explains the risk-focused process for examining community banks and describes the written products that facilitate this process. In addition, the section provides an updated description of the community bank report of examination and a revised illustrative template of the community bank report of examination. Relevant report of examination content that was previously in sections 6003.1 and 6005.1 has been incorporated into section 1001.1.

Section 1007.1

This section, “Other Types of Examinations,” was previously Section 6010.1. In addition to the reorganization of the material in this new section, section 1007.1 addresses the Board’s final rules that expanded the examination cycle for certain small state member banks and U.S. branches and agencies of foreign banks. The

final rules (83 *Fed. Reg.* 67,033 (December 28, 2018)) adopted the interim final rules (83 *Fed. Reg.* 43,961 (August 29, 2018)) without change. The final rules amended Regulation H (12 CFR part 208) and Regulation K (12 CFR part 211), which raised the total asset threshold (from less than \$1 billion to less than \$3 billion in assets) for certain qualifying state member banks and U.S. branches and agencies of foreign banks to be eligible for an 18-month examination cycle. See SR-18-7, “Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations,” for more information.

Section 1011.1

The contents of this new section, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion,” were previously part of section 1000.1, “Examination Strategy and Risk-Focused Examinations.” A new section was developed to improve the organization and presentation of manual content. The new section also provides more information on the applicability of the guidance to supervised institutions as well as updates for several references.

Section 1012.1

The contents of this new section, “Risk Management Processes and Internal Controls of Firms Having \$50 Billion or More in Total Assets,” were previously part of section 1000.1, “Examination Strategy and Risk-Focused Examinations.” A new section was developed to improve the organization and presentation of manual content. In addition to the content being moved, the section provides more information on the applicability of the guidance to supervised institutions and contains minor editorial edits.

Section 2190.1

Section 2190.1, “Bank Premises and Equipment,” was revised to provide updated account-

ing standards about leases. In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standard on leases, Accounting Standards Update No. 2016-02, Leases (Topic 842), which revises the accounting for lease transactions. The section also was revised to provide guidance on the treatment of operating leases as an investment in bank premises under Regulation H upon the implementation of the new lease accounting standard. See SR-19-7, “Statement on the Implications of the New Lease Accounting Standard on Regulation H,” for more information.

Section 3050.1

Section 3050.1, “Dodd-Frank Act Company-Run Stress Testing for Banking Organizations with Total Consolidated Assets \$10–50 Billion,” has been removed from the *Commercial Bank Examination 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. 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 (including state member banks) and to maintain consistency between BHCs and depository institutions, the agencies are extending the deadlines 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.

Sections 4140.1, 4140.2, 4140.3, and 4140.4

Section 4140.1, “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, section 4140.1 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.) The examination objectives (section 4040.2), examination procedures (section 4140.3), and internal control questionnaire (section 4140.4) also were revised.

Section 6000.1

This section, “Commercial Bank Report of Examination,” has been revised to remove much of the content related to the communication of supervisory findings. This content on the communication of supervisory findings has been incorporated into the revised section 1000.1, “Examination Strategy and Risk-Focused Examinations,” to improve manual content organization.

Sections 6003.1 and 6005.1

The relevant content from section 6003.1, “Community Bank Examination Report,” and content of 6005.1, “Community State Member Banks and Holding Companies Rated Composite “4” or “5” (Examination and Inspection Report Format),” have been incorporated into section 1001.1, “Community Bank Supervision Process.” As a result, sections 6003.1 and 6005.1 were removed from the *Commercial Bank Examination Manual*.

Section 6010.1

The relevant content in this section, “Other Types of Examinations,” was moved to section 1007.1 of this manual to consolidate high-level supervisory process information into the 1000

sections of the manual. Accordingly, section 6010.1 was removed from the *Commercial Bank Examination Manual*.

