GUIDANCE & SUPERVISION

Large Institution Supervision Coordinating Committee Program Manual

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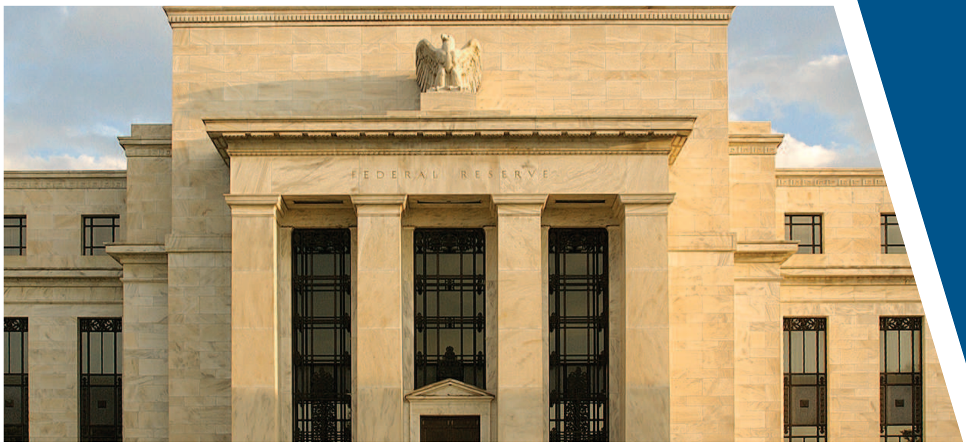

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The Federal Reserve

- **conducts the nation's monetary policy** to promote maximum employment and stable prices in the U.S. economy;
- **promotes the stability of the financial system** and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- **promotes the safety and soundness of individual financial institutions** and monitors their impact on the financial system as a whole;
- **fosters payment and settlement system safety and efficiency** through services to the banking industry and U.S. government that facilitate U.S.-dollar transactions and payments; and
- **promotes consumer protection and community development** through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and administration of consumer laws and regulations.

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About This Publication

The *Large Institution Supervision Coordinating Committee Program Manual* describes the structure, governance, supervisory process, and communication methods the Board of Governors of the Federal Reserve System undertakes when supervising large, systemically important firms.

This manual discusses how the Board conducts supervisory activity within the LISCC Program and is organized into four main sections:

- "LISCC Program Overview," which describes the key elements of the LISCC Program as well as its three primary objectives.
- "LISCC Program Structure and Governance," which summarizes how LISCC firms are supervised.
- "LISCC Program Supervisory Cycle," which discusses the steps taken to assess LISCC firms on an annual basis and how the program communicates its findings.
- "Coordination and Continuing Education," which discusses how the LISCC Program coordinates with other domestic and international supervisors.

For more information on LISCC, visit https://www.federalreserve.gov/supervisionreg/large-institution-supervision.htm.

Abbreviations

BHC Act	Bank Holding Company Act
Board	Board of Governors of the Federal Reserve System
CFPB	Consumer Financial Protection Bureau
CPD	Continuing professional development
DST	Dedicated Supervisory Team
FDIC	Federal Deposit Insurance Corporation
FHC	Financial holding company
G&C Program	Governance and Controls Program
LFBO	Large and Foreign Banking Organization
LFI	Large Financial Institution
LFI ECP	Large Financial Institutions Examiner Commissioning Program
LISCC	Large Institution Supervision Coordinating Committee
LISCC Program	Large Institution Supervision Coordinating Committee Program
LOS	LISCC Oversight Section
MAP	Monitoring and Analysis Program
OC	Operating Committee
OCC	Office of the Comptroller of the Currency
OOC	Office of the Operating Committee
QA	Quality assurance
QC	Quality control
RRP	Recovery and Resolution Program
S&R	Division of Supervision and Regulation
S&R Director	Director of Supervision and Regulation
SEC	Securities and Exchange Commission

LISCC Program Overview

The Board of Governors of the Federal Reserve System (Board) established the Large Institution Supervision Coordinating Committee (LISCC) Program in 2010 based on lessons learned from the 2007–09 global financial crisis that revealed deficiencies in how large, systemically important firms had been supervised. These lessons learned underscore the need for the supervision of the largest firms to be more forward-looking and informed by analysis from multiple perspectives, including legal, accounting, payments, financial markets, consumer protection, and financial stability. The LISCC Program coordinates the Federal Reserve's supervision of large financial institutions that pose the greatest risk to U.S. financial stability.

Key elements of the LISCC Program include

- focus on U.S. financial stability as well as individual firm safety and soundness;
- incorporation of Federal Reserve Systemwide, multidisciplinary perspectives in determining supervisory priorities and execution of the supervisory program;
- use of both firm-specific and horizontal examinations in all core areas of the supervisory program;
- forward-looking assessments of firms' resiliency through stress testing; and
- integration of multiple sources of data and information to identify and explore risks and trends in the portfolio.

While the core business of supervision is common across all firms, the size, complexity, and systemic nature of firms supervised by the LISCC Program (LISCC firms) require a centralized, coordinated, and unified approach to the LISCC supervisory program. Consistent with the Consolidated Supervision Framework for Large Financial Institutions (LFI), the LISCC Program was created to fulfill three primary objectives:

- enhance the resiliency of LISCC firms to lower the probability of their failure or inability to serve as a financial intermediary;
- reduce the impact on the financial system and the broader economy in the event of a LISCC firm's failure or material weakness; and
- provide information to Federal Reserve decision-makers about issues and vulnerabilities at LISCC firms that could have an adverse impact on the broader financial system and economy.[1]

[1] See SR 12-17/CA 12-14, "Consolidated Supervision Framework for Large Financial Institutions," at https://www.federalreserve.gov/supervisionreg/srletters/sr1217.htm.

