

### 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 October 2023 supplement.

### Reputational Risk Updates

The *Commercial Bank Examination Manual* (CBEM) has been revised to align with the Board's June 23, 2025, [announcement](#) that reputational risk will no longer be a component of examination programs in its supervision of banks.

The following sections have been revised to remove references to reputational risk. These sections also may have minor clarifying edits, such as removing cross references to inactive guidance issuances or updating cross references to other manual sections.

- 1001.1, “Community Bank Supervision Process”
- 1100.1, “Overall Conclusions Regarding Condition of the Bank”
- 2100.1, “Real Estate Construction Loans”
- 2102.4, “Real Estate Appraisals and Evaluations: Internal Control Questionnaire”
- 2115.2, “Leveraged Lending: Examination Objectives”
- 2115.3, “Leveraged Lending: Examination Procedures”
- 2115.4, “Leveraged Lending: Internal Control Questionnaire”
- 2500.1, “Investment Securities and End-User Activities”
- 2520.1, “Private Placements”
- 4012.1, “Risk-Management Processes and Internal Controls of Firms Having \$100 Billion or More in Total Assets”
- 4030.1, “Asset Securitization”
- 4043.1, “Insurance Sales Activities and Consumer Protection in Sales of Insurance”
- 4043.2, “Insurance Sales Activities and Consumer Protection in Sales of Insurance: Examination Objectives”

- 4043.3, “Insurance Sales Activities and Consumer Protection in Sales of Insurance: Examination Procedures”
- 4043.4, “Insurance Sales Activities and Consumer Protection in Sales of Insurance: Internal Control Questionnaire”
- 4500.1, “Internal Control and Audit Function, Oversight, and Outsourcing”
- 4510.1, “Internal Control: Supplement on Internal Auditing”
- 4520.1, “Required Absences from Sensitive Positions”
- 4580.1, “Retail Sales of Nondeposit Investment Products”
- 5200.1, “Fiduciary Activities” (Note that references to reputation risk based on the guidance in 63 *Fed. Reg.* 54,704, October 13, 1998, were retained in this section.)
- 5210.1, “Private-Banking Activities”
- 5230.1, “Bank Dealer Activities”
- 5300.1, “Information Technology” (Note that the reference to reputation risk based on the guidance in 12 CFR 208, appendix D-2 was retained in this section.)
- 5310.1, “Electronic Banking”
- 5310.4, “Electronic Banking: Internal Control Questionnaire”
- 6074.4, “Regulation W: Investment-Funds Support Internal Control Questionnaire”
- 7020.1, “International—Loan Portfolio Management”
- 7050.1, “International—Financing Foreign Receivables”

The following CBEM sections contain references to reputational risk and are based on interagency guidance issuances or issuances that were published in *Federal Register* notices. Board staff will revise, as appropriate, the following CBEM sections after the underlying interagency guidance issuances that form the basis for these sections have been revised.

- 1200.1, “Uniform Financial Institutions Rating System and the Federal Reserve’s Risk Management Rating” (See 61 *Fed. Reg.* 67,021, December 19, 1996)
- 2025.1, “Counterparty Credit-Risk Management” (See SR-11-10, “Interagency Counterparty Credit Risk Management Guidance”)
- 2045.1, “Loan Participations—the Agreements and Participants” (See “Interagency

Statement on Sales of 100% Loan Participations” (April 1997))