Section A.2000.1

This section, “Cash Accounts: Financial Recordkeeping and Reporting Regulations-Examination Procedures,” was removed from the *Commercial Bank Examination Manual*. This section was a placeholder and did not contain background information or examination procedures. For more information and examination procedures on monetary instrument recordkeeping requirements under the Bank Secrecy Act, see the Federal Financial Institutions Examination Council [Bank Secrecy Act/Anti-Money Laundering Examination Manual](#).

Section A.4140.1

Real Estate Appraisals and Evaluations: Appendixes A-D was removed from the *Commercial Bank Examination Manual*. The appendix provided a commentary on the 12 exemptions from the agencies’ appraisal regulations and explanation of the agencies’ statutory authority to provide for appraisal regulatory exemptions and the application of these exemptions. This information is provided in the 2010 Interagency Appraisal and Evaluation Guidelines. (See SR-10-16). Section 4140.1 was revised to include hyperlinks to these appendixes and include brief summaries of the appendixes. As a result of the revisions to section 4140.1, the information in section A.4140.1 was determined to be duplicative and, therefore, was removed from the manual.

Commercial Bank Examination Manual

Supplement 49—October 2018

Summary of Changes

Sections 3020.1, 3020.2, 3020.3, 3020.4

The section, “Assessment of Capital Adequacy,” has been completely revised to reflect the Board’s issuance of several final rules related to capital over the past five years. Primarily, the section was revised to reflect a 2013 final rule (78 *Fed. Reg.* 62018 (October 11, 2013)), which replaced the general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules in accordance with certain transition provisions. See also the Board’s Regulation Q (12 CFR 217). Regulation Q implements international regulatory capital standards adopted by the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including the removal of credit ratings from capital rules. The section provides updated examination guidance on the assessment of the “capital adequacy” component of the Uniform Financial Institution Ratings System (CAMELS rating system). The examination objectives (section 3020.2) and examination procedures (section 3020.3) were also revised. The internal control questionnaire section (section 3020.4) was removed from the manual.

Sections 3030.1, 3030.2, 3030.3, 3030.4

Section 3030.1 has been significantly revised. The section was renamed from “Assessing Risk-Based Capital—Direct-Credit Substitutes Extended to ABCP Programs” to “Overview of Asset-Backed Commercial Paper Programs.” Much of the section was eliminated from the manual as 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 ABCP programs that they sponsored by mapping internal risk ratings to external rating equivalents. The revised capital rules (78 *Fed. Reg.* 62018 (October 11, 2013)) replaced references to credit ratings with new measures of creditworthiness.

The section now conveys a summary of the typical structures, types, and roles of ABCP programs. The examination objectives (section 3030.2), examination procedures (section 3030.3), and internal control questionnaire (3030.4) were removed from the manual.

Section 4010.1, 4010.2, 4010.3

The section, “Earnings—Analytical Review of Income and Expense,” has been revised. The section was renamed from “Analytical Review and Income and Expense,” to highlight that the section provides examination guidance on the assessment of the “earnings” component of the CAMELS rating system. The section includes an updated discussion on how examiners generally utilize the Uniform Bank Performance Report in assessing the adequacy of a bank’s earnings. The examination objectives (section 4010.2) and examination procedures (section 4010.3) were also revised.

Section 4052.1; 4052.3, 4052.4

This section, “Bank-Related Organizations,” was revised to remove specific references to nationally recognized statistical rating organizations from the section. Descriptions of certain bank-related organizations were updated to reflect the definitions of those organizations in the Board’s regulations, such as Regulation H and Regulation K. The section now contains a brief description on the role of savings and loan holding companies as a related organization. The subsection on “Intercompany Transactions” was also updated to use terminology for referencing insured depository institutions, which more closely aligns with the language in the Board’s Regulation W (12 CFR 223). In addition, the section was updated to reference a 2014 update to the interagency policy statement on tax allocation in a holding company structure. See SR letter 14-6, “Addendum to the Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure,” for more information. The examination procedures (section 4052.3) and internal control questionnaire (section 4052.4) were also revised.