To meet these objectives, the LISCC Program

- develops and implements a supervisory plan informed by the financial and economic environment as well as firm-specific circumstances;
- conducts horizontal and firm-specific examinations and monitoring;
- assigns supervisory ratings;
- makes recommendations to the Board regarding enforcement actions with the concurrence of the Vice Chair for Supervision; and
- makes suggestions to the Director of Supervision and Regulation (S&R Director) regarding the recommendations that will be advanced to the Board, with the concurrence of the Vice Chair for Supervision, related to each LISCC firm's resolution plan and advises other supervisory portfolios on resolution and recovery matters.[2]

Currently, eight U.S. bank holding companies are included in the LISCC Program:[3]

- Bank of America Corporation
- The Bank of New York Mellon Corporation
- Citigroup Inc.
- The Goldman Sachs Group, Inc.
- JP Morgan Chase & Co.
- Morgan Stanley
- State Street Corporation
- Wells Fargo & Company

The list of firms subject to the LISCC Program is updated on the Board's website at https://www.federalreserve.gov/supervisionreg/large-institution-supervision.htm.

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[2] See 12 C.F.R. pt. 243, Resolution Plans (Regulation QQ), which applies to each firm subject to the LISCC Program and establishes rules and requirements regarding the submission and content of a resolution plan, as well as procedures for review by the Board and the Federal Deposit Insurance Corporation (FDIC) of a resolution plan, at https://www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-243.

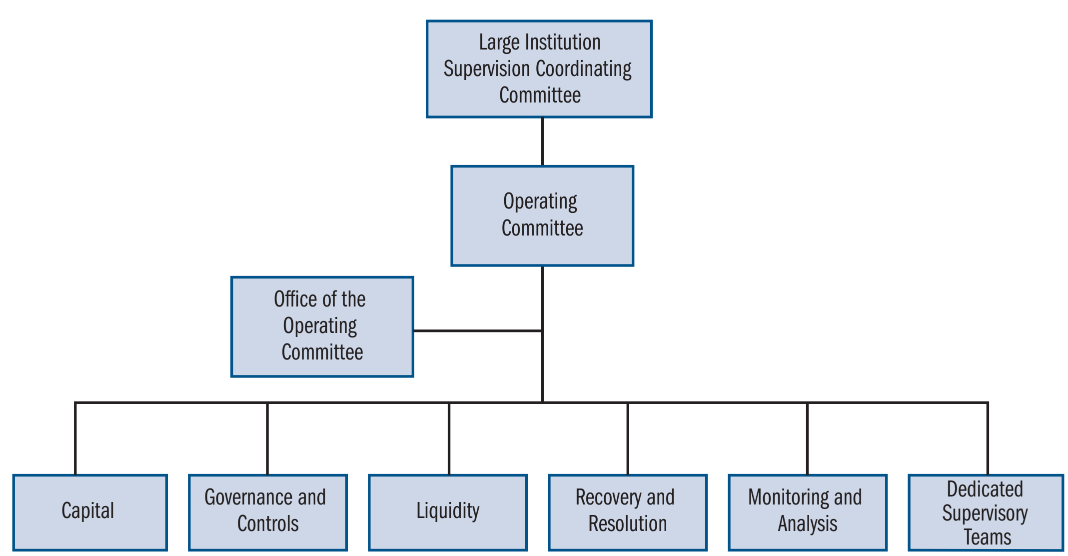
[3] See SR 20-30, "Financial Institutions Subject to the LISCC Supervisory Program," at https://www.federalreserve.gov/supervisionreg/srletters/sr2030.htm for a full definition of the categories of financial institutions that are subject to the LISCC Program.

LISCC Program Structure and Governance

The LISCC Program consists of the LISCC, the LISCC Operating Committee, five portfolio programs (Capital, Governance and Controls, Liquidity, Recovery and Resolution, and Monitoring and Analysis), a Dedicated Supervisory Team (DST) for each supervised firm, and the Office of the Operating Committee (OOC). The LISCC Program structure is depicted in figure 1.

The LISCC Program is a Federal Reserve Systemwide program, staffed by individuals from multiple Federal Reserve Banks and the Board. Day-to-day supervision of LISCC firms is carried out by the DSTs and the LISCC portfolio programs. Given the size, complexity, and systemic nature of LISCC firms, the LISCC Program incorporates multiple perspectives, including disciplines such as payments, financial stability, and consumer affairs.

Figure 1. LISCC Program structure



Large Institution Supervision Coordinating Committee

The LISCC is a multidisciplinary body that oversees the LISCC Program. It is composed of the Vice Chair for Supervision; senior officers from across the Federal Reserve System, including several Reserve Bank heads of supervision; and numerous division directors at the Board. The Director of the Division of Supervision and Regulation (S&R Director) at the Board serves as LISCC chair.

LISCC members provide the S&R Director with guidance, advice, and recommendations on matters before the committee. The S&R Director is accountable to the Vice Chair for Supervision and the Board for the effective supervision of LISCC firms and works closely with the Vice Chair for Supervision in this capacity. The Vice Chair for Supervision serves as an ex officio member of the LISCC.

LISCC Operating Committee

The LISCC Operating Committee (OC), in consultation with the LISCC and the Vice Chair for Supervision, is responsible for setting priorities for and overseeing the execution of the LISCC supervisory program. These responsibilities include but are not limited to (1) setting the strategic direction of the LISCC Program; (2) recommending ratings and enforcement actions; (3) overseeing the effectiveness of the DSTs and LISCC portfolio programs; (4) ensuring that the LISCC Program has sufficient and well-allocated resources, and efficient and controlled processes; and (5) promoting a culture that enables the LISCC Program to be effective.

The OC is multidisciplinary and composed of senior officers from several Reserve Banks and the Board, which helps ensure that a diverse set of perspectives are factored into decisionmaking for LISCC firms. The OC chair is appointed by the S&R Director and is a senior officer in the Division of Supervision and Regulation at the Board. The OC chair is accountable for decisions made by the OC.

LISCC Portfolio Programs

The LISCC Program is organized around five portfolio programs:

- Capital
- Governance and Controls
- Liquidity
- Recovery and Resolution
- Monitoring and Analysis

Capital, Governance and Controls, and Liquidity are aligned with the three components of the LFI supervisory rating framework. These three areas determine whether a banking organization has sufficient strength and resilience to maintain safe and sound operations through a range of conditions. There is also a distinct program for Recovery and Resolution Preparedness and a non-assessment program focused on Monitoring and Analysis.

