

**Suggested Transmittal Letter to State Member Banks and Bank Holding Companies**

**Subject:** New Supervisory Procedures for Rating the Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies

I am attaching recently developed guidelines that direct examiners, beginning next year, to provide separate supervisory ratings for the risk management process, including internal controls, of all state member banks and bank holding companies. While examiners have long taken the quality of risk management and internal controls into account in evaluating an institution's overall condition, this rating is intended to highlight in the examination process the importance of risk management and to facilitate appropriate supervisory follow-up actions. Examiners will give this rating significant weight when determining the rating of management under the CAMEL or BOPEC rating systems and are also directed to discuss their findings regarding an institution's risk management process with management, especially if they view the process as less than satisfactory.

The guidelines stress the importance of sound risk management and emphasize the need for adequate segregation of duties. They draw from long-standing supervisory procedures that have been updated by policy statements and examination manuals in recent years to reflect new financial instruments and evolving market practices. They also stress that the Federal Reserve will take appropriate supervisory action if institutions fail to maintain adequate controls, including the separation of critical duties.

If you have any questions about these forthcoming procedures, please call \_\_\_\_\_.

*Attachment*