Supervision and Regulation Report

May 2020

Board of Governors of the Federal Reserve System

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Errata

The Federal Reserve revised this report on March 26, 2021, to reflect corrected data. The revision is listed below.

On page 8, in the Banking System Conditions section, the data for table 1, "Summary of organizations supervised by the Federal Reserve (as of 2019:Q4)," were corrected for total assets ($ trillions) for large and foreign banking organizations from $8.2 to $7.5, large FBOs from $3.4 to $2.8, and small FBOs from $1.1 to $1.0.

Preface

To enhance public transparency and heighten accountability, the Board of Governors of the Federal Reserve System (Board) publishes periodic information about banking conditions and the Federal Reserve's regulatory and supervisory activities, typically in conjunction with testimony before Congress by the Vice Chair for Supervision.

The inaugural report was published in November of 2018. This report is focused on the Federal Reserve's regulatory and supervisory response to the economic and financial stresses resulting from containment measures adopted in response to current public health concerns.

The report consists of three main sections, in addition to a summary of key developments and trends:

- Banking System Conditions provides an overview of trends in the banking sector based on data collected by the Federal Reserve and other federal financial regulatory agencies, as well as market indicators of industry conditions.
- Regulatory Developments provides an overview of the current areas of focus of the Federal Reserve's regulatory policy work, including pending rules.
- Supervisory Developments provides background information on supervisory programs and approaches in light of recent events. The report distinguishes between large financial institutions and regional and community banking organizations, as supervisory approaches and priorities for these institutions frequently differ.

Contents

Summary

One of the principal functions of the Federal Reserve is to regulate and promote the safety, soundness, and efficiency of supervised financial institutions. Recent events have caused tremendous hardship and created unprecedented challenges across the entire economy, significantly affecting households and businesses and the financial institutions that serve them. This unique and evolving situation poses wide difficulties, including temporary business disruptions, layoffs, and other significant challenges. Uncertainty surrounding the magnitude and duration of the shock adds further complexity to the policy response.

The Federal Reserve has taken decisive action to support our nation's economy, maintain the supply of credit to both businesses and households, and cushion the impact of the crisis. These steps were intended to help the economy bridge the sharp, unexpected contraction in activity, while providing time to address the public health concerns. The actions use existing flexibility in the regulatory and supervisory framework and do not roll back the measures that allowed the banking sector to enter this crisis as a source of strength to support the continued flow of credit to households and businesses. The global banking system is more resilient and better placed to sustain financing to the real economy as a result of regulatory reforms enacted, and measures taken by the banking industry, in the aftermath of the 2008 global financial crisis.

Financial institutions play an important role in helping households and businesses respond to the current challenges. The regulatory and supervisory actions taken by the Federal Reserve since March are intended to help financial institutions deploy their resources as efficiently as possible while continuing to support their customers and local economies in a prudent and fair manner. Technical changes to regulatory capital and liquidity rules, for example, made it easier for financial institutions to use the Federal Reserve's emergency facilities and support prudent lending. Some of the other actions taken include

- encouraging financial institutions to make use of the flexibility built into existing financial standards—such as using capital and liquidity buffers—to support continued lending,
- encouraging financial institutions to work prudently with borrowers who may be unable to meet their contractual payment obligations because of the effects of current events,
- refocusing supervisory work toward monitoring and outreach to help financial institutions understand the challenges and risks of the current environment,
- allowing smaller firms to file certain regulatory reports late without penalty in recognition of disrupted operations and likely reduced staff availability, and
- making temporary regulatory changes to support lending to households and businesses.

During the crisis, the Federal Reserve continues to communicate with financial institutions through statements, webinars, frequently asked questions, and other means.[1]

[1] The Federal Reserve maintains a public list of supervisory and regulatory actions available at https://www.federalreserve.gov/supervisory-regulatory-action-response-covid-19.htm. Related supervision and regulation FAQs are available at https://www.federalreserve.gov/covid-19-supervisory-regulatory-faqs.htm.

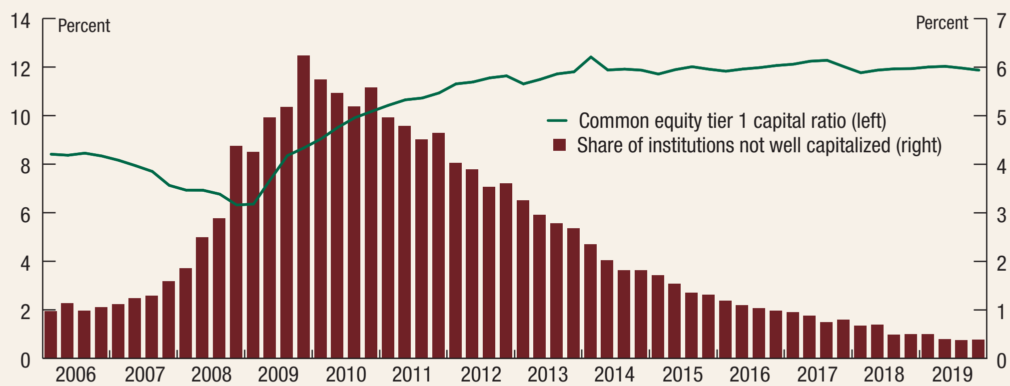
Banking System Conditions

The banking industry came into 2020 in a healthy financial position.

For the past decade, the Federal Reserve has worked intensively to promote a healthy and resilient banking sector. Regulatory and supervisory reforms, and additional measures taken by the banking industry, have improved the resilience of the core of the financial system. Banks are better capitalized and hold more liquidity. The industry is characterized by better capital and liquidity planning and improved risk-management capabilities at banks of all sizes. As a result, the banking industry entered the current crisis well positioned to support continued lending.

Strong capital positions enable institutions to absorb higher credit losses while continuing to lend through times of stress. The aggregate bank common equity tier 1 (CET1) capital ratio ended 2019 at a high level, close to 12 percent.[2] As of year-end 2019, less than one-half of 1 percent of institutions were not well capitalized (figure 1).