- 2090.1, “Real Estate Loans” (See SR-05-11, “Interagency Credit Risk Management Guidance for Home Equity Lending”)
- 2115.1, “Leveraged Lending” (See 78 *Fed. Reg.* 17,766, March 22, 2013)
- 2135.1, “Subprime Mortgage Lending” (See 72 *Fed. Reg.* 37,569, July 10, 2007)
- 2136.1, “Nontraditional Mortgages—Associated Risks” (See 71 *Fed. Reg.* 58,609, October 4, 2006)
- 3200.1, “Liquidity Risk” (See 75 *Fed. Reg.* 13,656, March 22, 2010)
- 4008.1, “Sound Incentive Compensation Policies” (See 75 *Fed. Reg.* 36,395, June 25, 2010)
- 4027.1, “Model Risk Management” (See SR-11-7, “Guidance on Model Risk Management”)
- 4033.1, “Elevated-Risk Complex Structured Finance Activities” (See 72 *Fed. Reg.* 1372, January 11, 2007)
- 4042.1 – 4042.4, “Purchase and Risk Management of Life Insurance” (See SR-04-19, “Interagency Statement on the Purchase and Risk Management of Life Insurance”)
- 6072.1, “Regulation W: Bank-Related Organizations” (See the “Joint Agency Statement on Parallel-Owned Banking Organizations,” press release, April 23, 2002)
- 6074.1, “Regulation W: Investment-Funds Support” (See SR-04-1, “Interagency Policy on Banks/Thrifts Providing Financial Support to Funds Advised by the Banking Organization”)

## Reputation Risk Updates and Other Section Updates

### *Sections 2133.1, 2133.2, and 2133.3*

In addition to removing instances of reputational risk, section 2133.1, “Subprime Lending,” was significantly revised. Previously, this section conveyed interagency guidance on subprime lending, which was issued in 1999 and 2001. Most of the content was removed from section 2133.1, which now provides an overview of subprime lending. The section explains the general risk characteristics of subprime borrowers as well as the risks that banks face when conducting subprime lending activities. The section also contains links to issued guidance on subprime lending, providing more information on this topic. The examination procedures in section 2133.3 were replaced with hyperlinks to the relevant Examination Documentation (ED) modules, which are available on the Board’s public website. Section 2133.2, “Subprime Lending: Examination Objectives,” was removed from the manual.

### *Section 2330.1*

In addition to removing instances of reputational risk, this section, “Deposit Accounts,” was updated to include information on noninterest-bearing accounts. Noninterest-bearing accounts are typically checking accounts that retail or business depositors use for operational purposes. This section describes the liquidity risks associated with noninterest-bearing accounts as well as potential risk-management practices for this type of account, particularly when there are changes in the interest rate environment.

# Commercial Bank Examination Manual

## Supplement 55—October 2023

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### 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 2022 supplement.

#### *Section 1000.1*

Minor updates were made to section 1000.1, “Examination Strategy and Risk-Focused Examinations.” This section includes updated references to

- the handling of confidential supervisory information as set forth in the Board’s regulation on *Nonpublic Information Made Available to Supervised Financial Institutions, Governmental Agencies, and Others in Certain Circumstances* (12 CFR pt. 261, subpart C);
- the Board’s *Statement Clarifying the Role of Supervisory Guidance* (12 CFR pt. 262, Appendix A); and
- the Federal Reserve System’s process for material supervisory determinations and policy statement regarding the Ombuds (SR-20-28/CA-20-14, “Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System”).

#### *Section 1001.1*

Section 1001.1, “Community Bank Supervision Process,” includes revisions to the community bank report of examination and instructions, specifically:

- indicating that a community state member bank’s (SMB) risk assessment matrix can be included in the “Management/Risk Management” content heading or the “Confidential” section of the of the report of examination.
- updating a reference to the handling of confidential supervisory information as addressed in the Board’s *Nonpublic Information Made Available to Supervised Financial Institutions,*

*Governmental Agencies, and Others in Certain Circumstances* regulation (12 CFR pt. 261, subpart C).

- revising required language about the ability of a community SMB to appeal material supervisory determinations that Federal Reserve examiners include in the report of examination.
- reducing the required text for a footnote in the report of examination about supervisory findings and substituting the text with a hyperlink to the source guidance on the matter, SR-13-13/CA-13-10, “Supervisory Considerations for the Communication of Supervisory Findings.”
- updating a reference to the Board’s *Statement Clarifying the Role of Supervisory Guidance* (12 CFR pt. 262, Appendix A).

