Description of document:	Board of Governors of the Federal Reserve System briefing materials related to the Presidential transition for Agency Review Teams or Agency Landing Teams, 2016
Requested date:	06-December-2016
Denial date:	01-March-2017
Appeal date:	02-March-2017
Release date:	18-September-2017
Posted date:	12-August-2019
Source of document:	Information Disclosure Section Board of Governors of the Federal Reserve System 20th & Constitution Avenue, NW Washington, DC 20551 Fax: (202) 872-7565, (to: Information Disclosure Section) Electronic Request Form

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

September 18, 2017

JEROME H. POWELL
MEMBER OF THE BOARD

Re: *Appeal of Freedom of Information Act Request No. F-2017-0048*

This is in response to your letter dated March 2, 2017, and received by the Board's Freedom of Information Office on March 9, in which you appeal, pursuant to 12 C.F.R. § 261.13(i), the decision of the Assistant Secretary of the Board ("Assistant Secretary") to deny your request for information under the Freedom of Information Act ("FOIA"), 5 U.S.C. § 552.

By e-mail message dated and received by the Board's Freedom of Information Office on December 6, 2016, you requested the following documents:

> a copy of the Federal Reserve agency briefing materials related to the Presidential transition for Agency Review Teams or Agency Landing Teams. [You are] primarily interested in records from the time period July 1, 2016 to present.

By letter dated March 1, 2017, the Assistant Secretary advised you that the responsive documents were subject to withholding pursuant to exemption 5 of the FOIA, 5 U.S.C. § 552(b)(5). The Assistant Secretary further advised that the documents were reviewed under the requirements of subsection (b) of the FOIA, 5 U.S.C. § 552(b), but no reasonably segregable nonexempt information was found.

By letter dated March 2, 2017, and received by the Board's Freedom of Information Office on March 9, you appealed the Assistant Secretary's determination. You assert that the transition documents you seek likely contain information that is neither predecisional nor deliberative and therefore not exempt from release.

Upon a de novo review of the Assistant Secretary's decision, I find that the documents at issue may be released to you in full. The Board's Freedom of Information Office will provide the documents to you under separate cover. Accordingly, your FOIA request for presidential transition briefing materials has been granted in full.

Sincerely,

Jerome H. Powell

Federal Reserve Transition

Table of Contents

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-5

March 4, 2016

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

SUBJECT: Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions

Applicability: This guidance applies to all state member banks, bank holding companies, and nonbank subsidiaries of bank holding companies, regardless of the asset size of the supervised institution.

The Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (agencies) are issuing the attached *Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions* to describe aspects of the agencies' appraisal regulations[1] and the *Interagency Appraisal and Evaluation Guidelines*.[2] In outreach meetings conducted by the agencies pursuant to the requirement of the Economic Growth and Regulatory Paperwork Reduction Act, representatives from the financial industry raised questions regarding supervisory expectations for using an evaluation instead of an appraisal for estimating the market value of real property securing real estate-related financial transactions. Many of these questions pertained to the circumstances under which evaluations may be used in the underwriting of real estate-related financial transactions and how to support a market value conclusion when there have been few or no recent comparable sales. Therefore, the agencies are issuing this advisory to respond to those questions and to describe existing supervisory expectations, guidance, and industry practice.

In particular, the advisory reminds institutions about the appropriate use of an evaluation when determining the market value of real property for certain real estate-related financial transactions. It highlights that preparers of an evaluation may be internal bank employees or third parties that are knowledgeable, competent, and independent of the transaction. Further, the advisory discusses various valuation methods commonly used for developing a market value conclusion. The agencies remind institutions that regardless of the valuation method used, an evaluation should contain sufficient information to support the value conclusion. Institutions are

[1] See the Board's appraisal rules: 12 CFR 208 subpart E (state member banks) and 12 CFR 225 subpart G (bank holding companies).

[2] See SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines."

reminded to refer to the *Interagency Appraisal and Evaluation Guidelines* for further guidance concerning evaluations.

Federal Reserve Banks are asked to distribute this letter to supervised institutions in their districts, as well as to supervisory and examination staff. For questions related to this advisory, please contact Carmen Holly, Senior Supervisory Financial Analyst, at (202) 973-6122. In addition, questions may be sent via the Board's public website.[3]

Michael S. Gibson
Director

Attachment:

- *Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions*

Cross References to:

- SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines"

[3] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency

Interagency Advisory on Use of Evaluations in Real Estate-Related Financial Transactions

March 4, 2016

In outreach meetings conducted by the federal banking agencies[1] (agencies) pursuant to the requirement of the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA),[2] representatives from the financial industry raised questions regarding supervisory expectations for using an evaluation instead of an appraisal for estimating the market value of real property securing real estate-related financial transactions.

Many questions pertained to the circumstances under which evaluations may be used in the underwriting of real estate-related financial transactions and how to support a market value conclusion when there have been few or no recent comparable sales. The federal banking agencies are providing this advisory to respond to those questions by describing existing supervisory expectations, guidance, and industry practice.