Each LISCC portfolio program is overseen by a steering committee, which is led by co-chairs. Steering committees are responsible for (1) making recommendations to the OC regarding ratings, supervisory planning, enforcement actions, emerging risks, and resource allocation; (2) directing and overseeing supervision; and (3) quality control of processes, products, and outcomes and overseeing performance management of the program staff. Steering committees are multidisciplinary and composed of officers from across the Federal Reserve System, which helps ensure that a diverse set of perspectives are factored into decisionmaking for LISCC firms.

LISCC portfolio programs are responsible for maintaining a detailed knowledge of the activities and risk-management practices that pertain to their area of risk. LISCC portfolio programs leverage supervisors' expertise and cross-firm knowledge to assess individual LISCC firms and identify emerging trends across the industry. LISCC portfolio programs execute horizontal examinations and monitoring work and participate in firm-specific examinations, while maintaining a cross-firm understanding of their area of focus.

The **Capital Program** assesses the effectiveness of each LISCC firm's capital planning processes and the sufficiency of its capital positions through horizontal and firm-specific examinations and monitoring activities. The primary horizontal examination, the Comprehensive Capital Analysis and Review, focuses on firms' capital planning practices, including assessing the reliability of each firm's stressed capital projections, the controls around those projections, and the governance of each firm's internal capital adequacy assessments. Other examinations are tailored to the most material risks that could affect the capital of each LISCC firm (e.g., credit, market, and all financial risks other than liquidity) and aim to support a complete assessment of the effectiveness of each firm's capital planning practices and risk management. The Capital Program Steering Committee oversees the issuing and lifting of capital-related supervisory findings for a given firm and initially vets each LISCC firm's capital ratings and feedback letters.[4] The annual assessment of the Capital Planning and Positions rating is primarily based on Capital Program supervisory work as well as examination findings of other prudential regulators, as appropriate.

The **Governance and Controls (G&C) Program** conducts horizontal and firm-specific exams on policies and processes that support the effective functioning of a firm's board of directors, management of business lines, and independent risk management and controls. Examinations of board effectiveness focus on board oversight of senior management and support of independent risk management and internal audit. Examinations with respect to management of business lines and independent risk management and controls focus on how well risk is identified, measured, monitored, and controlled. Non-financial risks, such as compliance, operational resilience, cybersecurity, and information technology, are also covered by the G&C Program. The G&C Program Steering Committee oversees the issuing and lifting of governance and controls-related supervisory findings and initially vets each LISCC firm's governance and controls rating and feedback letters. The

[4] See SR 13-13/CA 13-10, "Supervisory Considerations for the Communication of Supervisory Findings" at https://www.federalreserve.gov/supervisionreg/srletters/sr1313.htm. This SR letter applies to all supervisory findings wherever described. Horizontal capital work is coordinated across large financial institutions and overseen by senior officers from the LISCC Program and Large and Foreign Banking Organizations (LFBO) Program.

annual assessment of the governance and controls rating is based on G&C Program supervisory work, related work undertaken in the Capital, Liquidity, and Recovery and Resolution Preparedness Programs as well as examination findings of other regulators, as appropriate.

The **Liquidity Program** assesses the effectiveness of each LISCC firm's liquidity risk management practices and the sufficiency of its liquidity positions through horizontal and firm-specific examinations and monitoring activities. The Comprehensive Liquidity Analysis and Review is the body of horizontal examination work conducted each year that focuses on assessing each firm's internal liquidity stress tests and certain liquidity risk management capabilities. The Liquidity Program also conducts independent quantitative analyses of the sufficiency of each firm's liquidity positions as well as firm-specific examinations. The Liquidity Program Steering Committee oversees the issuing and lifting of liquidity-related supervisory findings and initially vets each LISCC firm's liquidity rating and feedback letters. The annual assessment of the Liquidity Risk Management and Positions rating is primarily based on Liquidity Program supervisory work as well as examination findings of other prudential regulators, as appropriate.

The **Recovery and Resolution Preparedness (RRP) Program** assesses the effectiveness of each LISCC firm's preparedness for recovering from a severe stress and for being resolved upon failure in an orderly manner without threatening financial stability. RRP coordinates the Federal Reserve's horizontal review of the resolution plans that the LISCC firms are required to submit under title I of the Dodd-Frank Act Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which culminates in joint determinations by the Board and the FDIC. RRP also coordinates with other prudential and resolution authorities. The work of the program is overseen by the RRP Steering Committee.

The **Monitoring and Analysis Program (MAP)** leverages a wide network of resources and information to identify and explore new issues and emerging risks affecting LISCC firms. The results of these efforts inform supervisory planning, prioritization, and policymaking, and facilitate risk awareness across the other LISCC portfolio programs and the dedicated supervisory teams. MAP also coordinates in-depth explorations and analyses of select topics raised through the risk identification process. In contrast to the other LISCC portfolio programs, MAP does not conduct assessments of firms, vet ratings, or issue supervisory findings. The MAP Steering Committee directs and oversees the research and sharing of information gathered by the program.

Dedicated Supervisory Teams

The LISCC Program maintains a Dedicated Supervisory Team (DST) for each LISCC firm. The DSTs execute firm-specific examinations and monitoring in coordination with the LISCC portfolio programs, maintain a broad understanding of the safety and soundness of their assigned firm, and recommend supervisory plans, ratings, and enforcement actions. LISCC DST leads may serve for no more than five years to support independence or to guard against regulatory capture.

Each DST examines, monitors, and assesses the safety and soundness of a given LISCC firm from a firm-specific perspective. The DSTs maintain deep knowledge of each LISCC firm's strategy, risk profile, governance, and risk-management and control functions. They work closely with the LISCC portfolio programs and are responsible for developing and bringing an integrated firm-specific perspective to supervisory planning, assessments, monitoring, and discussions. Each DST serves as the primary Federal Reserve supervisory contact for the firm and communicates supervisory messages, including supervisory ratings and annual assessments.

Each DST works closely with its counterparts at other supervisory agencies, including the Office of the Comptroller of the Currency (OCC), the FDIC, the Consumer Financial Protection Bureau (CFPB), the Securities and Exchange Commission (SEC), relevant state supervisors, and foreign supervisors. The DSTs chair supervisory colleges to help coordinate global supervision of the LISCC firms (see the "Coordination and Continuing Education" section for the description of supervisory colleges).