#### *Section 1002.1*

This new section, “Supervision of State Member Banks in the Regional Banking Organization Portfolio,” summarizes the Federal Reserve’s approach to supervising SMBs that are in the regional banking organization (RBO) portfolio. The RBO supervisory portfolio generally includes domestic holding companies and SMBs with total consolidated assets greater than or equal to \$10 billion and less than \$100 billion. The section provides information on the following topics related to the supervision of SMBs in the RBO portfolio.

- Examination scope and frequency
- Supervisory planning process
- Continuous monitoring activities
- Coordination of supervisory activities with other regulators
- Completion of examination procedures
- Instructions for the completion of the report of examination
- Information about how the supervision of SMBs in the RBO portfolio differs from the supervision of institutions in the community banking organization portfolio and the large and foreign banking organization supervisory portfolio

*Section 1005.1*

This section, “Large Institution Supervision Coordinating Committee,” was previously titled, “Consolidated Supervision Framework for Large Financial Institutions.” Most of the content in the section was eliminated as the information pertained to the supervision of large holding companies, which is addressed in the *Bank Holding Company Supervision Manual*. The revised section provides a reference to the guidance explaining which firms are in the Large Institution Supervision Coordinating Committee or LISCC supervisory portfolio. Furthermore, the section provides a reference to the *Large Institution Supervision Coordinating Committee Program Manual*, which is publicly available and describes key concepts related to the supervisory oversight structure, process, ratings framework, and communication methods for firms in the LISCC supervisory portfolio.

*Section 1007.1*

This section, “Other Types of Examinations,” was revised to include information about the supervision of representative offices of foreign banking organizations (FBOs). U.S. representative offices of FBOs engage in diverse activities ranging from liaison, marketing, and research functions to operational activities such as loan production, administrative, and certain trading functions. For more information on U.S. representative offices of FBOs, see SR-19-15, “Revised Examination Guidelines for Representative Offices of Foreign Banks.” Furthermore, the section was revised to include information about supervised insurance organizations. A “supervised insurance organization” is a depository institution holding company that is an insurance underwriting company that has over 25 percent of its consolidated assets held by insurance underwriting subsidiaries, or that has been otherwise designated as a supervised insurance organization by Federal Reserve staff. For more information on the Federal Reserve’s supervision of these institutions, see SR-22-8, “Framework for the Supervision of Insurance Organizations.”

*Section 1015.1*

This section, “Conflict-of-Interest Rules for Examiners,” was revised to provide updated information about special post-employment restrictions for Federal Reserve senior examiners. Most of the information about the administrative procedures for implementing the “senior examiner” restrictions were replaced with a reference to SR-21-13/CA-21-10, “Revised Special Post-Employment Restriction for Senior Examiners and Work Paper Reviews for Departing Examiners,” which provides more information on this topic.

*Section 1200.1*

This section, “Uniform Financial Institutions Rating System and the Federal Reserve’s Risk Management Rating,” 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 a supervised institution’s board of directors and senior management.

*Section 2003.1*

This section, “Supervisory Loan Sampling at Regional Banking Organizations,” was renamed. The section was previously titled, “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 section was revised to reflect that the underlying guidance on loan sampling now applies to the supervision of SMB and credit extending nonbank subsidiaries of bank holding companies with greater than or equal to \$10 billion and less than \$100 billion in total consolidated assets. In addition, references to the allowance for credit losses (ACL) replaced references to the allowance for loan and lease losses (ALLL). For more information, see SR-14-4, “Examiner Loan Sampling Requirements for State Member Bank and Credit Extending Nonbank Subsidiaries of Bank Holding Companies in the Regional Banking Organization Supervisory Portfolio.”

*Section 2011.1*

This section, “Credit Risk Review Systems,” was updated to remove an outdated SR letter reference. A reference to SR-13-19/CA-13-21, “Guidance on Managing Outsourcing Risk,” was replaced with a reference to SR-23-4, “Interagency Guidance on Third-Party Relationships: Risk Management.”

