



BOARD OF GOVERNORS
OF THE
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DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 15-7

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TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK

SUBJECT: Governance Structure of the Large Institution Supervision Coordinating Committee (LISCC) Supervisory Program

Applicability: This letter only applies to bank holding companies and nonbank financial companies subject to the Large Institution Supervision Coordinating Committee (LISCC) supervisory program.

Overview

The financial crisis highlighted a need to improve the Federal Reserve's supervisory oversight of the largest, most systemically important financial institutions, to mitigate risks to the financial system and to ensure that financial institutions are able to support lending to businesses and households in times of economic stress. To better fulfill its responsibilities as a consolidated supervisor and to promote financial stability, the Federal Reserve established the Large Institution Supervision Coordinating Committee (LISCC) in 2010.

The LISCC coordinates the Federal Reserve's supervision of domestic bank holding companies and foreign banking organizations that pose elevated risk to U.S. financial stability and other nonbank financial institutions designated as systemically important by the Financial Stability Oversight Council.¹ The LISCC supervisory program's objectives and core areas of focus are described in more detail in SR letter 12-17/CA letter 12-14, *Consolidated Supervision Framework for Large Financial Institutions*.²

¹ A current list of firms in the LISCC portfolio may be found on the Board's public website at: <http://www.federalreserve.gov/bankinforeg/large-institution-supervision.htm>. Staff periodically reviews the LISCC portfolio to ensure that the appropriate set of firms is represented.

² See SR 12-17/CA 12-14, *Consolidated Supervision Framework for Large Financial Institutions*, at <http://www.federalreserve.gov/bankinforeg/srletters/sr1217.htm>.

The LISCC supervisory program is designed to combine firm-specific, safety-and-soundness perspectives with a broader, horizontal view of the industry to anticipate and mitigate threats to financial stability. Key characteristics of the LISCC program include:

- Micro- and macro-prudential perspectives;
- Multi-disciplinary and Federal Reserve System-wide input into the direction and execution of the supervisory program, including input from supervisors, research economists, payment system experts, and market analysts, from the Board and the Reserve Banks;
- Formal horizontal examinations, periodic stress-testing, and scenario analysis; and
- Increased collection and use of consistently reported and timely firm-specific data.

The remainder of this letter sets forth the roles and responsibilities of the committees, subgroups, and dedicated supervisory teams that collectively comprise the LISCC's governance structure.

LISCC

The LISCC is a collaborative body providing System-wide and cross-disciplinary perspectives on the supervision of firms in the LISCC portfolio. The LISCC draws on the rich diversity of financial services knowledge and the economic expertise that resides within the Federal Reserve System to provide advice on the strategic direction of LISCC portfolio supervision. The LISCC provides its guidance, advice, and recommendations to the Board's Director of Banking Supervision and Regulation (BS&R Director), who also serves as Chair of the LISCC and is accountable to the Board of Governors for the effective supervision of the LISCC portfolio.

LISCC Operating Committee

The LISCC Operating Committee (OC), in consultation with the LISCC, is responsible for setting priorities for and overseeing the execution of the LISCC supervisory program. The OC is a multi-disciplinary group comprised of senior officials from various divisions at the Board of Governors and Reserve Banks. The OC is chaired by a senior officer from the Board's Division of Banking Supervision and Regulation who reports to the BS&R Director.

The OC provides direction to the LISCC firms' dedicated supervisory teams and directly oversees several subgroups, described below, which are collectively tasked with execution of the LISCC supervisory program.

LISCC Dedicated Supervisory Teams

The Federal Reserve has a dedicated supervisory team for each firm. Working with the OC and OC subgroups, the dedicated supervisory teams execute supervisory strategies for their assigned firms that align with LISCC and OC priorities and contribute to the LISCC program's formal and ad hoc horizontal supervisory exercises.

Through the execution of firm-specific supervision, LISCC-dedicated supervisory teams play a critical role in helping to achieve the LISCC program objective of ensuring resiliency, so that large firms may continue to lend to households and businesses during times of stress. Additionally, the teams actively participate in and contribute to internal forums where financial stability and portfolio considerations are discussed and related proposals and decisions are made.

Supervisory Program Management Committee

The Supervision Program Management Committee (SPMC) coordinates supervisory program management for the LISCC firms. The key objectives of the SPMC are to design the processes that support the LISCC supervisory program and to ensure that the infrastructure that supports the supervisory program is efficient and effective. In fulfilling these responsibilities, the SPMC seeks to ensure an alignment between supervisory activities and OC goals such that those activities, when taken as a whole, work together to achieve the intended results for the LISCC supervisory program.