Transactions That Permit Evaluations

The agencies' appraisal regulations[3] require financial institutions regulated by the agencies to obtain an appraisal completed by a competent and qualified state-licensed or state-certified appraiser that complies with the Uniform Standards of Professional Appraisal Practice (USPAP)[4] for any real estate-related financial transaction, unless an exception applies.

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[1] The federal banking agencies include the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (Board), and the Office of the Comptroller of the Currency (OCC).

[2] The federal banking agencies are currently conducting a review of their respective regulations pursuant to the EGRPRA, including their appraisal regulations, in order to evaluate whether they are outdated, unnecessary, or unduly burdensome, and to consider how to reduce regulatory burden on insured depository institutions while, at the same time, ensuring their safety and soundness and the safety and soundness of the financial system. This guidance is responding to specific questions that have been raised about appraisals as part of the agencies' EGRPRA outreach process, but this guidance is not intended to indicate the completion of their EGRPRA review of appraisal requirements, which is ongoing. See transcripts at: http://egrpra.ffiec.gov/outreach/outreach-index.html.

[3] See FDIC: 12 CFR 323; Board: 12 CFR 208 subpart E and 12 CFR 225 subpart G; and OCC: 12 CFR 34, subpart C. The National Credit Union Administration (NCUA) regulations are located at 12 CFR 722, but NCUA is not a party to this Advisory as it is being issued in response to comments raised during the EGRPRA process, and NCUA is not required to participate in EGRPRA.

[4] Appraisal Standards Board of The Appraisal Foundation, Uniform Standards of Professional Appraisal Practice (2016-2017), available at: http://www.appraisalfoundation.org/TAF/Standards/Appraisal_Standards/TAF/USPAP.aspx?hkey=5a640dda-464d-4683-b4e1-190201e0eda7.

Under the appraisal regulations, the following transaction types do not require an appraisal, but do require an evaluation:

- Transactions where the "transaction value"[5] (generally the loan amount) is $250,000 or less;[6]
- Certain renewals, refinances, or other transactions involving existing extensions of credit; and
- Real estate-secured business loans with a transaction value of $1,000,000 or less and when the sale of, or rental income derived from, real estate is not the primary source of repayment for the loan.

There may be instances when a financial institution finds it prudent or necessary to go beyond the requirements of the agencies' appraisal regulations. For example, obtaining an appraisal may be prudent for credit risk management purposes or may be a prerequisite to participating in some secondary market transactions. Additionally, a financial institution may find it prudent to obtain an appraisal rather than an evaluation when the institution's portfolio risk increases or for higher-risk real estate-related financial transactions.

Preparation of an Evaluation

The Interagency Appraisal and Evaluation Guidelines (Guidelines)[7] provide guidance on the use of and parameters for evaluations. An evaluation is not required to be completed by a state-licensed or state-certified appraiser or to comply with USPAP. The evaluation preparer should, however, be knowledgeable, competent, and independent of the transaction and the loan production function of the institution. Evaluations may be completed by a bank employee or by a third party. In smaller communities, bankers and third-party real estate professionals have access to local market information and may be qualified to prepare evaluations for an institution.

An individual who prepares an evaluation may consider one or more valuation approaches or methodologies to estimate the market value of real estate. The valuation profession considers three approaches to valuing real estate, namely the sales comparison approach, the cost approach, and the income approach. An evaluation should provide a reliable estimate of the market value of the property and, therefore, the approach or approaches used in an evaluation should be appropriate to the property being valued. For most residential properties and some commercial properties, the person preparing an evaluation may obtain data on recent sales of properties similar to the property being valued that reflect recent market activity. Such comparable sales

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[5] "Transaction value" is a defined term in the interagency appraisal regulation. *See* FDIC: 12 CFR 323.2(m); Board: 12 CFR 225.62(m); and OCC: 12 CFR 34.42(m).

[6] Other regulations may require obtaining an appraisal for certain transactions with transaction values under the threshold. For example, an appraisal may be required under Regulation Z for any transaction that is considered a higher-priced mortgage loan under that regulation due to its interest rate. See Consumer Financial Protection Bureau: 12 CFR 1026.35; Board: 12 CFR 226.43; and OCC: 12 CFR 34, subpart G.

[7] *See* Interagency Appraisal and Evaluation Guidelines, Federal Register, Vol. 75, No. 237, December 10, 2010, page 77450, at https://www.gpo.gov/fdsys/pkg/FR-2010-12-10/pdf/2010-30913.pdf. While the National Credit Union Administration (NCUA) has appraisal regulations and is a party to the Guidelines, the NCUA is not a party to this Advisory as it is being issued in response to comments raised during the EGRPRA process, and NCUA is not required to participate in EGRPRA.

present direct market evidence that may be useful to the preparer in estimating the market value of the subject property.
Some valuation assignments, such as for properties in rural areas or non-disclosure states[8] or properties that are not sufficiently similar to other properties in the local market, may be more challenging due to a lack of comparable sales data. Although the sales comparison approach is the most used valuation method, in areas where there have been few, if any, recent comparable sales of similar properties in reasonable proximity to the subject property, the person who performs an evaluation may consider alternative valuation methods and other information for developing an evaluation and supporting a market value conclusion. For example, the cost approach[9] to valuing real property might be appropriate, particularly if the property is newer construction. Similarly, for an income producing or rental property, the income approach[10] could be appropriate to support a market value conclusion in an evaluation. There are many sources of information available to financial institutions that describe the valuation processes applicable to income-producing properties.