*Section 2013.1*

This section, “Allowance for Credit Losses,” was updated to reflect revisions to the “Interagency Policy Statement on Allowances for Credit Losses,” which was issued by the federal banking agencies on April 21, 2023. The “Interagency Policy Statement on Allowances for Credit Losses” was revised to remove references to troubled debt restructurings to conform with U.S. generally accepted accounting principles (GAAP). For additional details, refer to the March 2022 Financial Accounting Standards Board (FASB) issuances of “Accounting Standards Update 2022-02 (ASU 2022-02)” and “Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures.” ASU 2022-02 eliminated the recognition and measurement accounting guidance for TDRs by creditors upon adoption of FASB Accounting Standards Codification (ASC) Topic 326. For more information, see SR-20-12, “Interagency Policy Statement on Allowances for Credit Losses.”

*Section 2110.1*

This section, “Floor-Plan Loans,” was updated to remove an outdated SR letter reference. A reference to SR-13-19/CA-13-21, “Guidance on Managing Outsourcing Risk,” was replaced with a reference to SR-23-4, “Interagency Guidance on Third-Party Relationships: Risk Management.”

*Section 2142.1*

This section, “Agricultural Credit-Risk Management,” was updated to reflect the Federal Reserve’s guidance for a supervised institution’s boards of directors in SR-21-3/CA-21-1, “Supervisory Guidance on Board of Directors’ Effect-

iveness.” Specifically, the section was revised to better reflect the roles and responsibilities of a supervised institution’s the board of directors and senior management. In addition, the section was revised to include information on assessing risk mitigation strategies of a supervised institution’s borrowers who employ risk mitigation strategies such as commodities derivatives to control the price of feed or feedstock and the sales price for agricultural production or crops.

*Sections 2330.1, 2330.2, 2330.3, and 2330.4*

Section 2330.1, “Deposit Accounts” was significantly revised and reorganized. The section describes a supervised institution’s risks associated with deposits, various types of deposit programs, and key regulations related to a bank’s deposits, as well as the supervisory expectations for assessing deposit activity at a bank. The content of the section was revised to provide

- a general discussion on insured versus uninsured deposits;
- an explanation of core deposits versus non-core deposits;
- an updated description of brokered and high-rate deposits, including brokered deposit limitations and interest rate restrictions for certain depository institutions;
- a background description of reciprocal deposit programs; and
- a new discussion on the supervisory assessment of deposit activity vis-à-vis a bank’s liquidity position.

The examination procedures (section 2330.3) were removed from the manual and a note was added to the section indicating that the Examination Documentation Modules (ED Modules) contain the most relevant examination procedures on assessing deposit accounts. The examination objectives (section 2330.2) and internal control questionnaire (section 2330.4) were removed from the manual.

*Section 3210.1*

This section, “The Discount Window and Liquidity Risk Management,” was previously titled, “Short-Term Liquidity Management (Federal Reserve’s Primary Credit Program).” This sec-

tion now includes an overview of the discount window. The section outlines the three Federal Reserve credit programs that are available to depository institutions under Regulation A: (1) primary credit, (2) secondary credit, and (3) seasonal credit programs. Revisions were made to the discussion on appropriate liquidity risk management practices for a supervised institution as well as contingency funding planning practices for institutions that use the discount window. For more information, see the *Addendum to the Interagency Policy Statement on Funding and Liquidity Risk Management: Importance of Contingency Funding Plans*.

*Sections 3220.1, 3220.2, 3220.3, and 3220.4*

Section 3220.1, “Borrowed Funds,” was primarily revised to remove content about the Federal Reserve’s discount window that has been moved to Section 3210.1, “The Discount Window and Liquidity Risk Management.” Outdated information about reserve requirements, as discussed in Regulation D, was also removed from the section.

The examination procedures (section 3220.3) were removed from the manual and a note was added to the section indicating that the ED Modules contain the most relevant examination procedures on assessing borrowed funds. The examination objectives (section 3220.2) and internal control questionnaire (section 3220.4) were removed from the manual.