Section 4100.1, 4100.2, 4100.3

The section, “Litigation and Other Legal Matters, and Examination-Related Subsequent Events,” was revised to highlight that appropriate examination staff should notify the enforcement section of the Board’s Legal Division of any investigations or other legal actions being conducted by governmental regulators or criminal prosecutors against a bank when such information is ascertained during the examination process. The description of legal risk in the section was also updated to align with the Federal Reserve’s supervisory guidance for assessing risk management at supervised institutions. See SR letter 16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion” and SR letter 95-51, “Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies,” for more information. The examination objectives (section 4100.2) and examination procedures (section 4100.3) were also revised.

Section 4180.1, 4180.2, 4180.3, 4180.4

The section, “Investment-Funds Support,” 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 was also revised to remove a reference to the abolished Office of Thrift Supervision and to update an accounting standards

reference. The examination objectives (section 4180.2), examination procedures (section 4180.3), and internal control questionnaire (4180.4) were also revised.

Section 6010.1

The section, “Other Types of Examinations,” was revised to reference an August 2018 interim final rule (83 *Fed. Reg.* 43961 (August 29, 2018)) that amended Regulation H (12 CFR 208) and Regulation K (12 CFR 211), which raised the total asset threshold (from less than \$1 billion to less than \$3 billion in assets) for certain qualifying insured depository institution to be eligible for an 18-month examination cycle. See SR-18-7, “Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations,” for more information.

Subject Index

The Subject Index was removed from the *Commercial Bank Examination Manual*. Effective December 31, 2017, the Board no longer offers print versions or subscriptions for the *Commercial Bank Examination Manual*. The elimination of the print version of the *Commercial Bank Examination Manual* has rendered the Subject Index obsolete. Manual readers can use the search function within the online version of the manual to find material.

Summary of Changes

Section 2150.1

This section, “Energy Lending—Reserve-Based Loans,” has been significantly revised to provide updated guidance on prudent risk management of energy lending activity to examiners reviewing reserve-based lending. Section 2150.1 contains an overview of the oil and gas industry, and reserve-based lending. A new discussion on repayment analysis and analyzing the financial statements of exploration and production borrowers has been added to the section. The section includes an updated sample repayment analysis for determining the borrower’s ability to repay total secured debt within a reasonable time. The section also conveys guidance described in SR letter 16-17, “Supervisory Expectations for Risk Management of Reserve-Based Energy Lending Risk.” Topics covered in SR letter 16-17 that are discussed in the section include market issues and risk ramifications for banks engaging in reserve-based lending as well as supervisory expectations for credit risk management and underwriting practices.

Section 2200.1

This section, “Other Real Estate Owned,” was revised to provide updated accounting and reporting standards with regards to other real estate owned (OREO). The section notes that until the effective date of Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers,” which includes amendments to Accounting Standards Codification (ASC) Subtopic 610-20, “Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets,” the primary accounting guidance for sales of foreclosed real estate is ASC Subtopic 360-20, “Property, Plant, and Equipment—Real Estate Sales.” ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years, for institutions that are public business entities. For institutions that are not public business entities (i.e., that are private companies), ASU 2014-09 is effective for fiscal years

beginning after December 15, 2018. When the amendments to ASC Subtopic 610-20 take effect, ASC Subtopic 360-20 is superseded for real estate sales not accompanied by a leaseback and becomes the primary accounting guidance for sales of foreclosed real estate. Descriptions of the superseded accounting methods for gain recognition of OREO were removed from the section, as were several outdated references.

Section 3050.1

This section, “Dodd-Frank Act Company-Run Stress Testing for Banking Organizations with Total Consolidated Assets \$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).