The Guidelines discuss the possible use of several analytical methods and technological tools, such as automated valuation models and tax assessment values. To use one of these methods, an institution should be able to demonstrate that the valuation method is consistent with safe-and-sound banking practices and the Guidelines. The Guidelines detail expectations for selecting, using, and validating an analytical method or technological tool. Institutions should establish policies and procedures that specify the supplemental information that is required to develop an evaluation.

Contents of an Evaluation Report

The Guidelines provide information regarding the minimum content that should be contained in an evaluation. Unlike an appraisal report that must be written in conformity with the requirements of USPAP, there is no standard format for documenting the information and analysis performed to reach a market value conclusion in an evaluation. Regardless of the approach or methodology used to estimate the market value of real property, an evaluation should contain sufficient information to allow a reader to understand the analysis that was performed to support the value conclusion and the institution's decision to engage in the transaction.

[8] States that do not disclose a property's actual sales price are referred to as non-disclosure states.

[9] See definition for cost approach in *The Dictionary of Real Estate Appraisal*, sixth edition, Appraisal Institute, Chicago 2013, page 54.

[10] A discussion of the income approach is included in chapters 23 and 24 of *The Appraisal of Real Estate*, 14th edition, Appraisal Institute, Chicago, 2013.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-6

March 10, 2016

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

SUBJECT: Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations

Applicability to Community Banking Organizations: This guidance applies to certain state member banks and U.S. branches and agencies of foreign banks with less than $1 billion in total assets meeting the criteria described in the letter.

The Federal Reserve is issuing this letter to provide an update on recent changes to the criteria for state member banks (SMB) and U.S. branches and agencies of foreign banks to be eligible for an expanded examination cycle of 18 months (as opposed to 12 months).

Section 10(d) of the Federal Deposit Insurance Act (FDI Act) generally requires the appropriate federal banking agency for an insured depository institution (IDI) to conduct a full-scope, on-site examination at least once every 12 months, but permits a longer cycle—at least once every 18 months—for IDIs that meet certain criteria, including the requirement that the IDI must have total assets below a specified size limit.[1] Section 83001 of the Fixing America's Surface Transportation Act[2] amended the FDI Act to increase from $500 million to $1 billion the total asset threshold below which a federal banking agency may examine an IDI on an 18-month examination cycle, rather than a 12-month examination cycle.

On February 29, 2016, the Board published in the *Federal Register* an interim final rule that amended Regulation H to raise the asset threshold for an SMB to be eligible for the 18-month examination cycle to the new statutory maximum, from less than $500 million to less than $1 billion.[3] The interim final rule also made parallel changes to Regulation K, which governs the on-site examination cycle for Board-supervised U.S. branches and agencies of

[1] 12 U.S.C. 1820(d).

[2] Public Law No. 114-94, 129 Stat. 1312 (2015).

[3] See 81 *Fed. Reg.* 10063 (February 29, 2016), available at https://www.gpo.gov/fdsys/pkg/FR-2016-02-29/pdf/2016-03877.pdf.

foreign banks, consistent with section 7(c)(1)(C) of the International Banking Act of 1978.[4] The interim final rule was made effective February 29, 2016, and was published jointly with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), both of which adopted similar changes to their regulations.

Accordingly, a SMB with less than $1 billion in total assets may be eligible for an 18-month examination cycle if it satisfies the following criteria:

1) The SMB is well capitalized;
2) At the most recent Federal Reserve or applicable state banking agency examination,[5] the Federal Reserve assigned a management component rating of "1" or "2" and a CAMELS composite rating of "1" or "2;"[6]
3) The SMB is currently not subject to a formal enforcement proceeding or order by the Federal Reserve or the FDIC; and
4) No person acquired control of the bank during the preceding 12-month period in which a full-scope examination would have been required but for the 18-month examination cycle eligibility provision.[7]

A U.S. branch or agency of a foreign bank with less than $1 billion in total assets may be eligible for an 18-month on-site examination cycle if it received, at its most recent examination, a composite condition rating of "1" or "2" under the supervisory rating system and if it satisfies the following criteria:

1) Either: (a) the foreign bank's most recently reported tier 1 and total risk-based capital ratios are at least 6 percent and 10 percent, respectively, on a consolidated basis; or (b) the branch or agency has maintained on a daily basis, over the past three quarters, eligible assets in an amount not less than 108 percent of the preceding quarter's average third-party liabilities (determined consistent with applicable federal and state law) and sufficient liquidity is currently available to meet its obligations to third parties;
2) The branch or agency is not subject to a formal enforcement action or order by the Board, FDIC, or OCC; and
3) The branch or agency has not experienced a change in control during the preceding 12-month period in which a full-scope, on-site examination would have been required but for the 18-month examination cycle eligibility provision.[8]

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[4] 12 U.S.C. 3105(c)(1)(C).