### *Section 4011.1*

This section, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion,” was revised to cover the supervision of institutions having less than \$100 billion in total consolidated assets. Previously, the guidance in the section applied to the supervision of institutions with less than \$50 billion in total consolidated assets. In addition, a reference was included highlighting the risk committee requirements for bank holding companies (BHCs) with total consolidated assets of \$50 billion or more and less than \$100 billion in the Board’s Regulation YY (12 CFR pt. 252, subpart C).

### *Section 4012.1*

The section, “Risk-Management Processes and Internal Controls of Firms Having \$100 Billion or More in Total Assets,” was revised to cover the supervision of SMBs and BHCs having \$100 billion or more in total consolidated assets, rather than SMBs and BHCs having \$50 billion or more in total consolidated assets. Further, this section was updated to reflect the Federal Reserve’s guidance for a supervised institution’s 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 a supervised institution’s the board of directors and senior management.

### *Section 4030.1*

Section 4030.1, “Asset Securitization,” was significantly revised. Lengthy descriptions of outdated risk-based capital provisions affecting a supervised institution’s asset securitizations were removed. Several examples about the capital treatment of asset securitizations were removed as they no longer reflect the Board’s current capital regulations. Outdated accounting references and descriptions were removed from the section. Discussions on asset-backed commercial paper programs were also removed as this topic is covered in section 3030.1, “Overview of Asset-Backed Commercial Paper Programs.” The section provides a primer on asset securitization activities and provides an overview on a supervised institution’s risk management considerations for conducting asset securitization activities. The section was revised to consolidate supervisory considerations for assessing a supervised institution’s asset securitizations into a single subsection.

### *Section 4062.1*

This section, “Risk Management of Third-Party Relationships,” was previously called “Managing Outsourcing Risk.” This section provides a summary of *Interagency Guidance on Third-Party Relationships* issued by the Federal Reserve, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency on sound risk-management principles that a supervised institution should consider in

managing the risks associated with third-party relationships. For the complete guidance see SR-23-4, “Interagency Guidance on Third-Party Relationships: Risk Management.”

### *Sections 5300.1, 5300.2, 5300.3, and 5300.4*

Section 5300.1, “Information Technology,” was revised primarily to remove content that is explained in other sections of the manual. Guidance in section 5300.1 that addressed Regulation V (12 CFR pt. 222), *Fair Credit Reporting*, and the identity theft red flags rule was removed. This guidance was updated and moved to section 6068.1 of the manual. Guidance on the outsourcing of information technology services was removed from section 5300.1 as more relevant guidance can be found in section 4062.1, “Risk Management of Third-Party Relationships.” This section also was updated to reflect the Federal Reserve’s guidance for a supervised institution’s 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 a supervised institution’s board of directors and senior management. Hyperlinks were added to guidance issuances that are still active. Inactive guidance references in the section were removed or updated, as deemed appropriate. The examination procedures (section 5300.3) were removed from the manual and a note was added to the section indicating that the Federal Financial Institutions Examination Council manuals contain the most relevant examination procedures on conducting information technology examinations. The examination objectives (section 5300.2) and internal control questionnaire (section 5300.4) were removed from the manual.

### *Section 5320.1*

Section 5320.1, “Payment System Risk and Electronic Funds Transfer Activities,” was significantly revised. Most of the content related to payment system risk and the Board’s Policy on Payment System Risk (PSR policy) was removed from the section as the material was outdated. The latest and most comprehensive information about the PSR policy can be found on the Board’s public website. Therefore, this section

provides an overview of the PSR policy and references with hyperlinks to the Board’s public website where the latest PSR policy and other related policy documents can be found. Except for removing a brief subsection on Telex systems, the other content in the section related to electronic funds transfer activities was not revised.