Figure 1. Common equity tier 1 capital ratio/share of institutions not well capitalized



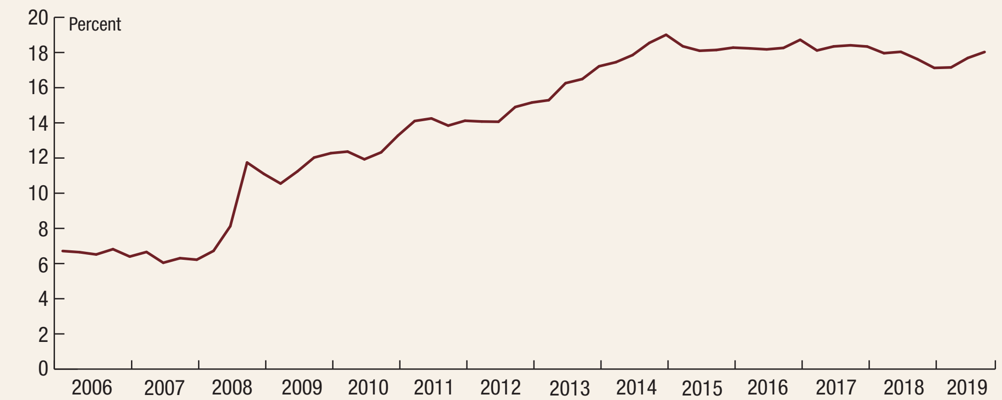
Note: Common equity tier 1 capital ratio is the ratio of tier 1 common equity to risk-weighted assets. See the data appendix for further information.

Source: Call Report and FR Y-9C.

Strong liquidity positions—high levels of cash and securities easily convertible to cash—enable financial institutions to meet their obligations to creditors and other counterparties, while continuing to support households and businesses. The banking industry's aggregate holdings of liquid assets remained high through the end of 2019 (figure 2). Financial institutions had also generated steady profits, positioning them well to support continued lending. Return on equity (ROE) and return on average assets (ROAA) have both seen significant improvement since 2010. The two measures ended 2019 well above their long-run averages (figure 3).

2 The population for most data used in the Banking System Conditions section includes both banks and bank holding companies. See the data appendix for descriptions of data panels.

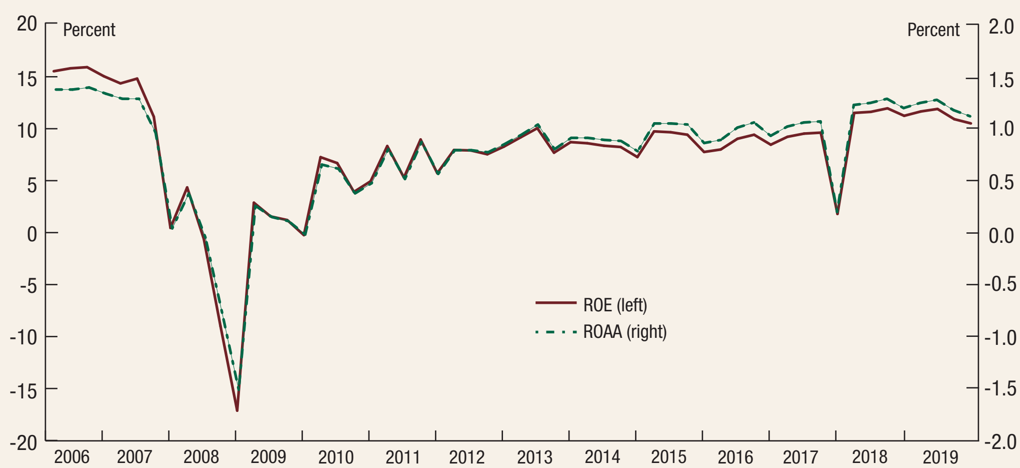
Figure 2. Liquid assets as a share of total assets



Note: Liquid assets are cash plus estimates of securities that qualify as high-quality liquid assets (HQLA) as defined by the liquidity coverage ratio requirement. Data include only firms that filed the FR Y-9C and exclude SLHCs.

Source: FR Y-9C.

Figure 3. Bank profitability



Note: ROAA is net income/quarterly average assets; ROE is net income/average equity capital.

Source: Call Report and FR Y-9C.

Deposit and loan balances have grown significantly.

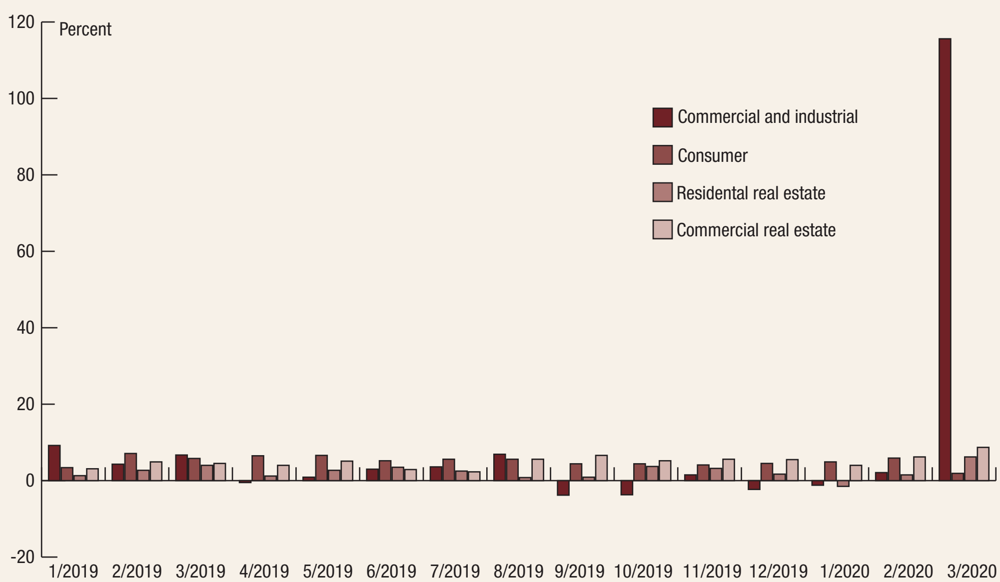
Bank deposits and loans grew at extraordinary rates in March (figure 4). Bank deposits surged as investors favored safe assets and pulled back from other short-term investments such as prime money market funds. Strong growth in bank loans reflected a preference by business borrowers to seek liquidity as they responded to the current economic contraction. A significant portion of the growth in bank loans came from a drawdown of existing loan commitments. Outside of high growth in commercial and industrial loans, lending to other borrowers grew in March but to a much smaller extent (figure 5).

Figure 4. Deposit and loan growth (seasonally adjusted, annual rate)

Note: Growth rate is for annualized month-over-month change. Based on estimated weekly aggregate balance sheets for all commercial banks in the United States. Key identifies bars in order from left to right.

Source: H.8, "Assets and Liabilities of Commercial Banks in the United States."

Figure 5. Loan growth by sector (seasonally adjusted, annual rate)



Note: Growth rate is for annualized month-over-month change. Based on estimated weekly aggregate balance sheets for all commercial banks in the United States. Key identifies bars in order from left to right.

Source: H.8, "Assets and Liabilities of Commercial Banks in the United States."