Section 4133.1, 4133.2, 4133.3

This section, “Prompt Corrective Action,” was revised to update the capital ratios used to trigger specific actions that are designed to restore a bank to financial health through the prompt corrective action (PCA) framework. In 2013, the Federal Reserve Board implemented higher minimum capital requirements and adjusted ratios in four of the five capital categories of the PCA framework. The final rule established a common equity tier 1 capital requirement, and specified criteria that instruments must meet in order to be considered common equity tier 1 capital, additional tier 1 capital, or tier 2 capital. The Federal Reserve has maintained the general structure of the existing PCA framework while incorporating increased minimum capital requirements. The examination objectives, section 4133.2, and the examination procedures, section 4133.3, were also revised.

Section A.4150.1

This new appendix has been added to the manual to provide a listing of key Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC)® References. The table can also be used as a reference for

manual users looking to find the appropriate ASC reference for precodification FASB references, that is, references that were established before June 2009, that are found throughout manual. More information regarding the FASB ASC® Codification can be accessed at <http://asc.fasb.org/>.

FILING INSTRUCTIONS

*Remove**Insert*

Table of Contents, pages 1–4

Table of Contents, pages 1–4

2150.1, pages 1–8

2150.1, pages 1–17

2200.1, pages 1–11

2200.1, pages 1-10

3050.1, pages 1–4

3050.1, pages 1-4

4133.1, pages 1–8

4133.1, pages 1–9

4133.2, page 1

4133.2, page 1

4133.3, page 1

4133.3, page 1

A4150.1, pages 1-5

Commercial Bank Examination Manual

Supplement 47—April 2017

Summary of Changes

Foreword

Minor revisions were made to the Foreword to provide updated information on how to order the Commercial Bank Examination Manual and how to access it on the Federal Reserve Board's website at <https://www.federalreserve.gov/publications/supmanual.htm>.

Preface

The Preface was removed from the manual. Previously, the Preface contained chronological information regarding the changing legislative and regulatory environment of the banking industry. This section was removed because the information was duplicative and readers can locate more comprehensive discussions on developments in the banking industry in the specific manual sections.

Section 1000.1

This section, "Examination Strategy and Risk-Focused Examinations," was revised to reflect references to an interim final rule that amended Regulation H to raise the total asset threshold for which an insured depository institution can be eligible for an 18-month examination cycle rather than a 12-month examination cycle from less than \$500 million to less than \$1 billion. The interim final rule was made effective February 29, 2016, with the Board approving the final rule in December 2016. The final rule adopted the interim final rule without change. See SR-17-2, "Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations." Modifications were made to the alternate year examination program to reflect the guidance transmitted in SR-17-2. In addition, minor grammatical edits were made to several pages in this section.

Section 1015.1

This section, "Conflict-of-Interest Rules for Examiners," was revised to include changes resulting from the issuance of SR-16-16 / CA-16-7, "Special Post-Employment Restriction for Senior Examiners." The letter was issued to announce an amendment to the Board's rule on Post-Employment Restrictions for Senior Examiners (12 CFR 264a), which expands the definition of "senior examiner." This amendment was developed to promote consistency in post employment ethics rules across the Federal Reserve System and to address the risk associated with individuals leaving the Federal Reserve for employment with a regulated entity.

Section 2080.1

This section, "Commercial and Industrial Loans," was revised to remove a subsection titled "Loan Sampling and Coverage Requirements" because the guidance was outdated and no longer reflected the supervisory approach to loan review at large state member banks. Subsequent sections in the manual describe loan sampling and coverage expectations for state member banks with less than \$50 billion in total assets.

Section 6010.1

This section, "Other Types of Examinations," was revised to provide updated terminology and high-level guidance on the Federal Reserve's supervisory responsibilities of information technology, trust activities, transfer agent activities, securities dealer activities, and consumer compliance at state member banks. The section was also updated to include a reference to the December 2016 final rule that amended Regulation H and Regulation K, which raised the total asset threshold for an insured depository institution to be eligible for an 18-month examination cycle. See SR-17-2 for more information. This section now includes a reference table with a partial list of key guidance and resources that apply to the supervision of the entities and activities described in this section.