[5] The Board is permitted to conduct on-site examinations of SMBs on alternating 12-month or 18-month periods with the institution's State supervisor, if the Board determines that the alternating examination conducted by the State carries out the purposes of section 10(d) of the FDI Act. 12 U.S.C. 1820(d)(3).

[6] For more information on safety-and-soundness examination ratings, see SR letter 96-38, "Uniform Financial Institutions Rating System."

[7] 12 CFR 208.64.

[8] 12 CFR 211.26(c).

The Federal Reserve may consider additional factors when determining the eligibility of a U.S. branch or agency of a foreign bank for an 18-month examination cycle, including whether (1) any of the individual components of the supervisory rating system of a branch or agency of a foreign bank is rated "3" or worse; (2) the results of any off-site surveillance indicate a deterioration in the condition of the branch or agency; (3) the size, relative importance, and role of a particular branch or agency in the context of the foreign bank's entire U.S. operations otherwise necessitate an annual examination; and (4) the condition of the foreign bank gives rise to such a need.[9]

Implementation

Reserve Banks should immediately implement the expanded 18-month examination cycle eligibility for SMBs and the U.S. branches and agencies of foreign banks that have total assets of less than $1 billion and that meet the other criteria of 12 CFR 208.64 or 211.26(c), as appropriate. The Federal Reserve maintains the authority to examine SMBs and the U.S. branches and agencies of foreign banks more frequently as necessary or appropriate, and Reserve Banks should exercise this authority as necessary or appropriate. The attachment to this letter, *Overview of State Member Bank Examination Frequency and Coordination*, briefly summarizes the overall SMB examination frequency framework.

The Federal Reserve is required to complete a Bank Secrecy Act (BSA)/anti-money laundering (AML) compliance program review at each safety-and-soundness examination conducted at a SMB or U.S. branch or agency of a foreign bank, which is typically every 12 months.[10] However, Reserve Banks should conduct a BSA/AML compliance program review every 18 months at each SMB or U.S. branch or agency of a foreign bank that is eligible for and is examined on the extended 18-month examination cycle.

Reserve Banks are asked to distribute this letter to SMBs and Board-supervised U.S. branches and agencies of foreign banks that are within the scope of this guidance, as well as to appropriate supervisory and examination staff. Questions regarding this letter should be directed to the following staff in the Board's Division of Supervision and Regulation: Richard Watkins, Deputy Associate Director, at (202) 452-3421, Anthony Cain, Manager, at (202) 912-4377, and Alex Kobulsky, Supervisory Financial Analyst, at (202) 452-2031. In addition, questions may be sent via the Board's public website.[11]

Michael S. Gibson
Director

[9] 12 CFR 211.26(c)(ii).

[10] 12 U.S.C. 1818(s)(2) and 12 U.S.C. 1818(b)(4).

[11] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Attachment

- *Overview of State Member Bank Examination Frequency and Coordination*

Cross references to:

- SR letter 96-38, “Uniform Financial Institutions Rating System”

Supersedes:

- SR letter 07-8, “Expanded Examination Cycle for Certain Financial Institutions”
- SR letter 99-31, “Extended Examination Cycle for U.S. Branches and Agencies of Foreign Banks”
- SR letter 97-8, “Revisions to Examination Frequency Guidelines For State Member Banks”

Overview of State Member Bank Examination Frequency and Coordination[1]

<table>
<tr><th>Total Asset Size of the State Member Bank (SMB)[2]</th><th>Composite CAMELS rating of "1" or "2"from the last examination</th><th>Composite CAMELS rating of "3" from the last examination</th><th>Composite CAMELS rating of "4" or "5" from the last examination</th></tr>
<tr><td>$0 to less than $1 billion</td><td>Full-scope on-site exam every 18 months, provided:
• SMB is well capitalized;
• SMB received a CAMELS composite rating of "1" or "2" and a management component rating of "1" or "2" at the most recent Federal Reserve or applicable state banking agency examination;
• SMB not subject to a formal enforcement proceeding or order by Federal Reserve or FDIC; and
• No person acquired control of the SMB during the preceding 12-month period in which a full-scope exam would have been required but for the 18-month exam cycle
Otherwise, full-scope exam every 12 months.
May be eligible for alternate-year examination program (AEP).[3]</td><td rowspan="2">Full-scope on-site exam every 12 months conducted by the Federal Reserve or jointly with the relevant state banking agency. A targeted exam conducted by the Federal Reserve or jointly with the state banking agency is also required annually for deteriorating institutions.[4]</td><td rowspan="2">Two exams are required every 12 months. One of the two exams must be a full-scope exam. Both exams must be conducted by the Federal Reserve or jointly with the relevant state banking agency.</td></tr>
<tr><td>$1-$10 billion</td><td>Full-scope on-site exam every 12 months. May be eligible for AEP.</td></tr>
<tr><td>Greater than $10 billion and less than $50 billion</td><td colspan="3">Full-scope on-site exam every 12 months. Some SMBs rated CAMELS composite "1" and "2" may be eligible for an AEP. The SMB is subject to continuous monitoring, and exam activities are intensified based on the severity of issues at the bank.</td></tr>
<tr><td>$50 billion and above</td><td colspan="3">Full-scope on-site exam every 12 months. The full-scope exam must be led by the Federal Reserve and may be joint with the relevant state banking agency. The SMB is subject to continuous monitoring, and exam activities are intensified based on the severity of issues at the bank.</td></tr>
</table>