The DSTs are overseen by a committee of Reserve Bank senior officers, who are responsible for overseeing the DSTs in each Federal Reserve district where a LISCC firm is headquartered. This committee helps to ensure that the DSTs maintain a well-supported, holistic view of their firms. The committee also provides oversight and direction to the DSTs related to supervisory ratings, supervisory planning, examination and monitoring output, hiring, and succession planning.

Office of the Operating Committee

The OOC provides infrastructure for and oversight of the operational and strategic functions of the LISCC Program as well as operational direction and guidance to promote LISCC Program effectiveness, efficiency, quality, consistency, and compliance with Federal Reserve standards. The OOC is composed of functional areas covering communications, human resources, technology and reporting, operations, quality control, and a secretariat function. The OOC is led by the LISCC Program's Chief Operating Officer.

Quality Management

The LISCC Program has high operating standards and strives for continuous improvement. To help ensure that the program is meeting those standards, it is subject to multiple quality management processes:

- Quality Control (QC) is embedded in the LISCC Program to make sure that processes are consistent with operational expectations.
- The Quality Assurance (QA) function conducts independent reviews designed to ensure that all aspects of the LISCC Program are following established quality standards and processes. Unlike quality control activities, QA is performed after supervisory activities have been completed and final reports and other products have been issued. The QA function is independent of the LISCC Program.
- The LISCC Oversight Section (LOS) provides an independent annual assessment of the efficacy of the LISCC Program to the S&R Director based on reviews conducted throughout the year. The LOS reports up through the Deputy Director of Operations.

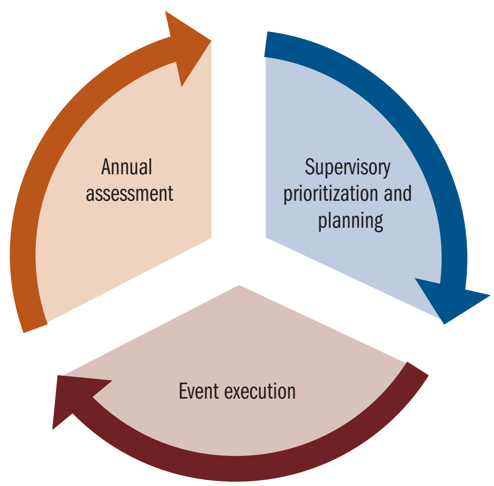
Additional third-party oversight takes place through independent reviews of aspects of the LISCC Program by the Board's Office of the Inspector General and the Government Accountability Office.

LISCC Program Supervisory Cycle

On an annual cycle, the LISCC Program engages in supervisory prioritization and planning, executes planned supervisory events to support evaluations of each firm's practices and capabilities, and synthesizes that information into an annual assessment of each firm (see figure 2).[5]

Figure 2. LISCC Program supervisory cycle

Each year, the LISCC Program conducts supervision on large firms, first through prioritizing and planning followed by monitoring and examining the firms. The LISCC Program concludes the annual cycle by assessing and rating each firm.



Supervisory Prioritization and Planning

The LISCC Program supervisory cycle begins with prioritization and planning. The goal of supervisory planning is to identify a body of work that will inform supervisory assessments and support the assignment of supervisory ratings at the end of the annual cycle.[6] Supervisory planning aligns supervisory activities to the size, complexity, systemic importance, and dynamic nature of the firms in the LISCC portfolio. Like other supervisory programs and portfolios at the Federal Reserve, the LISCC Program considers applicable statutes, regulations, guidance, policies, and procedures as it designs its supervisory strategies.

The prioritization and planning process is designed to maximize information sharing and joint plan development across DSTs and LISCC portfolio programs. Key steps in supervisory planning include (1) sharing information and views across the LISCC Program of firm-level strategic developments, current risk drivers and levels, and forward-looking risk trends; (2) developing areas of focus for the coming year based on relevant information contained in planning documents developed by the portfolio programs and DSTs; and (3) determining supervisory events consistent with those areas of focus. LISCC supervisory plans are developed and approved for all firms simultane-

[5] These activities are conducted pursuant the Board's authority to examine holding companies. See 12 U.S.C. § 1844(c)(2); 1467a(b)(4).

[6] If circumstances change, the LISCC Program may reassess a LISCC firm's supervisory rating in the middle of the annual supervisory cycle.

ously, to ensure that the most material risks to the firms, both individually and collectively, and the financial system are incorporated.

At the heart of LISCC Program supervisory plans are horizontal examinations, which help to inform supervisory assessments by providing a broad perspective. Particular attention is paid to the scope of horizontal examinations, both the focus of the work and which firms are included for each horizontal exam, as well as the balance between horizontal and firm-specific work with respect to each firm. Monitoring and risk identification also figure prominently in supervisory plans, given the wide range of activities engaged in by LISCC firms and their constantly changing risk profiles. Given each LISCC firm's structure, international footprint, and breadth of activities, the LISCC Program will consider and sometimes participate in supervisory work that other prudential regulatory and supervisory authorities are conducting at LISCC firms.

When appropriate, the LISCC Program coordinates with the Large and Foreign Banking Organization (LFBO) Program to identify joint horizontal examinations and monitoring efforts across the LISCC and LFBO portfolios, leveraging subject matter experts and risk specialists from LISCC and LFBO. These joint supervisory activities are identified, discussed, proposed, and approved jointly during supervisory planning.

The LISCC Program's governance of supervisory prioritization and planning is designed to incorporate multiple perspectives, align with the LFI ratings framework, and balance consistency across the portfolio with flexibility to ensure appropriate firm-specific supervisory coverage. The OC ultimately endorses a single LISCC Program supervisory plan for all firms in the portfolio.

The supervisory plan may be adjusted over the course of the year due to changes in market conditions, emerging gaps or risks, shifts in supervisory priorities, and/or changes in available supervisory resources. Material changes to the supervisory plan must be approved by the OC chair.

Supervisory Events and Execution

There are two types of supervisory events: monitoring and examinations. This section describes the purpose, approach, and governance of each event type.