### *Section 5330.1*

This new section, “Crypto-Asset-Related Activities and Exposures,” provides an overview on the crypto-asset-related activities of SMBs. Crypto-asset-related activities may include, but are not limited to, crypto-asset safekeeping and traditional custody services; ancillary custody services; loans collateralized by crypto-assets; and issuance and distribution of dollar tokens. The section clarifies supervisory expectations regarding the requirements for SMBs to notify the Federal Reserve about the intent to engage in crypto-asset-related activities and describes the supervisory nonobjection process for SMBs seeking to engage in certain activities involving dollar tokens. The section also highlights key Federal Reserve guidance on crypto-asset-related risks to banking organizations and supervisory considerations in assessing SMBs engaged in crypto-asset-related activities and discusses the legal permissibility of crypto-asset-related activities.

### *Section 6068.1*

This new section, “Regulation V: Fair Credit Reporting (Identity Theft Red Flags),” contains information about Board’s Regulation V—Fair Credit Reporting (12 CFR pt. 222), specifically, the identity theft red flag rule. The goal of the identity theft red flags rule and its guidelines (12 CFR pt. 222, Appendix J) is to ensure that financial institutions and creditors are alert for signs or indicators that an identity thief is misusing another individual’s sensitive data, typically to obtain products or services from an institution or creditor. Previously, guidance on this subject was in section 5300.1, “Information Technology.” Most of the information on Regulation V and the identity theft red flags rule has been removed from section 5300.1.

*Section 6080.1*

Minor technical edits were made to section 6068.1, “Regulation Y: Prohibitions Against Tying Arrangements.” The section’s content covers section 106 of the Bank Holding Company Act Amendments of 1970 (section 106), which 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. In addition to the statutory exceptions set forth in section 106, additional regulatory exceptions can be found in the Board’s Regulation Y (12 CFR 225.7). This section was edited to more closely with information presented in the *Bank Holding Company Supervision Manual*, Section 3500.0, “Prohibitions Against Tying Arrangements.”

# Commercial Bank Examination Manual

## Supplement 54—May 2022

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### SUMMARY OF CHANGES

This supplement reflects Board of Governors actions, new and revised statutory and regulatory provisions, supervisory guidance, and instructions that the Division of Supervision and Regulation have issued since the publication of the May 2021 supplement.

### ELIMINATION OF CERTAIN SECTIONS COVERING EXAMINATION OBJECTIVES, EXAMINATION PROCEDURES, AND INTERNAL CONTROL QUESTIONNAIRES

The Examination Documentation modules (ED modules) define common objectives for the review of key bank activities at state chartered banks, which are supervised by the Federal Reserve, Federal Deposit Insurance Corporation, and state banking agencies. At the Federal

Reserve, supervisory staff use examination procedures in the ED modules to document examination work at state member banks in the community and regional supervisory portfolios. The ED modules are available on the Board's [website](#). To reduce the publication of duplicative and outdated material, the sections listed in the table below have been eliminated from the *Commercial Bank Examination Manual*. The relevant examination procedures sections (i.e., section number ending with “.3”) will contain a link to the ED modules page on the Board's website and a listing of ED module titles related to the section.

### FOREWORD

This manual's Foreword was updated to explain that relevant examination procedures sections will contain a link to the ED modules page on the Board's website.