FILING INSTRUCTIONS

<i>Remove</i>	<i>Insert</i>
Cover page (3 pages)	Cover page (4 pages)
Foreword, pages 1–4	Foreword, pages 1–4
Preface, pages 1–5	Preface, removed
1000.1, pages 1–4, 6.15–6.16, 9–10, 15–16	1000.1, pages 1–4, 6.15–6.16, 9–10, 15–16
1015.1, pages 1–3	1015.1, pages 1–4
2080.1, pages 1–20	2080.1, pages 1–19
6010.1, pages 1–4	6010.1, pages 1–6

Commercial Bank Examination Manual

Supplement 46—October 2016

Summary of Changes

Section 1000.1

This section, “Examination Strategy and Risk-Focused Examinations,” was amended to include changes resulting from the June 8, 2016, issuance of SR-16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion.” The supervisory guidance applies to assessing risk-management practices at state member banks, bank holding companies, and savings and loan holding companies (including insurance and commercial savings and loan holding companies) with less than \$50 billion in total consolidated assets and foreign banking organizations with combined U.S. assets of less than \$50 billion. When SR-16-11 was issued, SR-95-51, “Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies,” became applicable only to state member banks and bank holding companies with \$50 billion or more in total assets. Both SR-95-51 and SR-16-11 are included in this manual section. (Refer to SR-16-11 and its attachment.)

Section 4020.1

This section, “Liquidity Risk,” is revised to include “Interagency Guidance on Funds Transfer Pricing Related to Funding and Contingent Liquidity Risks,” issued March 1, 2016. The guidance (refer to appendix 3 of this section) was issued to address weaknesses observed in some large financial institutions’ funds transfer pricing (FTP) practices related to funding risk (including interest rate and liquidity components) and contingent liquidity risk. (Refer to SR-16-3 and also to the March 1, 2016, attachment to the interagency guidance, “Illustrative Funds Transfer Pricing Methodologies.”) FTP is an important tool for managing a firm’s balance sheet structure and measuring risk-adjusted profitability. By allocating funding and contingent liquidity risks to business lines, products, and activities within a firm, FTP influences the volume and terms of new business and ongoing portfolio composition. If done effectively, FTP promotes more resilient, sustainable business models. (Refer to SR-16-3 and its attachments.)

FILING INSTRUCTIONS

Remove

Insert

Preface, pages 1–2

Preface, pages 1–2

1000.1, pages 1–4, 4.1–4.8, 5–6

1000.1, pages 1–6, 6.1–6.16

4020.1, pages 1–2, 47–48

4020.1, pages 1–2, 2.1, 47–53

4060.1, pages 8.1–8.2

4060.1, pages 8.1–8.2

4090.1, pages 1–2

4090.1, pages 1–2

4200.1, pages 3–4, 7–8

4200.1, pages 3–4, 7–8

5020.1, pages 1–4

5020.1, pages 1–4

6003.1, pages 3–4

6003.1, pages 3–4

A.5020.1, pages 1–4, 9–10

A.5020.1, pages 1–4, 9–10

Subject Index, pages 7–21

Subject Index, pages 7–21

Summary of Changes

Section 1000.1

This section, “Examination Strategy and Risk-Focused Examinations,” is revised to include a discussion of a rule that amended Regulation H to raise the statutory maximum total asset threshold for a state member bank (SMB) to be eligible for the expanded 18-month examination cycle (as opposed to 12 months) from less than \$500 million to less than \$1 billion in total assets. A SMB with less than \$1 billion in total assets may be eligible for the 18-month examination cycle if it satisfies certain qualifying criteria. (Refer to SR-16-6 and its attachment.)