[1] This table provides a brief summary of examination (exam) frequency requirements for SMBs. See the Federal Reserve Board's Regulation H, (12 CFR 208.64(b)), and Section 1000.1 of the *Commercial Bank Examination Manual* for more information on SMB exam frequency and coordination requirements.

[2] Exams of SMBs with more than $10 billion are typically integrated into the consolidated supervision program at the bank holding company.

[3] AEPs generally allow exams conducted in alternating years or alternating 18-month periods, as appropriate, to be conducted with the state banking agency along with Federal Reserve examiner presence. AEPs are implemented on a state-by-state basis. Consult the appropriate Reserve Bank for further information regarding eligibility and availability of an AEP in a particular state.

[4] The Federal Reserve typically identifies deteriorating banks through off-site surveillance information. See Section 1020.1 of the *Commercial Bank Examination Manual* for more information.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-7

March 21, 2016

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

SUBJECT: Interagency Guidance to Issuing Banks on Applying Customer Identification Program Requirements to Holders of Prepaid Access Cards

Applicability: This guidance applies to all state member banks and U.S. branches of foreign banks that authorize the use of prepaid cards. This includes state member banks and U.S. branches of foreign banks with less than $10 billion in total assets.

The Federal Reserve, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the U.S. Department of Treasury's Financial Crimes Enforcement Network are issuing the attached interagency guidance to clarify that a bank's Customer Identification Program (CIP)[1] should apply to the cardholders of general purpose prepaid cards that have the features of an account and are issued by a bank. This guidance states that general purpose prepaid cards should be treated as an account if it provides a bank's customer with (1) the ability to reload funds or (2) access to credit or overdraft features. The guidance applies to these cards even if they are sold, distributed, promoted, or marketed by third-party program managers.

The CIP rule, set forth in Section 326 of the USA PATRIOT Act,[2] requires a bank to obtain information sufficient to form a reasonable belief regarding the identity of each "customer," including, at a minimum, obtaining the customer's name, date of birth, address, and tax identification number and to establish risk-based procedures to verify the identity of new customers. To determine if CIP requirements apply to purchasers of prepaid cards, the issuing bank should first determine whether the issuance of a prepaid card results in the creation of an account; and if so, ascertain the identity of the holder of that card.

Reserve Banks are asked to distribute this letter to the supervised organizations in their districts and to appropriate supervisory staff. Questions regarding this letter, and the Customer

[1] The CIP rule is codified at 31 CFR 1020.220 and, for Board supervised entities, at 12 CFR 208.62(b)(2) and 211.24(j)(2). In addition, SR letter 05-9, "Frequently Asked Questions Relating to Customer Identification Program Rules," provides interagency guidance on common questions regarding the CIP Rule.

[2] 31 U.S.C. 5318(l).

Identification Program rule in the USA PATRIOT Act should be directed to the following individuals in Division of Banking Supervision and Regulation's BSA/AML Section: Koko Ives, Manager, at (202) 973-6163; or Lee Davis, Supervisory Financial Analyst, at (202) 912-4350. In addition, institutions may send questions via the Board's public website.[3]

Maryann Hunter
Acting Director

Attachment:

- *Interagency Guidance to Issuing Banks on Applying Customer Identification Program Requirements to Holders of Prepaid Access Cards*

Cross references to:

- SR letter 05-9, "Frequently Asked Questions Relating to Customer Identification Program Rules"

[3] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Board of Governors of the Federal Reserve
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Financial Crimes Enforcement Network

Interagency Guidance to Issuing Banks on Applying Customer Identification Program Requirements to Holders of Prepaid Cards

March 21, 2016

The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN) (collectively, the Agencies), are publishing this guidance to issuing banks[1] on the application of the joint regulations implementing the customer identification program (CIP) requirements set forth in Section 326 of the USA PATRIOT Act[2] (referred to in this guidance as the "CIP rule")[3] to their prepaid cards. Prepaid cards include those that are sold and distributed by third-party program managers, [4] as well as cards that are used to provide employee wages, healthcare, and government benefits. The guidance clarifies that a bank should apply its CIP to the cardholders of certain prepaid cards issued by the bank.[5]

[1] The term "issuing bank" used in this guidance means the bank that authorizes use of the prepaid card. Usually the issuing bank is the bank that has its name printed on the back of a prepaid card. A bank includes any commercial bank, savings association, or credit union, and branch of a foreign bank. See 31 CFR 1010.100(d).