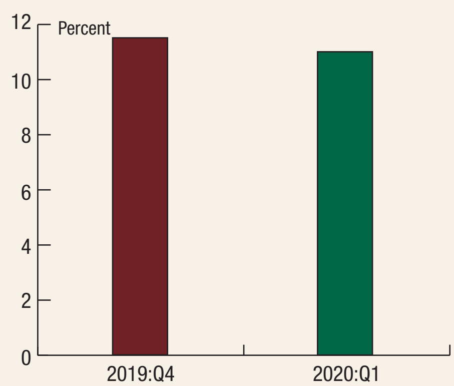
Banks are facing significant operational challenges.

Depending on their size, complexity, and geographic location, banks are facing differing levels of operational challenges as a result of current governmental containment measures. In response to social distancing measures, many banks have reduced or eliminated access to branch lobbies, but continue to transact with customers via drive-through tellers or online and mobile channels. Some have temporarily decreased hours or closed certain branch locations. Many banks have drawn on business continuity plans to allow employees to work from home. Banks with an international presence (either branch or back office operations) have had to navigate local government restrictions on activity.[3]

First quarter earnings declined sharply.

In the first quarter of 2020, large U.S. bank earnings declined sharply. Based on a sample of large banks reporting in April, earnings declined more than 50 percent compared with the first quarter of 2019. Substantially higher loan loss provisions accounted for almost all of the decline, as revenues were roughly flat.[4] Higher provisions were driven both by weaker economic forecasts by banks and by implementation of the new current expected credit loss (CECL) accounting standard.[5] Reserve builds and charge-offs occurred across both corporate and consumer loans, with energy-related credits and credit cards subject to sizable provisioning.

Figure 6. Aggregate common equity tier 1 capital ratio for large bank holding companies (BHCs) (total assets > $100 billion)



Note: Data include all domestic BHCs with assets greater than $100 billion as of 2020:Q1 (JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs Group, Morgan Stanley, Bank of New York Mellon, State Street, U.S. Bancorp, Truist Financial, PNC Financial Services Group, Capital One Financial, Northern Trust, Ally Financial, American Express, Citizens Financial Group, Discover Financial Services, Fifth Third Bancorp, Huntington Bancshares, KeyCorp, M&T Bank, and Regions Financial).

Source: Firms' earnings releases for 2020:Q1 data. FR Y-9C for 2019:Q4 data.

Capital levels declined, driven primarily by increases in risk-weighted assets.

Most large U.S. banks reported slightly lower CET1 capital ratios for the first quarter of 2020 but still significantly exceeded regulatory requirements (figure 6). For the 22 domestic bank holding companies with assets greater than $100 billion, this ratio in aggregate declined from 11.5 percent at the end of the fourth quarter of 2019 to 11.0 percent at the end of the first quarter of 2020. Strong growth in risk-weighted assets, the denominator of the CET1 capital ratio, rather than reductions in the actual amount of capital, was the main driver of lower capital ratios. The increase in risk-weighted assets was a result of increased lending in the first quarter. Large firms have suspended share buybacks in order to preserve capital.

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3 See, e.g., Financial Stability Board (FSB), "FSB Members Take Action to Ensure Continuity of Critical Financial Services Functions," news release, April 2, 2020, https://www.fsb.org/2020/04/fsb-members-take-action-to-ensure-continuity-of-critical-financial-services-functions/.

4 Loan loss provision is an expense item in the income statement to cover potential loan losses.

5 CECL requires firms to account for future expected losses, as opposed to the previous incurred loss methodology, which required provisioning only when losses materialized.

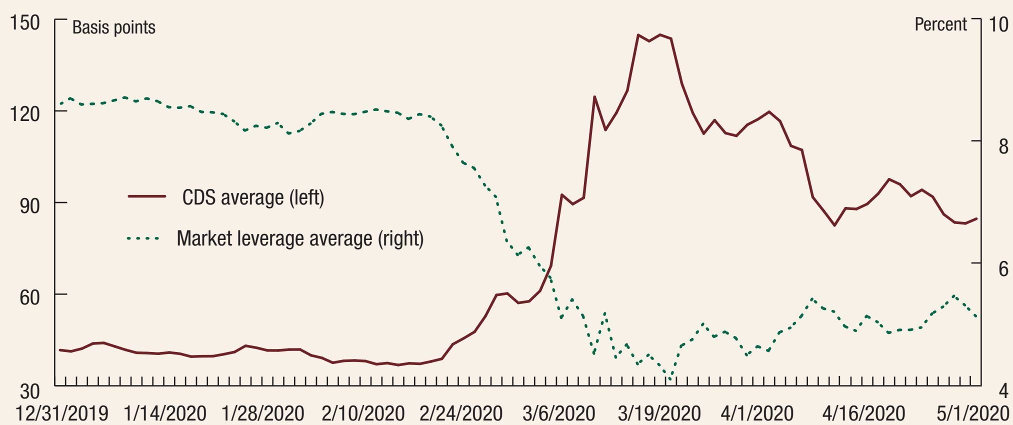
Strains in funding markets have eased.

Strains in bank funding markets have eased somewhat from their stressed condition in March. Banks are increasingly able to access short-term funding markets at longer terms of six months and beyond, an improvement from late March when short-term markets were largely closed at maturities longer than one week. Banks issued substantial amounts of long-term debt throughout April. Large banks have generally remained above their liquidity coverage ratio and internal liquidity stress test requirements. While bank loans have grown sharply, deposits have grown just as rapidly, supporting banks' healthy liquidity positions.

Key market indicators highlight the extent of challenges posed by the current crisis.

Market-based indicators of bank health, such as the market leverage ratio and credit default swap (CDS) spreads, started to deteriorate in the latter half of February as investors began to price in the impact of the potential economic contraction. The market leverage ratio fell from mid-February into the latter half of March, before recovering somewhat.[6] CDS spreads also deteriorated, climbing from mid-February through the first half of March, before falling back again somewhat (figure 7).[7] Still, neither indicator reached the extremes of the 2008 financial crisis (figure 8). This may reflect the belief by investors that banks are more resilient and better positioned today than during the 2008 financial crisis.

Figure 7. Average credit default swap (CDS) spread and market leverage ratio, 2020 (daily)



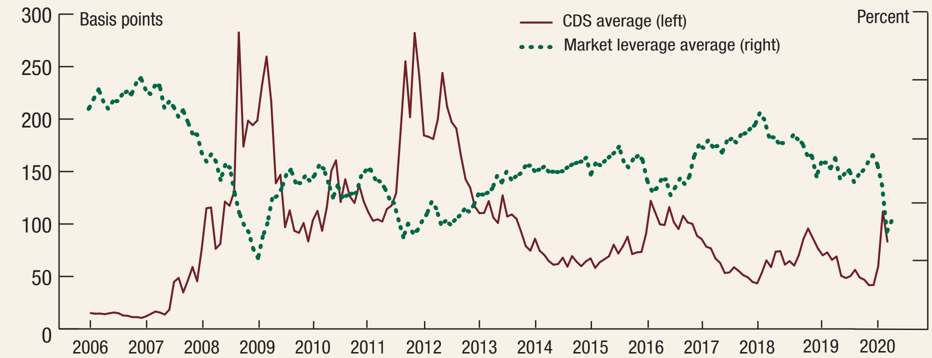
Note: The market leverage ratio is the ratio of market value of equity to market value of equity plus total liabilities. Averages are calculated from available observations for the eight U.S. and three FBO LISCC firms (U.S.: Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street, and Wells Fargo; FBO: Barclays, Credit Suisse, and Deutsche Bank) and UBS.