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<i>Sections Removed</i>	<i>Relevant ED Modules</i>
<ul style="list-style-type: none"><li>• 2010.2, “Loan Portfolio Management, Examination Objectives”</li><li>• 2010.3, “Loan Portfolio Management, Examination Procedures”</li></ul>	<ul style="list-style-type: none"><li>• Loan Portfolio Review</li><li>• Loan Operations Review</li></ul>
<ul style="list-style-type: none"><li>• 2138.3, “Mortgage Banking, Examination Procedures”</li></ul>	<ul style="list-style-type: none"><li>• Mortgage Banking</li></ul>
<ul style="list-style-type: none"><li>• 2300.2, “Other Assets and Other Liabilities, Examination Objectives”</li><li>• 2300.3, “Other Assets and Other Liabilities, Examination Procedures”</li><li>• 2300.4, “Other Assets and Other Liabilities, Internal Control Questionnaire”</li></ul>	<ul style="list-style-type: none"><li>• Other Assets and Liabilities</li></ul>
<ul style="list-style-type: none"><li>• 2500.2, “Investment Securities and End-User Activities, Examination Objectives”</li><li>• 2500.3, “Investment Securities and End-User Activities, Examination Procedures”</li><li>• 2500.4, “Investment Securities and End-User Activities, Internal Control Questionnaire”</li></ul>	<ul style="list-style-type: none"><li>• Securities and Derivatives</li></ul>
<ul style="list-style-type: none"><li>• 3000.2, “Assessment of Capital Adequacy, Examination Procedures”</li><li>• 3000.3, “Assessment of Capital Adequacy, Examination Procedures”</li></ul>	<ul style="list-style-type: none"><li>• Capital</li></ul>

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<i>Sections Removed</i>	<i>Relevant ED Modules</i>
<ul style="list-style-type: none"> <li>• 3100.2, “Earnings—Analytical Review of Income and Expense, Examination Objectives”</li> <li>• 3100.3, “Earnings—Analytical Review of Income and Expense, Examination Procedures”</li> <li>• 3100.4, “Earnings—Analytical Review and Income and Expense, Internal Control Questionnaire”</li> </ul>	<ul style="list-style-type: none"> <li>• Earnings</li> </ul>
<ul style="list-style-type: none"> <li>• 3200.2, “Liquidity Risk, Examination Objectives”</li> <li>• 3200.3, “Liquidity Risk, Examination Procedures”</li> <li>• 3200.4, “Liquidity Risk, Internal Control Questionnaire”</li> </ul>	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>
<ul style="list-style-type: none"> <li>• 3300.2, “Interest Rate Risk Management, Examination Objectives”</li> <li>• 3300.3, “Interest Rate Risk Management, Examination Procedures”</li> </ul>	<ul style="list-style-type: none"> <li>• Rate Sensitivity</li> </ul>
<ul style="list-style-type: none"> <li>• 4030.2, “Asset Securitization, Examination Objectives”</li> <li>• 4030.3, “Asset Securitization, Examination Procedures”</li> <li>• 4030.4, “Asset Securitization, Internal Control Questionnaire”</li> </ul>	<ul style="list-style-type: none"> <li>• Securitization</li> </ul>
<ul style="list-style-type: none"> <li>• 4500.2, “Internal Control and Audit Function, Oversight, and Outsourcing, Examination Objectives”</li> <li>• 4500.3, “Internal Control and Audit Function, Oversight, and Outsourcing, Examination Procedures”</li> <li>• 4500.4, “Internal Control and Audit Function, Oversight, and Outsourcing, Internal Control Questionnaire”</li> </ul>	<ul style="list-style-type: none"> <li>• Management and Internal Control Evaluation</li> <li>• Internal and External Audit Evaluation</li> </ul>
<ul style="list-style-type: none"> <li>• 5200.3, “Fiduciary Activities, Examination Procedures” <i>(New section)</i></li> </ul>	<ul style="list-style-type: none"> <li>• Trust</li> </ul>
<ul style="list-style-type: none"> <li>• 5320.2, “Payment System Risk and Electronic Funds Transfer Activities, Examination Objectives”</li> <li>• 5320.3, “Payment System Risk and Electronic Funds Transfer Activities, Examination Procedures”</li> <li>• 5320.4, “Payment System Risk and Electronic Funds Transfer Activities, Internal Control Questionnaire”</li> </ul>	<ul style="list-style-type: none"> <li>• Electronic Funds Transfer Risk Assessment</li> </ul>
<ul style="list-style-type: none"> <li>• 6072.2, “Regulation W: Bank-Related Organizations, Examination Objectives”</li> <li>• 6072.3, “Regulation W: Bank-Related Organizations, Examination Procedures”</li> </ul>	<ul style="list-style-type: none"> <li>• Related Organizations</li> </ul>