[2] 31 USC 5318(l).

[3] 68 *Federal Register* (FR) 25090 (May 9, 2003) codified at 31 CFR 1020.220 (Treasury); 12 CFR 21.21 (OCC); 12 CFR 208.62(b)(2) and 211.24(j)(2) (FRB); 12 CFR 326 (FDIC); and 12 CFR 748.2 (NCUA).

[4] For purposes of this guidance, a third-party program manager is a company that designs, manages and operates a prepaid card program and contracts with a bank to issue prepaid cards under the program and to process transactions conducted using those cards. The third-party program manager also provides customer service and card distribution (sales). The third-party program manager may also be a "provider of prepaid access" under FinCEN's rule. See 31 CFR 1010.100(ff)(4). However, an issuing bank's responsibilities described in this guidance are separate from any Bank Secrecy Act requirements that are otherwise applicable to third-party program managers, or any other party in the prepaid payment chain.

[5] This guidance specifically refers to prepaid cards, but also is applicable to other prepaid access products, that meet the criteria described in this guidance. Such examples include certain prepaid access products offered through mobile phones or Internet sites that are used to access funds.

I. Introduction

Prepaid cards have become mainstream financial products, widely used by individuals, corporations, and other private sector entities, as well as state, federal and local governments.[6] General purpose prepaid cards can be used at multiple, unaffiliated merchants and can allow cardholders to perform a variety of functions, including those that have traditionally been conducted using other payment mechanisms, such as checks, debit cards tied to bank accounts, or credit cards.[7] These functions include withdrawing cash at automated teller machines (ATMs), paying bills, purchasing goods and services, and transferring funds to other cardholders and receiving funds transfers. Employers use prepaid cards to provide wages and other compensation or benefits, such as pre-tax flexible spending arrangements for healthcare expenses or dependent care. State, federal, and local governments use these financial products to distribute government benefits and tax refunds.

Prepaid cards can be purchased online and from a variety of physical locations, such as local bank branches, retail stores and supermarkets. A growing number of third-party program managers are selling prepaid cards online and at physical locations, in addition to managing prepaid card programs, processing transactions, and providing customer support.

Functionalities that make prepaid cards attractive to consumers also pose risks for banks that issue prepaid cards and process prepaid card transactions. For example, easy access to prepaid cards, the ability to use them anonymously, and the potential for relatively high volumes of funds to flow through pooled prepaid access accounts, make prepaid cards potentially vulnerable to criminal abuse.

The Agencies have made clear that the money laundering and other financial crime risks faced by banks that issue prepaid cards and process prepaid card transactions require the implementation of strong and effective mitigating controls.[8] Controls put in place by issuing banks and the prepaid card industry, such as limits on card value and the frequency and amount of transfers, as well as appropriate due diligence on third parties and cardholders, have helped mitigate these risks. However, questions have arisen regarding the application of the CIP rule to prepaid cards issued by banks, including with respect to prepaid cards issued by banks under arrangements with third-party program managers.

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[6] For further information, see the 2013 Federal Reserve Payments Study, available at https://www.frbservices.org/files/communications/pdf/research/2013_payments_study_summary.pdf.and the 2013 FDIC National Survey of Unbanked and Underbanked Households, available at https://www.fdic.gov/householdsurvey/. The survey noted a year over year increase in the use of prepaid cards with transactions focused largely on bill payment.

[7] By contrast, closed-loop prepaid cards, which are redeemable only at a single merchant or service provider, or a group of affiliated merchants or service providers, are generally not issued by banks and do not establish relationships that resemble formal banking relationships. Cardholders of closed-loop prepaid cards may only use the prepaid card to purchase goods or services from the merchant or service provider to which the cardholder or a third party has provided funds to load or reload the card.

[8] See the *FFIEC BSA/AML Examination Manual*, "Prepaid Access–Overview" (2014), p. 227, available at http://www.ffiec.gov/bsa_aml_infobase/pages_manual/OLM_061.htm.

II. CIP Rule Overview

In 2003, the Agencies issued the CIP rule that requires a bank to obtain information sufficient to form a reasonable belief regarding the identity of each "customer" opening a new "account."[9] The bank's CIP must include risk-based procedures for verifying its customers' identities to the extent reasonable and practicable. In particular, the CIP rule requires banks to implement a CIP that includes certain minimum requirements. First, a bank's CIP must include procedures for opening an account that, at a minimum, must include obtaining a name, date of birth, address, and identification number from a customer who is an individual.[10] Second, a bank's CIP must also include identity verification procedures that describe when and how the bank will verify the customer's identity using documentary or non-documentary methods.[11] Finally, the CIP rule has specific account recordkeeping and notice requirements.[12]

This guidance clarifies that certain prepaid cards issued by a bank should be subject to the bank's CIP, including when a bank issues prepaid cards under arrangements with third-party program managers that sell, distribute, promote, or market the prepaid cards issued by the bank. This may be the only relationship that the cardholder has with the bank.

