



**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**

WASHINGTON, D.C. 20551

DIVISION OF BANKING  
SUPERVISION AND REGULATION

**SR 16-11**

**June 8, 2016**

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

**SUBJECT: Supervisory Guidance for Assessing Risk Management at Supervised  
Institutions with Total Consolidated Assets Less than \$50 Billion**

**Applicability:** This supervisory guidance will be used by Federal Reserve examiners and supervisory staff in assessing risk management at financial institutions supervised by the Federal Reserve with total consolidated assets of less than \$50 billion.

This letter sets forth an update to the Federal Reserve's supervisory guidance for assessing risk management at supervised institutions with less than \$50 billion in total consolidated assets.<sup>1</sup> The attached guidance re-affirms the Federal Reserve's long-standing supervisory approach that emphasizes the importance of prudent risk management. The core risk management principles outlined in the attached guidance reflect updates to, and partially supersede, SR letter 95-51, "Rating the Adequacy of Risk Management and Internal Controls at State Member Banks and Bank Holding Companies."<sup>2</sup> In addition to outlining core risk categories and risk management principles, this updated guidance provides clarification on and distinguishes supervisory expectations for the roles and responsibilities of the board of directors and senior management for an institution's risk management. The revisions also extend applicability to savings and loan holding companies with less than \$50 billion in total consolidated assets and U.S. operations of foreign banking organizations with total consolidated U.S. assets less than \$50 billion, which were not previously subject to SR 95- 51.

Consistent with current practice, the Federal Reserve will continue to issue guidance that specifically addresses supervisory expectations for the individual components of risk management (such as internal audit or asset-liability management) or risk categories (such as credit risk or liquidity risk). Federal Reserve examiners should exercise appropriate judgment in applying the guidance to a particular institution, considering its unique characteristics and the nature, scope, and complexity of its activities.

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<sup>1</sup> The risk management expectations outlined in the attached guidance are applicable to all supervised institutions with total consolidated assets less than \$50 billion, including state member banks, bank holding companies, savings and loan holding companies, and foreign banking organizations with consolidated U.S. assets of less than \$50 billion. This letter also applies to insurance and commercial savings and loan holding companies with total consolidated assets less than \$50 billion by providing core risk management guidance. Reserve Bank staff may further consult with Board staff on appropriately tailoring this guidance for these institutions.

<sup>2</sup> SR 95-51 remains applicable to state member banks and bank holding companies with \$50 billion or more in total assets until superseding guidance is issued for these institutions.

With regard to the assignment of supervisory ratings, the updated guidance does not change the risk management rating requirements and ratings definitions from SR letter 95-51. That ratings guidance has been retained in the Federal Reserve's *Commercial Bank Examination Manual*. For additional ratings guidance, refer to the Federal Reserve's *Bank Holding Company Supervision Manual* and the *Examination Manual for U.S. Branches and Agencies of Foreign Banking Organizations*.<sup>3</sup>

Reserve Banks are asked to distribute this letter to the Federal Reserve-supervised financial institutions in their districts, as well as to their supervisory and examination staff. Questions regarding the revised guidance should be addressed to Keith Coughlin, Manager, Regional Banking Organizations, at (202) 452-2056; Anthony Cain, Manager, Community Banking Organizations, at (202) 912-4377; Karen Caplan, Manager, Savings and Loan Holding Companies, at (202) 452-2710; or Vaishali Sack, Manager, Supervisory Program Development and Analysis, at (202) 452-5221. In addition, institutions may send questions via the Board's public website.<sup>4</sup>

Michael S. Gibson  
Director

#### **Attachment**

- *Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion*

#### **Partially Supersedes**

- SR letter 95-51, "Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies"

#### **Cross-references to:**

- SR letter 16-4, "Relying on the Work of the Regulators of the Subsidiary Insured Depository Institution(s) of Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of Less than \$50 Billion"
- SR letter 14-9, "Incorporation of Federal Reserve Policies into the Savings and Loan Holding Company Supervision Program"
- SR letter 13-8, "Extension of the Use of Indicative Ratings for Savings and Loan Holding Companies"
- SR letter 13-1, "Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing"
- SR letter 12-17, "Consolidated Supervision Framework for Large Financial Institutions"
- SR letter 11-11, "Supervision of Savings and Loan Holding Companies (SLHCs)"

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<sup>3</sup> For savings and loan holding companies, see also SR letter 11-11, "Supervision of Savings and Loan Holding Companies (SLHCs);" SR letter 13-8, "Extension of the Use of Indicative Ratings for Savings and Loan Holding Companies;" and SR letter 14-9, "Incorporation of Federal Reserve Policies into the Savings and Loan Holding Company Supervision Program."

<sup>4</sup> See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.

- SR letter 11-7, “Guidance on Model Risk Management”
- SR letter 03-5, “Amended Interagency Guidance on the Internal Audit Function and its Outsourcing”
- *Commercial Bank Examination Manual* – Section A.5020.1, “Overall Conclusions Regarding Condition of the Bank: Uniform Financial Institutions Rating System and the Federal Reserve’s Risk Management Rating”
- *Bank Holding Company Supervision Manual* – Section 4070.0, “Bank Holding Company Rating System”
- *Examination Manual for U.S. Branches and Agencies of Foreign Banking Organizations* – Section 2003.1, “Rating System for U.S. Branches and Agencies of Foreign Banking Organizations”