# Commercial Bank Examination Manual

## Supplement 53—May 2021

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### SUMMARY OF CHANGES

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

### REORGANIZATION OF THE COMMERCIAL BANK EXAMINATION MANUAL

The manual has been reorganized to align its content to follow the components of the Uniform Financial Institutions Rating System or CAMELS rating system. The CAMELS components are Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. Prior to this May 2021 reorganization, the manual was structured around a bank's balance sheet (such as assets, liabilities, retained earnings, and capital). This reorganization is intended to better align the manual sections with the examination process. The Table of Contents displays the new organization in greater detail.

Other than the changes to the sections described below, there were no substantive changes to the manual content. In most instances, the revision date in the footer of a manual page did not change as a result of the reorganization. As the content in sections is revised, cross references to manual sections will be revised to reflect the reorganization. Other technical edits that were made in this update as a result of the content reorganization include

- *Removal of section point pages.* Point pages were used when the manual was available in hard copy form. The point pages provided an easy way to add pages to the manual binder without having to re-print the entire section. These point pages are no longer necessary as the Board ended the option of ordering print versions for the *Commercial Bank Examination Manual* in 2017. Therefore, the point pages were removed from sections and the pagination of a section was sequenced.
- *Resequencing footnotes in sections.* Footnotes that were inserted into sections and num-

bered 1a, 1b, 1c, etc. were revised to be in sequential order: 1, 2, 3, and so forth.

- *Removal of “What’s New in this Revised Section” verbiage.* Several sections contained a summary of modifications on the first page of the section. In most instances, these descriptions were several years old. Further, the Summary of Changes for each manual update describes the changes to the manual sections. Therefore, the “What’s New in this Revised Section” text has been removed.
- *Active hyperlinks.* If a section contains a web address as a reference, the web address has been enabled to allow users to access content by clicking on the link.

### Foreword

The Foreword was revised to remove outdated information on the banking environment and historical information on the development of the risk-focused examination process. The Foreword now describes the differences between supervision and regulation. It highlights the Federal Reserve's supervisory and regulatory authority over certain insured depository institutions, namely, state member banks. The Foreword notes that the Federal Reserve is required by statute to complete a full-scope examination for each state member bank. Section 10(d) of the Federal Deposit Insurance Act generally requires the appropriate federal banking agency for an insured depository institution to conduct a full scope examination at least once every 12 months, but permits a longer cycle—at least once every 18 months—for insured depository institutions that meet certain criteria. Lastly, the Foreword's “How to Use This Manual” subsection was revised to describe the new organization of the manual.

### Complex Wholesale Borrowings

The sections covering “Complex Wholesale Borrowings” (formerly sections 3012.1, 3012.2, 3012.3, and 3012.4) were removed from the manual. The information in these sections was based entirely on SR-01-8, “Supervisory Guidance on Complex Wholesale Borrowings.” SR-01-8 was made inactive by 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.” For more information on complex wholesale borrowings, refer to the *Trading and Capital Markets Activities Manual* sections on Liquidity Risk and Interest-Rate Risk Management; SR-10-6, “Interagency Policy Statement on Funding and Liquidity Risk Management”; and Regulation YY (12 CFR 252).

*International—Purchases, Sales, Trading, Swaps, Rentals, and Options of LDC Assets*

Former section 7110.4 was removed from the manual. This section provided a sample first day letter request list for examiners conducting an examination of a bank’s lesser developed country asset sales, purchases, swaps, options, and rental programs. The guidance was outdated. Further, as noted in the Foreword, “.4” sections (e.g., section 7110.4) in the manual should contain internal control questionnaires. As section 7110.4 did not contain an internal control questionnaire per the manual’s design format, the section was deleted until such time as the need for an internal control questionnaire is identified for this type of bank activity.

# Commercial Bank Examination Manual

## Supplement 52—November 2020

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### 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.