In order to determine if CIP requirements apply to purchasers of prepaid cards, the bank should first determine whether the issuance of a prepaid card to a purchaser results in the creation of an account; and if so, ascertain the identity of the bank's customer. As discussed below, these determinations depend on the functionalities of the prepaid card issued.

III. Determining the Existence of an 'Account'

An "account" is defined in the CIP rule as "a formal banking relationship established to provide or engage in services, dealings, or other financial transactions, including a deposit account, a transaction or asset account, a credit account or other extension of credit." An account also includes "a relationship established to provide a safety deposit box or other safekeeping services or to provide cash management, custodian, or trust services."[13] An account does not include "products and services for which a formal banking relationship is not generally established with a person, such as check cashing, wire transfer, or the sale of a check or money order." For CIP purposes, an account does not include any account that the bank acquires, or accounts opened, to participate in an employee benefit plan established under the Employee Retirement Income Security Act of 1974.[14]

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[9] 31 CFR 1020.100(c), (a).

[10] 31 CFR 1020.220(a)(2)(i).

[11] 31 CFR 1020.220(a)(2)(ii).

[12] 31 CFR 1020.220(a)(3) and (a)(5).

[13] 31 CFR 1020.100 (a)(1).

[14] 31 CFR 1020.100(a)(2).

Certain prepaid cards exhibit characteristics that are analogous to deposit accounts, such as checking or other types of transactional accounts.[15] Some of these cards are linked to, and permit use of, funds held by a bank, even though the funds may be managed by, or distributed through, a third-party program manager.[16] As described below, for purposes of the CIP rule, prepaid cards that provide a cardholder with (1) the ability to reload funds or (2) access to credit or overdraft features should be treated as accounts.

a. General Purpose Prepaid Cards With the Ability to Reload Funds

General purpose prepaid cards may be reloaded by the cardholder or another party on behalf of the cardholder in a manner that is similar to the way in which funds can be added to a traditional deposit, asset, or transaction account. Therefore, the Agencies believe that issuing a general purpose prepaid card with those features creates a formal banking relationship and is equivalent to opening an account for purposes of the CIP rule.

By contrast, the issuance of a general purpose prepaid card that, under the program's terms, cannot be reloaded by a cardholder or another party on behalf of the cardholder, does not establish an account for CIP purposes. These cards do not bear the characteristics of a typical deposit, transaction, or asset account because they do not permit the cardholder or other party on behalf of the cardholder to reload funds. Therefore, the Agencies believe these cards do not create a formal banking relationship.

b. General Purpose Prepaid Cards With Access to Credit or Overdraft Features

General purpose prepaid cards may permit withdrawals in excess of the card balance and also may provide the cardholder with access to an overdraft line or an established line of credit similar to a lender/borrower or credit card relationship. The Agencies believe that a card that permits either functionality constitutes a formal banking relationship with the issuing bank and is an account for purposes of the CIP rule.

c. Activation of General Purpose Cards

In some cases, general purpose prepaid cards may be sold without the reloadable functionalities activated or credit or overdraft features enabled. A purchaser or subsequent transferee of these cards generally may activate any one of those features only if they contact the issuing bank or the

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[15] General purpose prepaid cards may include features that permit the cardholder to make and receive payments or transfers by non-card means, such as by Automated Clearing House (ACH) , wire, check, or mobile phone message, activities that are also conducted through an account. For example, a cardholder may be able to pay a bill by logging on to the issuing bank's Web site and initiating an ACH payment to the biller. A cardholder also may be permitted to make and receive payments using a prepaid card, such as through a cardholder-to-cardholder transfer, a transfer to the cardholder's savings account, or a transfer to another person's transaction account at the issuing bank. If these features could result in the reloading of the general purpose prepaid card, then the card should be treated as an "account."

[16] Generally, credit unions may only serve individuals and entities within their approved field of membership. Therefore, the threshold question for any credit union contemplating entering into an account relationship involving holders of prepaid cards sold and distributed by third parties is whether the customer with whom it intends to establish the relationship is within the field of membership it is authorized to serve.

third-party program manager. In such cases, for purposes of the CIP rule, the Agencies believe that an account is not established until a reload, credit, or overdraft feature is activated by cardholder registration.

IV. Identifying the Customer

Once an account has been established, the bank must identify the customer for purposes of the CIP rule. Under the CIP rule, a person that opens a new account is deemed a customer.[17] To verify the identity of the person opening the account, the final CIP rule's preamble explains that a bank need only verify the identity of the named accountholder.[18] The following describes how these principles should apply to different types of prepaid cards.

a. Prepaid Cardholders and Third Parties

When a general purpose prepaid card issued by a bank allows the cardholder to conduct transactions evidencing a formal banking relationship, such as by adding monetary value or accessing credit, the cardholder should be considered to have established an account with the bank for purposes of the CIP rule. Further, the cardholder should be treated as the bank's customer for purposes of the CIP rule, even if the cardholder is not the named accountholder, but has obtained the card from an intermediary who uses a pooled account with the bank to fund bank-issued cards.