Source: Bloomberg.

6 The market leverage ratio is a market-based measure of a bank's capital position, where a higher ratio indicates greater investor confidence in the financial strength of the bank.

7 CDS spreads are a measure of market perceptions of bank risk, where small spreads reflect higher investor confidence in the financial health of banks.

Figure 8. Average credit default swap (CDS) spread and market leverage ratio, 2006 to 2020 (month-end)



Note: The market leverage ratio is the ratio of market value of equity to market value of equity plus total liabilities. Averages are calculated from available observations for the eight U.S. and three FBO LISCC firms (U.S.: Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street, and Wells Fargo; FBO: Barclays, Credit Suisse, and Deutsche Bank) and UBS.

Source: Bloomberg.

Table 1. Summary of organizations supervised by the Federal Reserve (as of 2019:Q4)

Portfolio	Definition	Number of institutions	Total assets ($ trillions)
Large Institution Supervision Coordinating Committee (LISCC)	Eight U.S. global systematically important banks (G-SIBs) and four foreign banking organizations	12*	12.4
State member banks (SMBs)	SMBs within LISCC organizations	5	0.8
Large and foreign banking organizations (LFBOs)	Non-LISCC U.S. firms with total assets $100 billion and greater and non-LISCC FBOs	173	7.5
Large banking organizations (LBOs)	Non-LISCC U.S. firms with total assets $100 billion and greater	16	3.6
Large FBOs	Non-LISCC FBOs with combined U.S. assets $50 billion and greater	14	2.8
Small FBOs	FBOs with combined U.S. assets less than $50 billion	143	1.0
State member banks	SMBs within LFBO organizations	6	0.6
Regional banking organizations (RBOs)	Total assets between $10 billion and $100 billion	88	2.2
State member banks	SMBs within RBO organizations	41	0.7
Community banking organizations (CBOs)	Total assets less than $10 billion	3,815**	2.4
State member banks	SMBs within CBO organizations	702	0.5
Insurance and commercial savings and loan holding companies (SLHCs)	SLHCs primarily engaged in insurance or commercial activities	8 insurance 4 commercial	1.1

* In March 2020, the Federal Reserve announced that UBS will now be supervised as part of the LFBO portfolio. This change will be fully reflected in the next iteration of this report.

** Includes 3,754 holding companies and 61 state member banks that do not have holding companies.

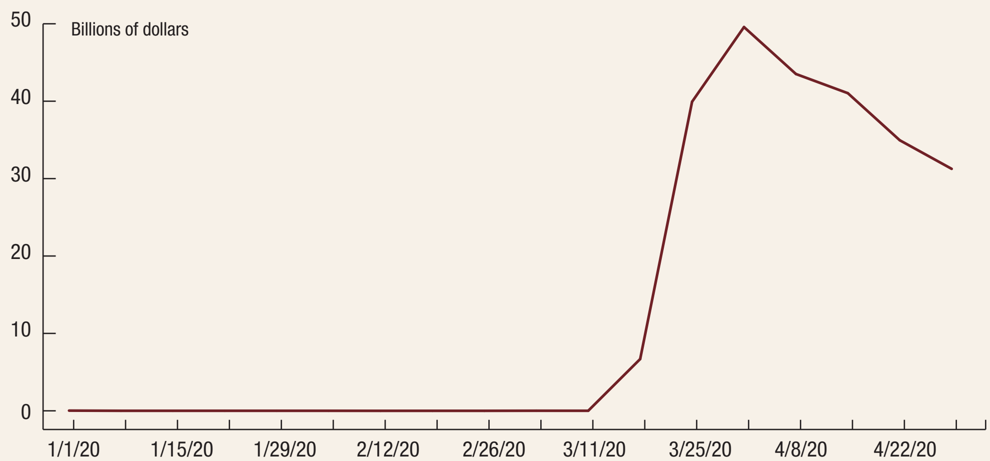
Source: Call Report, FFIEC 002, FR 2320, FR Y-7Q, FR Y-9C, FR Y-9SP, and S&P Global Market Intelligence.

Box 1. Changes to the Discount Window

The Federal Reserve's program for lending to depository institutions (DIs), commonly known as the "discount window," plays an important role in supporting the liquidity and stability of the banking system. By providing ready access to funding, the discount window helps DIs manage their liquidity risks efficiently and avoid actions that have negative consequences for their customers, such as withdrawing credit during times of market stress.

In order to encourage DIs to use the discount window to meet demands for credit from households and businesses, the Federal Reserve announced on March 15 that it would lower the primary credit rate by 150 basis points to 25 basis points and allow DIs to borrow from the discount window for as long as 90 days.[1] The Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) supported these actions by issuing an interagency statement encouraging banks to use the discount window. A statement on March 19 outlined the notable increase in discount window borrowing that followed and expressed encouragement that banks were willing to use these borrowings as a source of funding.[2] Bank borrowing from the discount window has increased substantially following the changes detailed above (figure A).[3]

Figure A. Total discount window borrowings (weekly average daily balance)



Source: H.4.1, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks."

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1 Board of Governors of the Federal Reserve System, "Federal Reserve Actions to Support the Flow of Credit to Households and Businesses," news release, March 15, 2020, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm.

2 Board of Governors of the Federal Reserve System, "Federal Reserve Board Encouraged by Increase in Discount Window Borrowing to Support the Flow of Credit to Households and Businesses," news release, March 19, 2020, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200319c.htm.

3 See H.4.1 releases, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks" at https://www.federalreserve.gov/releases/h41/.

