In October 2025, this attachment was revised to remove references to reputational risk.

Attachment B for SR letter 96-37

Revised October 2025

Supervisory Guidance on Required Absences from Sensitive Positions

A comprehensive system of internal controls is essential for a financial institution to safeguard its assets and capital, and avoid undue legal risk. It is the responsibility of senior management to establish an appropriate system of internal controls and to monitor compliance with that system. Although no single control element should be relied upon to prevent fraud and abuse, these acts are more easily perpetrated when proper segregation and rotation of duties do not exist. As a result, the Federal Reserve is reemphasizing the following prudent banking practices that should be incorporated into an institution's internal control procedures. These practices are designed to enhance the viability of a sound internal control environment in that most internal frauds or embezzlements necessitate the constant presence of the offender to prevent the detection of illegal activities.

When developing comprehensive internal control procedures, each institution should first make a critical assessment of significant areas and sensitive positions. This assessment should consider all employees, but should focus on those with authority to execute transactions, signing authority and access to the books and records of the banking organization, as well as those employees who can influence or cause such activities to occur. Particular attention should be paid to areas engaged in trading and wire transfer operations, including personnel who also may have reconciliation or other back office responsibilities.

After producing a profile of high risk areas and activities, it would be expected that a minimum of two consecutive weeks absence be required of employees in sensitive positions. The prescribed period of absence should, under all circumstances, be of sufficient duration to allow all pending transactions to clear, and to provide for an independent monitoring of the transactions that the absent employee is responsible for initiating or processing. This practice could be implemented through either a requirement that affected employees take vacation or leave, the rotation of assignments in lieu of required vacation, or a combination of both so the prescribed level of absence is attained. Some institutions, particularly smaller ones, might consider compensating controls such as continuous rotation of assignments in lieu of required absences, so as not to place an undue burden on the institution or its employees.

Individuals having electronic access to systems and records from remote locations must be denied such access during their absence for the policy to be effective. Similarly, indirect access can be controlled by not allowing others to take and carry out instructions from the absent employee. Of primary importance is the requirement that an individual's daily work be processed by another employee during his or her absence. This process is essential to bring to the forefront any unusual activity of the absent employee.

Exceptions to this policy may be necessary from time to time. However, management should exercise the appropriate discretion and properly document any waivers that are granted. Internal auditing should be made aware of these individuals and the circumstances necessitating the exceptions.

If an institution's internal control procedures do not now include the above practices, they should be promptly amended. After the procedures have been enhanced, they should be disseminated to all employees, and the documentation regarding receipt and acknowledgement maintained. Additionally, adherence to the procedures should be included in the appropriate

audit schedules, and audit should be cognizant of potential electronic access or other circumventing opportunities.

The development and implementation of procedures on required absences from sensitive positions is just one element of an adequate control environment. Each banking organization should take all measures to establish appropriate policies, limits, and verification procedures for an effective overall risk management system.