Monitoring

The purpose of monitoring is to maintain supervisory awareness of each firm's strategies, activities, and risk profile; to identify emerging risks; and to ensure that the LISCC Program is focused on the most relevant and high-priority areas. Monitoring in the LISCC Program is distinct from examinations and verification of remediated supervisory findings. In general, supervisory assessments, such as findings or ratings, are derived from examinations, including remediation verification, and not from monitoring.

Monitoring LISCC firms is challenging due to their size, complexity, range of activities, geographic reach, and dynamic nature. To meet this challenge, the LISCC Program takes a network approach in which MAP, a dedicated monitoring function, coordinates with teams across the program, other Federal Reserve System functions, and other stakeholders to collect, synthesize, and share information. The objective is to harness the collective knowledge base of the LISCC Program. Monitoring activities range from routine ongoing meetings and review of routine firm-submitted internal management reports to more focused point-in-time or periodic reviews, including informal data requests.

The most routine form of monitoring consists of recurring meetings with firms (for example, meetings with the heads of material business lines, treasury function, independent risk management, or internal audit). Recurring meetings are augmented with analysis of internal management reports. The intelligence gleaned from monitoring is made available to all LISCC Program staff and informs their views on a range of topics. Monitoring is used to identify and better understand issues and developments that may require additional engagement with a firm or group of firms, for instance, through the identification of an emerging risk, a noteworthy trend, an outlier, or a concentration across multiple firms.

As needed, the LISCC Program may augment its routine monitoring with more intensive engagement, ranging from narrow, quick engagements with a small number of firms to deeper investigations of emerging risks across the entire LISCC portfolio. Information derived from these types of monitoring activities helps examiners better understand issues and risks and may be leveraged to inform supervisory planning or to refine and focus supervisory exams.

Monitoring activities generally do not result in supervisory communications to firms, as they are not assessment oriented. Rather, they help to inform and highlight areas where more supervisory work, such as examinations, may be warranted.

Examinations

The purpose of an examination, or exam, is to evaluate the safety and soundness of a firm's practices or its capabilities in a particular area, including its appropriateness of capital and liquidity levels and compliance with applicable laws and regulations.[7] Exams may be conducted exclusively by the Federal Reserve, or jointly with another regulatory agency. There are three types of exams in the LISCC Program: horizontal exams (both common scope and common teams), firm-specific

[7] For a more detailed explanation of how exams are conducted, see the *Bank Holding Company Supervision Manual* at https://www.federalreserve.gov/publications/supervision_bhc.htm.

exams, and remediation verification exams. All exams follow a similar progression from commencement to completion.

Horizontal Exams

Horizontal exams are a hallmark of the LISCC Program. A horizontal exam is an examination of two or more firms focused on a discrete area. A horizontal exam may be conducted by a single “common team,” by multiple teams (typically DSTs) using a shared “common scope,” or by a hybrid of the two. A horizontal exam may include LISCC firms only, or a combination of LISCC and non-LISCC firms. Ultimately, the approach to a specific horizontal exam depends on a range of factors. In some cases, the scope of a horizontal exam as applied to a particular firm may be tailored to incorporate relevant firm-specific factors.

Horizontal exams enable the LISCC Program to better understand the level of risk across firms and how it is changing, survey the range and maturity of risk-management practices across the examined firms, and more accurately differentiate the risk profile of individual firms and the implications for each firm's approach to risk management.

Firm-Specific Exams

The LISCC Program recognizes that cross-firm perspective and context are helpful and, in some cases, necessary to assess a firm’s safety and soundness. Nevertheless, a firm-specific examination approach is used, for instance, when activities to be examined are not as material for other firms or supervisory expectations and the industry range of practice are well understood, eliminating the need for a cross-firm perspective. A firm-specific examination is conducted at a single firm and is often focused on a business line or some other discrete activity and usually involves transaction testing.

Remediation Verification Exams

The purpose of remediation verification exams is to assess whether a firm’s remediation of a supervisory finding is effective and whether the relevant supervisory finding can be closed.

All LISCC portfolio programs and the DSTs have a role in tracking open supervisory findings, with intentional overlap so that the LISCC Program maintains a comprehensive view of findings by firm and by LISCC portfolio program. Supervisors meet regularly with a firm regarding its progress in remediating supervisory findings. Supervisors also meet with the firm’s internal audit department to understand its assessment of the effectiveness of the firm’s remediation. Once a firm’s internal audit department has deemed a supervisory issue to be remediated, examiners will schedule an exam to verify the effectiveness of remediation.

The outcome of a remediation verification exam is either to close a supervisory finding if the remediation is found to be effective, or leave the finding open if the remediation is found not to be effective or proven sustainable. Either way, the outcome will be communicated to the firm through a supervisory letter (see the "Supervisory Communications" section). If a firm is notified that a supervisory finding will remain open because its remediation efforts are found not to be effective, the firm would be required to provide a revised action plan and timeline outlining the remediation approach to address the outstanding gap(s). Depending on the materiality of an unremediated supervisory finding, additional supervisory or enforcement actions may be warranted.

Examination Governance and Process

All examinations follow a similar governance and process. Each exam will have a sponsoring LISCC portfolio program. For exams covering topics that cross LISCC portfolio programs, the sponsoring portfolio program leadership will leverage the multidiscipline nature of the LISCC Program and include leaders from other relevant portfolio programs in the governance and oversight of the examination.

Before commencing an examination, supervisors draft a scope memo setting out the context and rationale for the exam and listing explicit objectives to be accomplished, procedures to be observed, and questions to be answered. The objectives drive the work that examiners will then conduct in order to assess risk, the sufficiency of related risk-management activities, and their impact on the safety and soundness of the firm.

In developing a scope memo, supervisory teams are guided by a series of written policies and procedures, guidance, and manuals that describe supervisory expectations and provide direction to the teams in structuring their work at the firms. These publicly available materials include the *Bank Holding Company Supervision Manual* and the *Commercial Bank Examination Manual* (see "Appendix A: Supervisory and Examination Resources"), and Supervision and Regulation Letters, commonly known as SR Letters, that address significant policy and procedural matters related to the Federal Reserve System's supervisory responsibilities.[8]

Scope memos are vetted by the appropriate portfolio program leadership, which generally includes the related program co-chairs and/or steering committee. This review helps to ensure that relevant risks are identified; examination objectives and planned activities are well designed to thoroughly assess the risk and controls of the areas being reviewed; and the exam will effectively contribute to the annual assessment ratings.