Regulatory Developments

In response to the current crisis, the Federal Reserve has issued a number of rules and statements to support the flow of credit and liquidity and ease operational burden, including

- **Encouraging use of capital and liquidity buffers**. The Federal Reserve and the other federal banking agencies issued a statement encouraging banking organizations to use their capital and liquidity buffers to serve households and businesses, and additional frequently asked questions to clarify the statement. The federal banking agencies also issued interim final rules to ensure automatic capital distribution restrictions phase in gradually, as intended.
- **Delaying the impact of the CECL accounting standard in capital rules**. To ease operational burden, the Federal Reserve Board and the other federal banking agencies issued a CECL final rule to allow firms to mitigate the estimated impact of the CECL accounting methodology on capital for up to two years. Following the enactment of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Federal Reserve Board and the other federal banking agencies issued a joint statement to clarify the interaction between the CECL interim final rule and the CARES Act for purposes of regulatory capital requirements.
- **Temporarily adjusting supplementary leverage ratio requirements for holding companies.** On a temporary basis, the Federal Reserve Board adopted an interim final rule to exclude U.S. Treasury securities and deposits at Federal Reserve Banks from the supplementary leverage ratio requirement for holding companies to ease strains in the Treasury market resulting from the current crisis.
- **Encouraging firms to participate in Federal Reserve liquidity facilities.** The federal banking agencies adopted an interim final rule to neutralize the regulatory capital effects of participating in the Money Market Mutual Fund Liquidity Facility (MMLF) and Paycheck Protection Program Liquidity Facility (PPPLF) to encourage participation in the facilities.
- **Allowing early adoption of counterparty credit risk measures in the capital rules.** To improve market operations and smooth disruptions, the federal banking agencies allowed for early adoption by certain banking organizations of a new methodology for measuring counterparty credit risk in derivative contracts.
- **Temporarily reducing the community bank leverage ratio requirement.** Consistent with

Box 2. Crisis-Related Outreach by the Federal Reserve

Since the end of March, the Federal Reserve has used a variety of outreach mechanisms to share information about the System's response to the current crisis. The topics of the outreach were

- Federal Reserve Response to COVID-19
- Federal Economic Impact Payments and Ordering Cash in a COVID-19 Environment: Information Bankers Need to Know
- The Federal Reserve's Efforts to Provide Term Financing to Facilitate Lending to Small Businesses Via the Small Business Administration Paycheck Protection Program
- COVID-19 Update: New Transition Provisions to Delay the Impact of CECL on Regulatory Capital
- Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus

the CARES Act, the banking agencies adopted two interim final rules to provide temporary relief to community banking organizations. The two rules modify the community bank leverage ratio framework so that: a banking organization with a leverage ratio of 8 percent or greater that meets certain other criteria may temporarily elect to use the community bank leverage ratio framework; and community banking organizations will have until January 1, 2022, before the community bank leverage ratio is re-established at 9 percent.

- **Removing the six transfer limit on savings deposits**. To improve the access that consumers have to their funds and to simplify account administration for banks, the Board removed the six-per-month limit on convenient transfers from the "savings deposit" definition in Regulation D.

For a comprehensive list of Federal Reserve or interagency rulemakings and statements related to the current crisis, see table 2.

Table 2. Federal Reserve or interagency rulemakings/statements (COVID-19 related)

Date issued	Rule/guidance
3/9/2020	Agencies encourage financial institutions to meet financial needs of customers and members affected by coronavirus: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200309a.htm
3/10/2020	SR 20-3 / CA 20-2: Interagency Statement on Pandemic Planning: https://www.federalreserve.gov/supervisionreg/srletters/SR2003.htm
3/13/2020	SR 20-4 / CA 20-3: Supervisory Practices Regarding Financial Institutions Affected by Coronavirus: https://www.federalreserve.gov/supervisionreg/srletters/SR2004.htm
3/16/2020	Federal banking agencies encourage banks to use Federal Reserve discount window: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200316a.htm
3/17/2020	Federal banking agencies provide banks additional flexibility to support households and businesses: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200317a.htm SR 20-5: Questions and Answers (Q&As) on Statement Regarding the Use of Capital and Liquidity Buffers (March 19, 2020): https://www.federalreserve.gov/supervisionreg/srletters/sr2005.htm
3/22/2020	Agencies provide additional information to encourage financial institutions to work with borrowers affected by COVID-19: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200322a.htm
3/23/2020	Federal Reserve Board announces technical change to support the U.S. economy and allow banks to continue lending to creditworthy households and businesses: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200323a.htm
3/24/2020	Federal Reserve provides additional information to financial institutions on how its supervisory approach is adjusting in light of the coronavirus: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200324a.htm
3/26/2020	Federal Reserve offers regulatory reporting relief to small financial institutions affected by the coronavirus: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200326b.htm Federal agencies encourage banks, savings associations, and credit unions to offer responsible small-dollar loans to consumers and small businesses affected by COVID-19: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200326a.htm
3/27/2020	SR 20-6: Identification of Essential Critical Infrastructure Workers in the Financial Services Sector During the COVID-19 Response: https://www.federalreserve.gov/supervisionreg/srletters/SR2006.htm Agencies announce two actions to support lending to households and businesses: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200327a.htm
3/30/2020	SR 20-7 / CA 20-5: Joint Statement Encouraging Responsible Small-Dollar Lending in Response to COVID-19: https://www.federalreserve.gov/supervisionreg/srletters/SR2007.htm

(continued)

Table 2.—*continued*

Date issued	Rule/guidance
3/31/2020	SR 20-9: Joint Statement on Interaction of the Regulatory Capital Rule: Revised Transition of the CECL Methodology for Allowances with Section 4014 of the Coronavirus Aid, Relief, and Economic Security Act: https://www.federalreserve.gov/supervisionreg/srletters/SR2009.htm Federal Reserve Board announces it will delay by six months the effective date for its revised control framework: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200331a.htm
4/1/2020	Federal Reserve Board announces temporary change to its supplementary leverage ratio rule to ease strains in the Treasury market resulting from the coronavirus and increase banking organizations' ability to provide credit to households and businesses: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200401a.htm
4/2/2020	Agencies will consider comments on Volcker rule modifications following expiration of comment period: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200402a.htm
4/3/2020	Federal agencies encourage mortgage servicers to work with struggling homeowners affected by COVID-19: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200403a.htm
4/6/2020	SR 20-10: Small Business Administration (SBA) and Treasury Small Business Loan Programs: https://www.federalreserve.gov/supervisionreg/srletters/SR2010.htm Agencies announce changes to the community bank leverage ratio: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200406a.htm
4/7/2020	Agencies issue revised interagency statement on loan modifications by financial institutions working with customers affected by the coronavirus: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200407a.htm
4/8/2020	Federal Reserve Board announces, due to the extraordinary disruptions from the coronavirus, that it will temporarily and narrowly modify the growth restriction on Wells Fargo so that it can provide additional support to small businesses: https://www.federalreserve.gov/newsevents/pressreleases/enforcement20200408a.htm
4/9/2020	Federal bank regulators issue interim final rule for Paycheck Protection Program Facility: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200409a.htm Federal Reserve takes additional actions to provide up to $2.3 trillion in loans to support the economy: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm
4/14/2020	Federal banking agencies to defer appraisals and evaluations for real estate transactions affected by COVID-19: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200414a.htm
4/24/2020	Federal Reserve Board announces interim final rule to delete the six-per-month limit on convenient transfers from the "savings deposit" definition in Regulation D: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200424a.htm
4/27/2020	Agencies extend comment period on updates to resolution plan guidance for large foreign banks: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200427a.htm
4/30/2020	Federal Reserve Board announces the public comment period has been extended through June 4, 2020, for the notice by Morgan Stanley of New York, New York, to acquire E*TRADE Financial Corporation of Arlington, Virginia: https://www.federalreserve.gov/newsevents/pressreleases/orders20200430a.htm
5/1/2020	Federal Reserve Board finalizes rule to extend by 18 months the initial compliance dates for certain parts of its single-counterparty credit limit rule: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200501a.htm
5/5/2020	Federal bank regulatory agencies modify liquidity coverage ratio for banks participating in Money Market Mutual Fund Liquidity Facility and Paycheck Protection Program Liquidity Facility: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200505a.htm
5/6/2020	Agencies extend two resolution plan deadlines: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200506a.htm

Table 3 provides a comprehensive list of Federal Reserve or interagency rulemakings/statements issued over the past 12 months other than those related to the current crisis.

