

Attachment  
**Supervisory Considerations for the Communication of  
Supervisory Findings**

**Purpose**

The purpose of this supervisory guidance is to update and clarify the manner in which Federal Reserve examiners communicate supervisory findings to banking organizations and institutions supervised by the Federal Reserve (collectively referred to as “banking organizations” or “organizations” in this guidance). This guidance discusses the Federal Reserve’s standard language for examination/inspection findings, which improves the consistency and clarity of written communications to banking organizations, and enhances the focus on matters requiring attention by the organization’s board of directors. This guidance also highlights supervisory considerations for corrective actions and Reserve Bank follow-up. In particular, this guidance reaffirms the definitions for *Matters Requiring Immediate Attention* (MRIAs) and *Matters Requiring Attention* (MRAs) and their use by safety-and-soundness and consumer compliance examiners when communicating supervisory findings to banking organizations.<sup>1</sup>

**Communication of Supervisory Findings**

Communication of supervisory findings to the organization’s board of directors is an important part of the supervision of a banking organization. While the board itself may not directly undertake the work to remediate supervisory findings as senior management is responsible for the organization’s day-to-day operations, it is nevertheless important that the board be made aware of significant supervisory issues and ultimately be accountable for the safety and soundness and assurance of compliance with applicable laws and regulations of the organization.

Depending upon the size and complexity of the organization, supervisory findings are communicated in writing through formal examination or inspection reports, reports summarizing the results of targeted reviews, a roll-up of those reviews into a comprehensive report, any other supervisory communication, or some combination thereof. These written communications (referred to collectively as “reports” in this document) are generally directed to the board of directors, or an executive-level committee of the board,<sup>2</sup> as appropriate. In turn, the board of directors (or executive-level committee of the board) typically will direct the organization’s management to take corrective action and will provide management with appropriate oversight, including approvals of proposed management actions as necessary.

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<sup>1</sup> Examiners’ use of these standard terms (MRIAs and MRAs) facilitates the Federal Reserve’s national systems of record for information related to examination and inspection issues. This standardization enables the Federal Reserve to access information about supervisory issues and remediation efforts and aids in the identification of systemic and programmatic challenges facing banking organizations supervised by the Federal Reserve.

<sup>2</sup> An executive-level committee of the board (such as, the audit committee or risk committee) typically meets regularly, keeps minutes of those meetings, and is accountable to and routinely reports to the board of directors.

To be effective, the communication of supervisory findings must be: (1) written in clear and concise language; (2) prioritized based upon degree of importance; and (3) focused on any significant matters that require attention.

Reserve Banks must formally communicate MRIs and MRAs resulting from any supervisory activity to the organization in these written reports. In order to promote an understanding of these terms, examiners should include definitions of MRIs and MRAs in all supervisory documents communicating supervisory findings.<sup>3</sup> When included in a safety-and-soundness examination or inspection report, MRIs and MRAs should be listed in the “Matters Requiring Attention” section. In the case of findings from consumer compliance examinations, MRIs and MRAs should be reflected in the “Executive Summary and Examination Ratings” section of the consumer affairs report of examination. Only outstanding MRIs and MRAs are required to be discussed in the report; however, examiners have discretion to discuss closed MRIs and MRAs in the report if such discussion would be meaningful.

For large banking organizations, an annual roll-up report summarizes the significant findings, based on outstanding MRIs or MRAs, included in the reports of targeted reviews or other supervisory activities conducted during the supervisory cycle. These findings may be grouped by major supervisory issues, rating components, risks, or themes. This information should enable the banking organization’s board of directors and any executive-level committee of the board to understand the substance and status of outstanding MRIs or MRAs and focus their attention on the most critical and time-sensitive issues.

Communications to banking organizations concerning safety-and-soundness or consumer compliance MRIs or MRAs must specify a timeframe within which the banking organization must complete the corrective actions. In certain circumstances, examiners may require the banking organization to submit an action plan that identifies remedial actions to be completed within specified timeframes. Action plans with intermediate- and long-term timeframes that span more than one supervisory or examination cycle with regard to safety-and-soundness matters, or a twelve-month period with regard to consumer compliance issues, should include interim progress targets. Both safety-and-soundness and consumer protection or compliance considerations will remain a priority in determining whether the organization’s timeframes to correct the matter are reasonable.

### ***Matters Requiring Immediate Attention***

MRIs arising from an examination, inspection, or any other supervisory activity are matters of significant importance and urgency that the Federal Reserve requires banking organizations to address immediately and include: (1) matters that have the potential to pose significant risk to the safety and soundness of the banking organization; (2) matters that represent significant noncompliance with applicable laws or regulations; (3) repeat criticisms that have escalated in importance due to insufficient attention or inaction by the banking organization; and (4) in the case of consumer compliance examinations, matters that have the potential to cause

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<sup>3</sup> In a safety-and-soundness report, these definitions could be included on the “Scope” page, in an appendix, or as a footnote on the “Matters Requiring Attention” section. In a consumer compliance report, these definitions could be included on the “Executive Summary and Examination Ratings” section.

significant consumer harm. An MRIA will remain an open issue until resolution and examiners confirm the banking organization's corrective actions.

*Required Language:* Federal Reserve examiners are expected to use the standardized language below to communicate MRIAs to the board of directors (or executive-level committee of the board):

- “The board of directors (or executive-level committee of the board), or banking organization **is required to immediately . . .**”

*Timeframe:* The expected timeframe for a banking organization to address MRIAs is generally short, and may be “immediate,” in the case of heightened safety-and-soundness or consumer compliance risk. For MRIAs that are necessary to preserve or restore the viability of a banking organization, the timeframe should take into account any potential losses to the Federal Deposit Insurance Corporation's Deposit Insurance Fund, including the possibility that a delay in action will increase the potential for loss or the cost of resolution.