Vetting Committee

The Vetting Committee is a forum to discuss the results of key components of the supervisory program, and to provide feedback and guidance to the dedicated supervisory or LISCC horizontal teams. The key objective of the Vetting Committee is to promote quality and consistency in supervisory approaches, key examination work and related communications, risk and risk management assessments, and supervisory actions and messages sent to individual firms.

Risk Secretariat

The Risk Secretariat identifies risks to LISCC firms' operations and reviews and evaluates risk management practices across the LISCC portfolio, prioritizes risks for supervisory action, and supports supervisory activities aimed at mitigating key risks. The Risk Secretariat also makes recommendations to the OC regarding proposed supervisory ratings related to specific risk types or risk management functions. In addition, the Risk Secretariat oversees individual risk teams for the following types of risk: Wholesale Credit Risk, Retail Credit Risk, Funding and Liquidity Risk, Market Risk, Operational Risk, Compliance and Legal Risk, and Model Risk.

Capital and Performance Secretariat

The Capital and Performance Secretariat (CaPS) supports the identification of emerging risks by monitoring and analyzing LISCC firms' performance and financial condition. Specifically, CaPS is responsible for identifying key developments, trends, and outliers related to LISCC firms' performance and financial condition; coordinating and overseeing business line analysis conducted for the LISCC portfolio, including firm-specific and cross-firm analyses; and centralizing and sharing data, intelligence, and tools in support of the work of the CaPS analysts,

the LISCC dedicated supervisory teams, and other stakeholders so that they are able to analyze the firms' performance and financial condition.

Additional OC Subgroups

The LISCC Data Team is chartered by the OC to support its data needs, to collaborate with the OC subgroups described above, to provide transparency into data collections, and to identify gaps in data needs. The LISCC Supervisory Communications Team ensures that written communications related to OC priority initiatives sent to supervised firms are consistent across the LISCC portfolio and are of high quality.

Horizontal Exercises

The OC oversees the committees that are charged with the execution of three annual horizontal exercises for LISCC firms: the Comprehensive Capital Analysis and Review (CCAR) for LISCC firms, the Comprehensive Liquidity Analysis and Review (CLAR), and the Supervisory Assessment of Recovery and Resolution Preparedness (SRP). CCAR is the Federal Reserve's annual process for evaluating capital adequacy of LISCC firms (and other firms subject to the Federal Reserve's capital plan rule) under normal and stressed conditions.³ CLAR is the Federal Reserve's annual, horizontal, forward-looking program to evaluate the liquidity position and liquidity risk management practices of LISCC firms. SRP is the Federal Reserve's annual horizontal review of the LISCC firms' options to support recovery and progress in removing impediments to orderly resolution.⁴ The OC also oversees ad hoc horizontal initiatives that are developed in support of LISCC priorities.

Additional Elements of the LISCC Supervisory Program

In addition to the groups that are overseen by the OC, the LISCC supervisory program includes two additional bodies. The Quantitative Surveillance (QS) group uses quantitative methods to monitor the financial system for vulnerabilities that could amplify shocks and pose a threat to financial stability. The QS provides the LISCC with reports on financial stability developments, especially those related to the largest financial institutions.

The Systemic Risk Integration Forum is also distinct from the OC and OC Subgroup structure. This group ensures that potential risks to financial stability and related policy actions consistently reflect the insights coming from supervisory activities and analysis and that this supervisory work reflects insights from financial stability research and analysis.

Federal Reserve Banks should distribute this letter to bank holding companies and nonbank financial companies subject to this guidance and to appropriate supervisory staff. Questions regarding this guidance may be directed to Tim Clark, Senior Associate Director, at

³ For additional information, refer to a staff description by Tim P. Clark and Lisa H. Ryu, *CCAR and Stress Testing as Complementary Supervisory Tools*, on the Board's public website at:

<http://www.federalreserve.gov/bankinforeg/ccar-and-stress-testing-as-complementary-supervisory-tools.htm>

⁴ Direct review of resolution plans mandated under Regulation QQ are not included in the SRP annual horizontal review.

(202) 452-5264, or Molly Mahar, Adviser, at (202) 973-7360. In addition, questions may be sent via the Board's public website.⁵

Michael S. Gibson
Director

Cross references to:

- SR letter 12-17/CA 12-14, *Consolidated Supervision Framework for Large Financial Institutions*

⁵ See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>