Table 3. Federal Reserve or interagency rulemakings/statements (proposed and final)

Date issued	Rule/guidance
5/9/2019	Federal Reserve approves final rule to repeal regulations that incorporated the Secure and Fair Enforcement for Mortgage Licensing Act. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190509a.htm
5/30/2019	Agencies issue final rule regarding the treatment of certain municipal obligations as high-quality liquid assets. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190530a.htm
6/17/2019	Agencies issue final rule to streamline regulatory reporting requirements and commit to further review of reporting burdens for small institutions. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190617a.htm
6/21/2019	Federal Reserve Board releases results of supervisory bank stress tests. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190621a.htm
6/27/2019	Federal Reserve releases results of Comprehensive Capital Analysis and Review (CCAR). Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190627a.htm
7/9/2019	Agencies issue final rule to simplify regulatory capital rules. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190709a.htm
7/12/2019	Agencies propose rule on the capital treatment of land development loans. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190712a.htm
7/17/2019	Agencies announce coordination of reviews for certain foreign funds under the Volcker rule. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190717a.htm
7/22/2019	Agencies and FinCEN improve transparency of risk-focused Bank Secrecy Act/anti-money-laundering supervision. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190722a.htm
7/26/2019	Agencies complete resolution plan evaluations and extend deadline for certain firms. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190726a.htm
9/27/2019	Agencies issue final rule to exempt residential real estate transactions of $400,000 or less from appraisal requirements. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190927a.htm
10/2/2019	Agencies issue final rule to update management interlock rules. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191002a.htm
10/8/2019	Agencies finalize changes to simplify the Volcker rule. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191008a.htm

(continued)

Table 3.—*continued*

Date issued	Rule/guidance
10/10/2019	Federal Reserve Board finalizes rules that tailor its regulations for domestic and foreign banks to more closely match their risk profiles. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191010a.htm
10/17/2019	Agencies seek comment on proposed interagency policy statement on allowances for credit losses and proposed interagency guidance on credit risk review systems. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191017a.htm
10/18/2019	Agencies request information on use and impact of CAMELS ratings. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191018a.htm
10/28/2019	Agencies finalize changes to resolution plan requirements as part of EGRRCPA. The rules maintain requirements for the largest firms and reduce requirements for smaller firms. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191028b.htm
10/28/2019	Agencies invite comment on proposal to amend swap margin rules. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191028a.htm
10/29/2019	Agencies issue final rule to simplify capital calculation for community banks (community bank leverage ratio). Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191029a.htm
11/08/2019	Board invites public comment on proposal to extend by 18 months initial compliance dates for foreign banks subject to its single-counterparty credit limit rule. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191108a.htm
11/19/2019	Agencies finalize changes to supplementary leverage ratio as required by EGRRCPA. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191119a.htm
11/19/2019	Agencies finalize rule to update calculation of counterparty credit risk for derivative contracts. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191119c.htm
12/3/2019	Agencies clarify requirements for providing financial services to hemp-related businesses. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191203a.htm
12/13/2019	Federal Reserve Board announces it will extend until January 22, 2020, comment period for its proposal to establish risk-based capital requirements for certain insurance companies supervised by the Board. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191213a.htm
12/17/2019	Agencies find no deficiencies in resolution plans from the largest banks; find shortcomings for several firms. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191217a.htm
12/20/2019	Agencies extend deadline on request for information on CAMELS rating system. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191220a.htm

(continued)

Table 3.—*continued*

Date issued	Rule/guidance
12/20/2019	Agencies extend comment period for proposed rule to amend swap margin rules. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191220b.htm
1/30/2020	Federal Reserve finalizes rule to simplify and increase the transparency of the Board's rules for determining control of a banking organization. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130a.htm
1/30/2020	Agencies propose changes to modify Volcker rule "covered funds" restrictions. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130b.htm
1/31/2020	Shared National Credit Review finds risk remains elevated in leveraged loans. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200131a.htm
3/4/2020	Federal Reserve Board approves rule to simplify its capital rules for large banks, preserving the strong capital requirements already in place. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200304a.htm

Supervisory Developments

This section provides an overview of key developments related to the Federal Reserve's prudential supervision of financial institutions, including large financial institutions (LISCC firms and LFBO firms) as well as regional and community banking organizations.

The Federal Reserve also has responsibility for certain laws and regulations relating to consumer protection and community reinvestment. The scope of the Federal Reserve's supervisory jurisdiction varies based on the particular law or regulation and on the asset size of the state member bank. The Federal Reserve's consumer-focused supervisory work is designed to promote a fair and transparent financial services marketplace and to ensure that the financial institutions under the Federal Reserve's jurisdiction comply with applicable federal consumer protection laws and regulations.

More information about the Federal Reserve's consumer-focused supervisory program can be found in the Federal Reserve's *105th Annual Report 2018*.[8] The Federal Reserve also publishes the *Consumer Compliance Supervision Bulletin*, which shares information about examiners' supervisory observations and other noteworthy developments related to consumer protection.[9] This report additionally addresses the Federal Reserve Board's recent statements related to consumer protection and compliance within the above sections.

Federal Reserve supervision is responding quickly to the current crisis.

The Federal Reserve has the task of ensuring a safe, sound, and efficient banking system as well as a fair and transparent consumer financial services marketplace that supports the growth and financial stability of the U.S. economy. With the rapid developments and challenges posed by the containment measures, Federal Reserve supervisors are focused in the short-term on supporting financial institutions as they meet the challenges of COVID-19 containment measures for their customers and local communities. In many ways, the short-term supervisory response to the containment measures echoes the response to a natural disaster, such as a hurricane or flood, except that the response has been nationwide. While providing support, examiners will continue to ensure that banks remain safe and sound and financially able to support the economic recovery.