[8] See https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm.

Once the scope memo is approved by portfolio program leadership, a first-day letter (FDL) is drafted, reviewed, and sent to the financial institution. FDLs highlight the scope objectives and the materials requested to facilitate the start of the exam.

Once an examination has commenced, supervisors meet with firm management, conduct transaction testing, and review any additional materials requested—each with the purpose of understanding any risks posed by the examined activities, assessing the efficacy of the associated risk-management practices and internal controls, and completing the objectives set out in the scope memo.

At the conclusion of an exam, the team members' written evaluations are aggregated into a summary memo capturing key information, overall conclusions, and any divergent views.[9] The summary memo serves as the document that facilitates discussions with key members of Board and LISCC Program leadership. These discussions include a vetting meeting where the exam team presents the outcome of the exam and any proposed supervisory findings. The vetting groups consist of experienced supervisors from across the LISCC Program who evaluate the concerns regarding safety and soundness raised by the supervisory findings. Often these discussions will compare and contrast similar issues at multiple firms to provide context on the level of risk and help differentiate the required risk management.

When supervisory findings reveal (1) a violation of law, rule, or regulation; (2) a violation of a condition imposed in writing by the Board; or (3) an unsafe or unsound practice, supervisors also consider whether issuance of an enforcement action, revisions to an existing enforcement action, and/or ratings changes are appropriate. The "Enforcement Actions" section describes enforcement actions in more detail.

After the examination results have been reviewed and approved by LISCC Program leadership, a formal exit meeting is held to provide firm management with an overview of the examination results. Supervisory letters are sent to the firm's senior management or board of directors, as appropriate, to communicate the key messages and findings from the examination (see the "Supervisory Communications" section).[10]

[9] See Board of Governors of the Federal Reserve System, "Federal Reserve Board Announces Implementation of Several Recommendations to Enhance Supervision of Large and Complex Banking Organizations," news release, November 24, 2015, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20151124b.htm.

[10] See SR 21-3/CA 21-1, "Supervisory Guidance on Board of Directors' Effectiveness," at https://www.federalreserve.gov/supervisionreg/srletters/SR2103.htm.

Annual Assessments

The LISCC Program's annual supervisory cycle culminates in the assignment of supervisory ratings for each firm.[11] The supervisory ratings assigned to a firm reflect the Federal Reserve's assessment of whether a firm has sufficient financial and operational strength and resilience to maintain safe and sound operations through a range of conditions, including stressful ones. Each firm is assigned three component ratings: capital planning and positions, liquidity risk management and positions, and governance and controls.[12] After assigning supervisory ratings, the Federal Reserve sends each LISCC firm an annual assessment letter that brings together supervisory messages issued over the course of the year and identifies common themes (see the "Supervisory Communications" section).[13] For state member banks in the LISCC portfolio, capital, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS) ratings are also developed for the relevant bank subsidiaries.[14]

The DST and LISCC portfolio program teams play a critical role in developing supervisory ratings and annual assessment messages for each LISCC firm. The LISCC Program relies on the views of each relevant steering committee and the DST co-chairs throughout the ratings calibration process, culminating in a recommendation to the OC. The OC is responsible for vetting the proposed supervisory ratings and key messages included in the annual assessment. Once approved by the OC chair, the annual assessment letters are finalized and delivered to each recipient firm, and the firm-specific annual ratings and key messages are communicated by the DST lead examiner during a meeting with that firm's board of directors, with support from the OC chair or designee(s) as needed.

When assigning a rating and identifying supervisory issues requiring corrective action by a firm, the LISCC Program will also rely, to the fullest extent possible, on information and assessments from other relevant supervisors and regulators. The LISCC Program may also rely on information from a firm's internal audit or internal control functions if those functions perform effectively.

Supervisory Communications

The LISCC Program strives for communications that are clear, consistent, and appropriate for each LISCC firm. Clear communication between the LISCC Program and each supervised firm is critical

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[11] See SR 19-3/CA 19-2, "Large Financial Institution (LFI) Rating System," at https://www.federalreserve.gov/supervisionreg/srletters/sr1903.htm.

[12] The capital planning and positions rating is assigned in the mid-year, after the annual horizontal exercise (Comprehensive Capital Analysis and Review), and re-evaluated as part of the annual assessment.

[13] The Federal Reserve is party to an interagency Memorandum of Understanding with the CFPB. Under the Dodd-Frank Act, the CFPB receives a 30-day comment period to review the governance and controls rating assigned to LISCC firms.

[14] For a description of CAMELS ratings, see SR 96-38, "Uniform Financial Institutions Rating System," at https://www.federalreserve.gov/boarddocs/srletters/1996/sr9638.htm.

to promote a shared understanding of the Federal Reserve's expectations and to promote the safe and sound operation of each LISCC firm. Communication occurs throughout the supervisory cycle.

At the start of an examination, a written communication (FDL) is delivered to each firm subject to the examination outlining the scope and timing of examination activities.

After an examination, the exam team synthesizes the conclusions into supervisory findings for a given firm in preparation for a vetting.

The draft supervisory letter is reviewed by senior leaders/stakeholders to ensure that

- conclusions reached during the post-exam process are appropriately reflected and conveyed in the letter;
- supervisory messages are clear and concise; and
- identified findings requiring firm remediation are consistent with applicable laws and regulations.

Following the vetting, supervisory findings are communicated formally in writing to the supervised firm. Each communication to the supervised firm includes the Confidential Supervisory Information Disclosure, which notes that the contents of the letter are subject to the rules of the Board regarding treatment and disclosure of confidential supervisory information. If the communication includes a material supervisory determination from examinations or other supervisory reviews, a disclosure on the appeals process for material supervisory determinations and the Board's Ombudsman policy is also included (see "Appendix B: Supervisory Communication Disclosures" for Confidential Supervisory Information and Material Supervisory Determination Disclosure language).