Sections 1020.1, 1020.2, 1020.3

Section 1020.1 on the “Federal Reserve System Bank Surveillance Program” discusses “Enhancements to the Federal Reserve System’s Surveillance Program.” (Refer to SR-15-16, and its attachment.) The Surveillance Program uses algorithms that are incorporated into regular monitoring systems to identify aspects of state member banks’ financial condition and performance that may warrant possible supervisory attention. In addition to the Watch List and its use of the Supervision and Regulation Statistical Assessment of Bank Risk (SR-SABR) early warning model, the algorithms’ main components are the Outlier List, the State Member Bank Monitoring Screen, and the Intercompany Transactions Exception List. The algorithms use data gathered on the Call report, other financial regulatory reports, as well as examination data to identify institutions exhibiting financial deterioration, weaknesses, an increased or changing risk profile, or deviations from supervisory expectations. Also, the monitoring systems may identify complex operations, can be used to detect novelties or departures from expected performance or risk patterns, and they identify the institutions that fail the key screening criteria. The surveillance results can be used in pre-examination planning to schedule and determine the type of risk-focused examination to be performed, to assess significant risk exposures, outlooks, and possible non-compliance con-

cerns, and to calibrate supervisory and examination resources to risk. The Surveillance Program’s objectives, phases, structure, and maintenance are discussed in the section along with additional information on the metrics, procedures, and write-up requirements. The examination objectives, section 1020.2, and the examination procedures, section 1020.3, are revised.

Section 2088.1

This new section, “Off-site Review of Loan Files,” announces to state member banks (SMBs) with less than \$50 billion in total assets, that they have the option to have Federal Reserve examiners review loan files off site during full-scope or target examinations. Federal Reserve examiners may conduct an off-site loan review provided the SMB has communicated its willingness to participate in the program and is able to appropriately image and send its legible and sufficiently comprehensive loan information to the Federal Reserve Bank in a secure manner. (Refer to SR-16-8.)

Section 4128.1

This section, “Private Banking,” is revised to provide supplemental information about customer identification program (CIP) requirements found in section 326 of the USA PATRIOT Act (referred to as the “CIP” rule). The CIP rule requires a bank to obtain sufficient information to form a reasonable belief regarding the identity of each “customer.” The definition of an “account” is provided, and also information for determining if an “account” has been created. Under the CIP rule, a person that opens a new account is deemed to be a “customer.” (Refer to SR-16-7 and its interagency attachment.)

Section 6010.1

This section is revised under the subheading, “U. S. Activities of Foreign Banking Organizations,” to include amendments made to section 10(d) of the Federal Deposit Insurance Act (FDI Act) that permit a longer cycle to conduct examinations of insured depository institutions

based on certain qualifying criteria – at least once every 18 months instead of 12 months. The Board approved on February 29, 2016, a rule that amended Regulation K, which resulted from the FDI Act amendments. Regulation K governs the on-site examination cycle for Board supervised U.S. branches and agencies of foreign banks. A U. S. branch or agency of a

foreign bank with less than \$1 billion in total assets may be eligible for an 18-month, instead of a 12-month, on-site examination cycle if it received, at its most recent examination, a composite condition rating of “1” or “2” under the supervisory rating system and if it satisfies other qualifying criteria. (Refer to SR-16-6 and its attachment.)

FILING INSTRUCTIONS

<i>Remove</i>	<i>Insert</i>
Table of Contents, pages 1–2	Table of Contents, pages 1–2
1000.1, pages 1–4, 4.1–4.7	1000.1, pages 1–4, 4.1–4.8
1020.1, pages 1–4	1020.1, pages 1–3
1020.2, page 1	1020.2, page 1
1020.3, page 1	1020.3, page 1
	2088.1, pages 1–2
3000.1, pages 1–2	3000.1, pages 1–2
4128.1, pages 1–2	4128.1, pages 1–2, 2.1
6010.1, pages 1–3	6010.1, pages 1–4
Subject Index, pages 5–21	Subject Index, pages 5–21