The Federal Reserve and the other federal banking agencies have encouraged banks to work prudently with borrowers affected by COVID-19 containment measures. This can mean, for example, working with a customer who has a car loan but has been furloughed temporarily because of the containment measures. The *Revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus* issued on April 7, 2020, explains that agencies will not criticize institutions for working with borrowers in a safe and sound manner.[10]

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[8] See *105th Annual Report 2018*, section 5, "Consumer and Community Affairs," at https://www.federalreserve.gov/publications/annual-report.htm.

[9] See *The Consumer Compliance Supervision Bulletin* at https://www.federalreserve.gov/publications/2019-december-consumer-compliance-supervision-bulletin.htm.

[10] See "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)," news release, April 7, 2020, https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200407a1.pdf.

Additionally, this statement clarifies that the agencies view prudent loan modification programs offered to bank customers affected by COVID-19 as positive and proactive actions that can manage or mitigate adverse impacts on borrowers, and lead to improved loan performance and reduced credit risk. This statement also explains that financial institutions generally do not need to categorize COVID-19-related modifications as troubled debt restructurings.[11] Previous supervisory guidance stating that banks should accurately identify credit risk through the assignment of appropriate loan risk ratings continues to be applicable.[12]

In response to the current crisis, the Federal Reserve has temporarily adjusted its supervisory approach to focus on monitoring. Monitoring efforts concentrate on understanding the challenges and risks that the current environment presents for firms, including their customers, staff, operations, and financial condition and the firms' response to these challenges. In these efforts, Federal Reserve supervisors are coordinating with relevant stakeholders, including primary financial regulatory agencies.

The Federal Reserve also temporarily modified its practices for examinations and inspections. The Federal Reserve temporarily ceased most regular examination activity for institutions with less than $100 billion in total consolidated assets, except where the examination work is critical to safety and soundness or consumer protection, or is required to address an urgent or immediate need. The approach to examinations for these firms is currently being reassessed.

For the health and safety of both examiners and bank employees, all examination activities are being conducted off-site until normal operations are resumed at supervised firms and at Federal Reserve Banks. The Federal Reserve also extended the deadlines for remediating most noncritical existing supervisory findings by 90 days.[13] The goal of these temporary changes is to help financial institutions deploy their resources as efficiently as possible and continue to support their customers and local economies in a prudent and fair manner while meeting current challenges.

Before the current crisis, the Federal Reserve had launched the 2020 supervisory stress test. The 2020 supervisory stress test will evaluate the resiliency of bank capital, based on bank exposure data as of the end of 2019, to a severe economic and financial stress that was published in early February 2020. Given the containment measures, the current plan is to conduct the 2020 supervisory stress test as originally announced—to maintain the established process under the Federal Reserve's stress test and capital rules—and also conduct a series of sensitivity analyses using alternative scenarios and certain adjustments to portfolios to credibly reflect current economic and banking conditions.

Large Financial Institutions

This section discusses adjustments to the supervision of firms with assets greater than $100 billion, which includes firms in the LISCC and LFBO portfolios.

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11 Specifically, no further TDR analysis is required for a loan modification if the modification is in response to the national emergency, the borrower was current on payments at the time the modification program is implemented, and the modification is short-term (e.g., six months). Additional guidance on troubled debt restructurings can be found in SR 13-17, available at https://www.federalreserve.gov/supervisionreg/srletters/sr1317.htm.

12 For example, SR 06-17, Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL), available at https://www.federalreserve.gov/boarddocs/srletters/2006/SR0617a1.pdf.

13 Supervisory findings include matters requiring attention, matters requiring immediate attention, and provisions in formal or informal enforcement actions.

Frequent monitoring at large firms enables an understanding of the impact of current containment measures on the financial condition of firms and the financial system.

At large financial institutions, the Federal Reserve's monitoring efforts involve review of relevant data and regular discussions between examiners and firm management regarding risks in areas significant to the current environment, such as operations and technology, liquidity, capital, and asset quality. For example, to monitor bank liquidity planning and positions, examiners analyze frequent regulatory reports (e.g., daily liquidity reports for LISCC firms) and communicate often with firms, with conversations occurring daily, bi-weekly, or weekly, depending on the severity of the stress.

In addition to increased information gathering at supervised institutions, Federal Reserve staff also monitor financial market developments and the impact of current containment measures on firms. The Federal Reserve is coordinating these efforts with other financial authorities, including the OCC, FDIC, U.S. Securities and Exchange Commission (SEC), state agencies, and foreign supervisors, as appropriate.

In response to current containment measures, the Federal Reserve has deferred or cancelled non-critical examinations at large financial institutions.

Consistent with the March 24 public statement issued by the Federal Reserve on how its supervisory approach has been adjusted, for large financial institutions, the Federal Reserve reviewed planned examination activity to identify examinations that were appropriate to be deferred given burden on supervised firms from the effects of the current crisis. A significant portion of examinations planned for the second quarter of 2020 were deferred. Examinations that are important for understanding the safety and soundness of the firm, consumer protection, or financial stability continue. For the remainder of the year, examination activity will reflect operating conditions and will continue to target areas of heightened risk due to containment measure-related developments as well as known deficiencies that existed prior to the current crisis.

The Federal Reserve is further modifying its approach to the execution of supervisory activities for large financial institutions. First, examinations that were already in progress are being completed off-site. Second, for new examinations, Federal Reserve examiners are carefully scoping activities to focus on risks that are elevated due to the current environment. For example, for the Comprehensive Capital Analysis and Review (CCAR) and horizontal capital review exercises, firms' capital plans are being used to monitor how firms are managing their capital in the current environment, planning for contingencies, and positioning themselves to continue lending to creditworthy households and businesses.

Regional and Community Banking Organizations

This section of the report discusses adjustments to the supervision of firms with assets less than $100 billion, which includes CBOs, which have less than $10 billion in total assets, and RBOs, which have total assets between $10 billion and $100 billion.

In response to current containment measures, the Federal Reserve has shifted supervisory activities for CBOs and RBOs from examinations to off-site monitoring.

For supervised institutions with less than $100 billion in total consolidated assets, the Federal Reserve suspended all regular examination activity, beginning in late March, except where exam work is critical to safety and soundness or consumer protection or is required to address an urgent supervisory concern. The approach to examinations for these firms is currently being reassessed.

After suspending exams in March, the Federal Reserve shifted to off-site monitoring activities at CBOs and RBOs. The Federal Reserve monitors supervised CBOs and RBOs based on each firm's size, risk, and complexity. Supervisory emphasis is placed on larger state member banks, CBOs with less-than-satisfactory supervisory ratings, complex holding companies with significant lending activities or risk management functions within the holding company, and higher-risk firms of all sizes.