At the end of the annual supervisory cycle, each firm receives a letter communicating the firm's ratings. This annual assessment letter highlights key concerns that support the annual supervisory rating. Each DST leads the drafting of the annual assessment letter for its firm through an iterative process (see the "Annual Assessments" section) in which each letter is reviewed by senior representatives from each LISCC portfolio program and the DST co-chairs before it is presented to the OC for review and the OC chair for approval.

Enforcement Actions

The Federal Reserve may bring an enforcement action against any supervised institution regardless of size in response to a violation of law, rule, or regulation; a violation of a condition imposed in writing by the Board; or an unsafe or unsound practice.[15] When determining the appropriate enforcement approach, LISCC supervisors, the Board's Legal Division, and other Federal Reserve stakeholders consider factors such as the severity and pervasiveness of the weaknesses at the institution and management's capacity to correct the weaknesses.

Enforcement actions are scaled to the severity of the firm's weaknesses or deficiencies. An informal enforcement action, in the form of a memorandum of understanding, can be appropriate for governance, risk management, and control weaknesses that are less severe. In the more serious cases, including when a firm fails to comply with an informal action, a firm may be subject to a formal enforcement action, such as a cease-and-desist order, which may also include civil money penalties.[16]

An enforcement action will be terminated after a firm has remediated the deficiencies that were identified in the enforcement action. As discussed in the "Remediation Verification Exams" section, the LISCC Program conducts specific supervisory events to verify the remediation of deficiencies. An enforcement action may be terminated at any time during the supervisory cycle. If a firm has complied with most provisions of an action, but significant deficiencies remain outstanding or have been newly identified, staff may recommend that the enforcement action be terminated and replaced with a new enforcement action or another supervisory measure.

In addition, under section 4(m) of the Bank Holding Company Act (BHC Act) of 1956, a financial holding company (FHC) or its depository institution that no longer meets FHC requirements because they are no longer well capitalized or well managed must enter into an agreement acceptable to the Federal Reserve to meet the requirements for FHC status.[17] Other than as stipulated in the agreement, until it is again well capitalized and well managed, the FHC may not engage in any new section 4(k) activities or acquire control or shares of any company engaged in any activity under section 4(k) of the BHC Act without the prior written approval of the Board. When an institution corrects the conditions that caused it not to meet the FHC requirements, the section 4(m) agreement is terminated by operation of law.

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[15] There are several statutory enforcement tools available to the Federal Reserve. Typically, the Federal Reserve pursues enforcement actions through section 8 of the Federal Deposit Insurance Act, 12 U.S.C. §1818, which is detailed in section 2110.0 of the *Bank Holding Company Supervision Manual* and the "Formal and Informal Supervisory Actions" section of the *Commercial Bank Examination Manual* (April 2013). In addition, some actions may be required by other statutes, such as a prompt corrective action directive under section 131 of the Federal Deposit Insurance Corporation Improvement Act when a bank is found to have inadequate capital levels (see 12 U.S.C. § 1831o) or when a bank engages in a pattern or practice of violations of statutory requirements relating to flood insurance coverage (see 42 U.S.C. § 4012a(f)).

[16] Where an enforcement action cannot be resolved by consent, the Board may issue a formal notice of charges and begin an administrative procedure that includes a formal hearing before an administrative law judge. These procedures are set forth in 12 C.F.R. pt. 263.

[17] See 12 U.S.C. §1843(m). Section 3901.02 of the *Bank Holding Company Supervision Manual* delineates the specific requirements in accordance with 12 C.F.R. pt. 225.83 (December 2001).

The Board generally publishes all formal enforcement actions. An exception can be made if the Board determines that publication of the order or agreement would be contrary to the public interest. Section 4(m) agreements generally are not publicly disclosed because publication would convey the underlying supervisory ratings that gave rise to the 4(m) agreement, which constitute confidential supervisory information.

Title I Joint Agency Determination

Title I of the Dodd-Frank Act requires each LISCC firm to submit a resolution plan (i.e., a living will) to the Federal Reserve and to the FDIC at regular intervals for joint agency review. Joint agency determinations regarding whether there are shortcomings or deficiencies, as defined in the agencies' joint resolution plan rule, are made by the boards of both agencies and communicated via joint agency feedback letters.

Under the joint resolution plan rule, a firm that fails to remediate a deficiency must resubmit its resolution plan. If the agencies jointly determine that the revised plan does not adequately remedy the deficiencies, the agencies may apply certain requirements or restrictions to the firm and, in certain cases, may require the firm to divest certain businesses or assets.[18]

The LISCC RRP program is responsible for coordinating with the FDIC on the review and assessment of title I resolution plans submitted by LISCC firms. The vetting of title I findings is done jointly with the FDIC, while the staff recommendations to each agency's board are handled separately. The Federal Reserve staff makes suggestions to the Director of Supervision and Regulation (S&R Director) regarding the recommendations that will be advanced to the Board related to each LISCC firm's resolution plan.

[18] See 12 C.F.R. pt. 243, Resolution Plans (Regulation QQ), at https://www.ecfr.gov/current/title-12/part-243.

Coordination and Continuing Education

Coordination with Other Supervisors

Coordination with other domestic and international supervisors is critical to ensuring effective, consolidated supervision of all domestic and foreign operations of each LISCC firm. Coordination can take the form of joint supervisory planning, joint examinations, and information sharing. Regular supervisory coordination during benign times facilitates supervisory cooperation during periods of stress.

The LISCC Program coordinates closely with other domestic supervisors. LISCC Program members meet regularly with the other federal banking supervisors, the OCC and FDIC, to share supervisory strategies, and all three agencies work to coordinate examination activities. The agencies also share information on supervisory findings, ratings, and emerging areas of common concern. When a functional regulator oversees a significant entity within a LISCC firm, the DST and LISCC portfolio program team members coordinate with the supervisory teams from the functional regulators (the OCC, FDIC, and SEC). If a LISCC firm has a state member bank, the DST will meet on a periodic basis with state regulators that have joint supervisory responsibility for state member banks.