*Organization Response:* Following its review of MRIAs discussed in the report, the banking organization's board of directors is required to respond to the Reserve Bank in writing regarding corrective action taken or planned along with a commitment to corresponding timeframes.

*Supervisory Follow-up:* The Reserve Bank must follow up on MRIAs to assess progress and verify satisfactory completion. The timeframe for follow-up should correspond with the timeframe specified for the action being required, and should be appropriate for the severity of the matter requiring the corrective action. The means of follow-up may vary depending upon the nature and severity of the matter requiring the action. Follow-up may take the form of a subsequent examination, a targeted review, or any other supervisory activity deemed suitable for evaluating the issue at hand.

In some cases, when follow-up indicates the organization's corrective action has not been satisfactory, the initiation of additional formal or informal investigation or enforcement action may be necessary. In such cases, examiners should consult with enforcement staff.<sup>4</sup> In all instances, examiners are expected to exercise judgment as to the supervisory activities best suited for evaluating a particular issue. Once follow-up is completed, examiners are expected to clearly and fully document the rationale for their decision to close any issue. Examiners are also expected to communicate in writing the results of their work and findings to the banking organization.

### ***Matters Requiring Attention (MRAs)***

MRAs constitute matters that are important and that the Federal Reserve is expecting a banking organization to address over a reasonable period of time, but when the timing need not be “immediate.” While issues giving rise to MRAs must be addressed to ensure the banking

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<sup>4</sup> Such consultation should be made in accordance with existing guidance to Reserve Bank supervisory staff on the processing of enforcement actions, which provides that recommendations concerning formal enforcement actions should be submitted simultaneously to both the Board's Legal Division and Division of Banking Supervision and Regulation.

organization operates in a safe-and-sound and compliant manner, the threat to safety and soundness is less immediate than with issues giving rise to MRAs. Likewise, consumer compliance concerns that require less immediate resolution should be communicated as an MRA. An MRA typically will remain an open issue until resolution and confirmation by examiners that the banking organization has taken corrective action. If a banking organization does not adequately address an MRA in a timely manner, examiners may elevate an MRA to an MRIA. Similarly, a change in circumstances, environment, or strategy can also lead to an MRA becoming an MRIA. The key distinction between MRIsAs and MRAs is the nature and severity of matters requiring corrective action, as well as the immediacy with which the banking organization must begin and complete corrective actions.

*Required Language:* Federal Reserve examiners are expected to use the standardized language below to communicate MRAs to the board of directors (or executive-level committee of the board):

- “The board of directors (or executive-level committee of the board), or banking organization **is required to . . .**”

*Timeframe:* Communications to banking organizations about MRAs must specify a timeframe within which the corrective action is expected to be completed. The timeframe, at least initially, may require estimation because the banking organization may first need to complete preliminary planning to establish the timeframe for initiating and completing the corrective action. The timeframes for MRAs are likely to become more precise over time as planning evolves and circumstances make the completion of the MRAs more urgent. Timeframes that span more than one examination cycle for safety-and-soundness issues or that exceed twelve months for consumer compliance issues should include appropriate interim progress reports.

*Organization Response:* Following its review of the report, the banking organization’s board of directors is required to provide a written response to the Reserve Bank regarding its plan, progress, and resolution of the MRA.

*Supervisory Follow-up:* The Reserve Bank must follow-up on MRAs to assess progress and verify satisfactory completion. The timeframe for follow-up should correspond with the timeframe during which actions are to be completed. For intermediate- or long-term corrective actions for MRAs, Reserve Bank follow-up may consist of assessing the organization’s progress to address the MRAs, whether satisfactory or unsatisfactory, and noting whether the initial estimated timeframe continues to be reasonable or warrants adjustment.

The means of supervisory follow-up may vary based upon the nature and severity of the matter for which corrective action is expected. Follow-up may take the form of a subsequent examination, targeted review, continuous monitoring, reliance on validation work conducted by an internal audit function,<sup>5</sup> reliance on the results of examinations conducted by other supervisors, or any other supervisory activity deemed suitable for evaluating the issue at hand.

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<sup>5</sup> Examiners may choose to rely on the work of internal audit when internal audit’s overall function and related processes are effective, as discussed in SR letter 13-1/CA letter 13-1, “Supplemental Policy Statement on the

In some cases, when follow-up indicates the organization's corrective action has not been satisfactory, the initiation of additional formal or informal investigation or enforcement action may be necessary. In all instances, examiners are expected to exercise judgment regarding the supervisory activities best suited for evaluating a particular issue. Once follow-up is complete, examiners are expected to clearly and fully document the rationale for their decision to close any issue. Examiners also are expected to communicate in writing the results of their work and findings to the organization.

### **Supervisory Considerations**

The volume of MRIsAs and MRAs should be one of the many considerations in assigning a supervisory rating to a banking organization. The presence of a large number of MRIsAs or MRAs may indicate that additional formal or informal investigation may be necessary or that the initiation of a formal or informal enforcement action may be warranted.

Irrespective of the number of MRIsAs or MRAs, in some cases, additional formal or informal investigation may be necessary or the initiation of a formal or informal enforcement action may be warranted based on the severity of the issues, the repeat nature of issues, lack of responsiveness of management, violations of law, insider abuse, fraud, or other material deficiency. In any of these cases, examiners should consult with the Board enforcement staff in the Legal Division and the Division of Banking Supervision and Regulation.

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Internal Audit Function and Its Outsourcing.” When relying on internal audit to follow-up on MRAs, examiners are expected to review the relevant work papers and, when necessary, meet with internal audit staff who documented the resolution of the issue.