Off-site monitoring activities include regular contact with bank management and other regulators to provide a better understanding of market conditions. Monitoring activities take place weekly for RBOs and periodically for CBOs. Supervisory areas of focus include bank business continuity planning, operations, credit, liquidity including deposit flows, and work-with-your-borrower programs. The Federal Reserve is working closely with state and federal banking agencies to coordinate supervision and off-site monitoring efforts, identify emerging issues, and discuss industry concerns and trends.

Appendix A: Data Appendix

Definition of Data Sources

The Supervision and Regulation Report includes data on institutions supervised or not supervised by the Federal Reserve System. This appendix details the sources for these data.

FFIEC Call Reports

The FFIEC Consolidated Reports of Condition and Income, also known as the Call Report, is a periodic report that is required to be completed by every national bank, state member bank, insured nonmember bank, and savings association as of the last day of each calendar quarter. The details required to be reported depend on the size of the institution, the nature of the institution's activities, and whether or not it has foreign offices. Call Report data are a widely used source of timely and accurate financial data regarding a bank's financial condition and the results of its operations. The data collected from the Call Report are used to monitor the condition, performance, and risk profiles of the institutions as individuals and as an industry.

FR Y-9C

The Consolidated Financial Statements for Holding Companies, also known as the FR Y-9C report, collects basic financial data from domestic BHCs, SLHCs, U.S. intermediate holding companies (IHCs), and securities holding companies (SHCs). Respondent burden reduction initiatives led to the asset-sized threshold change from \$500 million to \$1 billion, and from \$1 billion to \$3 billion effective March 2015 and September 2018, respectively. In addition, BHCs, SLHCs, IHCs, and SHCs meeting certain criteria may be required to file this report, regardless of size. However, when such BHCs, SLHCs, IHCs, or SHCs own or control, or are owned or controlled by, other BHCs, SLHCs, IHCs, or SHCs, only top-tier holding companies must file this report for the consolidated holding company organization. The information contained in the report is as of the last day of each calendar quarter.

H.8—Assets and Liabilities of Commercial Banks in the United States

The H.8 statistical release provides an estimated weekly aggregate balance sheet for all commercial banks in the United States. The H.8 release is primarily based on data that are reported weekly by a sample of approximately 875 domestically chartered banks and foreign-related institutions. Data for domestically chartered commercial banks and foreign-related institutions that do not report weekly are estimated at a weekly frequency based on quarterly Call Report data.

H.4.1—Factors Affecting Reserve Balances

The H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," presents a balance sheet for each Federal Reserve Bank, a consolidated balance sheet for all 12 Reserve Banks, an associated statement that lists the factors affecting reserve balances of DIs, and several other tables presenting information on the assets, liabilities, and commitments of the Federal Reserve Banks.

Notes on Specific Data

Top Holder

Figure 1 and figure 3 use top-holder data. This population comprises top-tier Call Report (NAT, NMB, and SMB) filers and top-tier Y-9C filers. In instances where a top-tier holding company does not file the Y-9C, we combine financial data of subsidiary banks to approximate the consolidated financial data of the holding company. Because of data limitations, all FBOs, SLHCs, and subsidiaries of top-tier FBOs and SLHCs are excluded from the top-holder population.

Commercial Real Estate Loans

The sum of construction, land development, and other land loans; loans secured by farmland; loans secured by multifamily residential properties; and loans secured by nonfarm nonresidential properties.

Consumer Loans

Consumer loans include credit cards, other revolving credit lines, automobile loans, and other consumer loans (includes single payment and installment loans other than automobile loans, and all student loans).

Well Capitalized Metric

Simplified for the purposes of this publication, firms that met or exceeded the "well capitalized" category according to the FDIC Prompt Corrective Action (PCA) guidelines as they existed in each quarter are considered well capitalized (table A.1). While this standard applies to insured depositories, it is used as a proxy for holding companies in figure 1.

Table A.1. Prompt Corrective Action (PCA) capital ratio categories

PCA category	Total RBC ratio	Tier 1 RBC ratio	Common equity tier 1 RBC ratio	Tier 1 leverage ratio
Well capitalized	10	8	6.5	5
Adequately capitalized	8	6	4.5	4
Undercapitalized	<8	<6	<4.5	<4
Significantly undercapitalized	<6	<4	<3	<3
Critically undercapitalized	Tangible equity/total assets ≤2 percent			

Common Equity Tier 1

The Federal Reserve's evaluation of a firm's common equity capital was initially measured using a tier 1 common capital ratio but now is evaluated using a common equity tier 1 (CET1) capital ratio, which was introduced into the regulatory capital framework with the implementation of Basel III. From 2006 through 2013, tier 1 common was used to measure common equity capital for all firms. In 2014, both tier 1 common capital (for non-advanced approaches firms) and CET1 capital (for advanced approaches firms) were used. From 2015 to present, CET1 capital has been used for all firms.

CET1 capital ratio is defined as CET1 capital as a percent of risk-weighted assets. Advanced approaches institutions are required to report risk-weighted assets using an internal modelbased approach and a standardized approach. We take the higher value of the two risk-weighted assets calculations, per requirements under the Collins Amendment.

Credit Default Swap (CDS) Spread

The five-year CDS spread is the premium payment expressed as a proportion of the notional value of the debt that is being insured against default (typically $10 million in senior debt) in basis points. Data are based on daily polls of individual broker–dealers worldwide. Note that these broker quotes are typically not transaction prices. Data are provided for the eight U.S. and three FBO LISCC firms (U.S.: Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street, and Wells Fargo; FBO: Barclays, Credit Suisse, Deutsche Bank) and UBS.

Market Leverage

The market leverage ratio—defined as the ratio of the firm's market capitalization to the sum of market capitalization and the book value of liabilities—can be considered a market-based measure of firm capital (expressed in percentage points). Data are provided for the eight U.S. and three FBO LISCC firms (U.S.: Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street, and Wells Fargo; FBO: Barclays, Credit Suisse, Deutsche Bank) and UBS.

Appendix B: Abbreviations

ALLL	allowance for loan and lease losses
BHC	bank holding company
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CBO	community banking organization
CCAR	Comprehensive Capital Analysis and Review
CDS	credit default swap
CECL	current expected credit loss
CET1	common equity tier 1
CRE	commercial real estate
DI	depository institution
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
FBO	foreign banking organization
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
FSB	Financial Stability Board
G-SIB	global systemically important bank
IHC	intermediate holding company
LBO	large banking organization
LFBO	large and foreign banking organization
LISCC	Large Institution Supervision Coordinating Committee
MMLF	Money Market Mutual Fund Liquidity Facility
OCC	Office of the Comptroller of the Currency
PPPLF	Paycheck Protection Program Liquidity Facility
RBC	risk-based capital
RBO	regional banking organization
ROAA	return on average assets
ROE	return on equity
SBA	Small Business Administration
SEC	U.S. Securities and Exchange Commission
SLHC	savings and loan holding company
SMB	state member bank