Coordination with foreign supervisors is conducted through several forums:

- **Supervisory colleges** are the primary forum for collaboration, coordination, and information-sharing among home and host supervisory authorities on the risks and vulnerabilities of firms that operate in different countries. Supervisory colleges provide a framework for home and host supervisors to address key topics related to the supervision of a cross-border firm.
- **Crisis management groups** enable home and host supervisors and resolution authorities to prepare for a cross-border crisis affecting a firm and to facilitate the firm's orderly resolution.[19]
- Outside of formal supervisory colleges and crisis management groups, **LISCC staff also meet regularly with foreign supervisors** to discuss supervisory issues and policy. These meetings also promote agency-to-agency information sharing and common understanding of supervisory programs as well as cooperation in supervisory work.

[19] See Financial Stability Board, "Key Attributes of Effective Resolution Regimes for Financial Institutions," October 2014, at https://www.fsb.org/2014/10/key-attributes-of-effective-resolution-regimes-for-financial-institutions-2/.

LISCC Program Workforce

Examiner Qualifications/Commissioning

LISCC Program examination staff and leadership are held to high learning expectations that follow Federal Reserve System standards. These standards promote consistency and effectiveness in the execution of supervision across the LISCC Program.

The Federal Reserve has a comprehensive supervisory education framework, which includes the Large Financial Institutions Examiner Commissioning Program (LFI ECP).[20] The LFI ECP curriculum is designed to provide a broad perspective with respect to LFI supervisory expectations, requirements, and practices. The curriculum includes online, classroom, and on-the-job training requirements. The curriculum culminates with a proficiency examination leading to a formal examiner commission.

In addition, the Federal Reserve's learning program includes a Continuing Professional Development (CPD) program. The CPD program provides supervision staff opportunities to maintain job knowledge, develop new skills, and expand knowledge into specialized areas.

Conflicts of Interest

LISCC Program supervisory staff are subject to conflicts of interest rules and examiner credentialing requirements, as well as to each Federal Reserve Bank's Code of Conduct (applicable to employees of that Reserve Bank).[21] Stated generally, these rules provide that staff may not participate in a supervisory matter or examination of an institution if the staff member has a relationship or financial interest that might result in a conflict of interest or the appearance of a conflict of interest. Relationships that may create a conflict of interest include, but are not limited to, investments, borrowings, prior employment, and employment of family members.[22]

Staff must have an examiner credential to examine or inspect an institution. A credential, approved and issued by the Board, enables staff to participate as an examiner in an examination or inspection of an institution in accordance with the credential and subject to borrowing and conflicts of interest restrictions.[23]

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[20] For more information on LFI-ECP, see SR 17-6/CA 17-1, "Overview of the Federal Reserve's Supervisory Education Programs," at https://www.federalreserve.gov/supervisionreg/srletters/sr1706.htm.

[21] These conflicts of interest rules and examiner credentialing requirements supplement the standards contained in 18 U.S.C. § 208, federal ethics regulations (applicable to Board staff) in 5 C.F.R. parts 2635 and 2640.

[22] See 18 U.S.C. §213 and the policy at Federal Reserve Administrative Manual 5-041, "Investment Policy, Borrowing Prohibitions, Recusal from Examinations and Inspections," https://www.federalreserve.gov/boarddocs/srletters/2005/sr0502a1.pdf.

[23] See 18 U.S.C. §213 and Federal Reserve Administrative Manual 5-041.

Appendix A: Supervisory and Examination Resources

Federal Reserve Supervision Manuals and Examination Procedures

Bank Holding Company Supervision Manual and supplements, https://www.federalreserve.gov/publications/supervision_bhc.htm

Commercial Bank Exam Manual and supplements, https://www.federalreserve.gov/publications/supervision_cbem.htm

Consumer Compliance Handbook, https://www.federalreserve.gov/boarddocs/supmanual/cch/cch.pdf

Federal Financial Institutions Examination Council (FFIEC) *Bank Secrecy Act/Anti-Money–Laundering Examination Manual*, https://bsaaml.ffiec.gov/manual

FFIEC Information Technology (IT) Examination Handbook, https://ithandbook.ffiec.gov/

Other Federal Agency Supervisory Manuals

Consumer Financial Protection Bureau *Supervision and Examination Manual*, https://files.consumerfinance.gov/f/documents/cfpb_supervision-and-examination-manual.pdf

Federal Deposit Insurance Corporation (FDIC) *Risk Management Manual of Examination Policies*, https://www.fdic.gov/regulations/safety/manual/?msclkid=4d3c9659bc3811ec80cfafb8179d30c1

FDIC *Trust Examination Manual*, https://www.fdic.gov/regulations/examinations/trustmanual/

Office of the Comptroller of the Currency *Comptroller's Handbook* ("Safety and Soundness" series), https://occ.gov/publications-and-resources/publications/comptrollers-handbook/index-comptrollers-handbook.html?msclkid=9a48f284bc3811ec94bc5e1c7e626653

Appendix B: Supervisory Communication Disclosures

Confidential Supervisory Information Disclosure: "THIS DOCUMENT IS STRICTLY CONFIDENTIAL – This document has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The document is the property of the Board of Governors and is furnished to directors and management for their confidential use. The document is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 U.S.C. 1817(a) and 1831m) and in the regulations of the Board of Governors (12 C.F.R. 261.20). Under no circumstances should the directors, officers, employees, trustees, or independent auditors disclose or make public this document or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the document may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 U.S.C. 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this document. In making this review, it should be noted that this document is not an audit and should not be considered as such."

Material Supervisory Determination Disclosure: "Any institution about which the Federal Reserve makes a written material supervisory determination is eligible to utilize the appeals process as described in Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System, 85 Fed. Reg. 15,175 (March 17, 2020). An appeal under this process may be made of any written material supervisory determination, as defined in the policy statement. The Board's Ombudsman (Ombudsman) can provide assistance regarding questions related to the System's material supervisory determination appeals process and claims of retaliation. The Ombudsman can also provide assistance to facilitate the informal resolution of concerns prior to the filing of a formal appeal. An institution may contact the Ombudsman at any time by calling 1-800-337-0429, by sending a facsimile to 202-530-6208, by writing to the Office of the Ombudsman, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or by sending an email to ombudsman@frb.gov."

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