As a general matter, third-party program managers should be treated as agents of the bank for purposes of the CIP rule, rather than as the bank's customer. The preamble to the final CIP rule makes clear that the rule does not affect a bank's authority to contract for services to be performed by a third party either on or off the bank's premises, nor does it alter a bank's authority to use an agent to perform services on its behalf. However, as with any other activity performed on behalf of the bank, the bank ultimately is responsible for compliance with the requirements of the bank's CIP rule as performed by that agent or other contracted third party.[19]

Third-party program managers may establish pooled accounts in their names for the purpose of holding funds "on behalf of" or "in trust for" cardholders or processing transactions on behalf of other issuing banks. However, the fact that these funds are held in a pooled account should not affect the status of the cardholder as a bank customer, assuming the cardholder has established an account with the bank by activating the reloadable functionalities of a general purpose prepaid card, or its credit or overdraft features.

In the case of non-reloadable general purpose prepaid cards without credit or overdraft features, or other prepaid cards that do not have the identified features that establish an account for purposes of the CIP rule, such as closed-loop prepaid cards, the third-party program manager in

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[17] 31 CFR 1020.100(c)(1)(i).

[18] 68 FR 25090, 25094 (May 9, 2003).

[19] See 68 FR 25090, 25104 (May 9, 2003). See also *Interagency Interpretive Guidance on Customer Identification Program Requirements under Section 326 of the USA PATRIOT Act*, FAQs Final CIP Rule (April 28, 2005), at p. 5, available at http://www.fincen.gov/statutes_regs/guidance/pdf/faqsfinalciprule.pdf.

whose name the pooled account has been established should be considered to be the only customer of the issuing bank and should be subject to requirements of the bank's CIP policies and procedures. In these cases, the issuing bank need not "look through" the pooled account to verify the identity of each cardholder.

i. ***Payroll Cards***

Payroll cards are cards that enable an employee to access funds in accounts that are established directly or indirectly by an employer and to which the employer (or a third party acting on the employer's behalf) is able to transfer the employee's wages, salary, bonuses, travel reimbursements, or other compensation. Typically, the employer (or the employer's agent) opens an account with a bank and provides each of its employees with a card that can be used to access the employee's share of the account. The employer (or the employer's agent) then transfers the employee's wages, salaries, or other compensation into the account or subaccount, rather than distributing a check to the employee.

If the employer (or the employer's agent) is the only person that may deposit funds into the payroll card account, the employer should be considered the bank's customer for purposes of the CIP rule. In that case, the bank need not apply its CIP to each employee. The employer should be considered to be the customer even if there are subaccounts that are attributable to each employee. By contrast, if the employee is permitted to access credit through the card, or reload the payroll card account from sources other than the employer, the employee should be the customer of the bank and the bank should apply its CIP to the employee.

ii. ***Government Benefit Cards***

Government benefit cards (also referred to as Electronic Benefit Transfer Cards) are cards issued under government benefit programs to distribute government benefits or other payments. Government benefit programs vary as to whether beneficiary-cardholders are permitted to load funds unconnected to the government benefit program onto the card, and whether they provide access to credit. If the government benefits card program permits only government funds to be loaded onto the card and does not provide access to credit, no customer relationship is established between the bank and the beneficiary-cardholder for purposes of the CIP rule. In addition, since the term "customer" does not include a department or agency of the United States, of any state, or any political subdivision of any state, a bank that issues such a government benefit card is not required to apply its CIP to the government agency establishing the benefit card account. If, however, the card allows non-government funds to be loaded onto the card or provides access to credit, then a customer relationship is established between the bank and the beneficiary-cardholder and the bank should collect CIP information from the beneficiary-cardholder.

iii. ***Health Benefit Cards***

Prepaid cards can also be used to access funds in a Health Savings Account (HSA), or accounts established as part of a Flexible Spending Arrangement (FSA) or Health Reimbursement Arrangement (HRA). While HSAs, FSAs, and HRAs are all used to set aside tax-exempt funds for certain medical expenses, these arrangements may differ with respect to who may establish the account, deposit funds into the account, or access funds in the account. Therefore, the person or entity that should be considered to be the issuing bank's customer for CIP purposes will differ.

Health Savings Accounts are accounts established by an employee to pay or obtain reimbursement for qualifying medical expenses. Such reimbursement may be issued on a prepaid card. The employee establishing the account or the employer may contribute to the HSA. Because the employee establishes the account, the employee is the issuing bank's customer for purposes of the CIP rule.

Flexible Spending Arrangements and Health Reimbursement Arrangements are established by an employer and funded by either voluntary withholdings from an employee's salary (in the case of FSAs only) or through direct employer contributions (in the case of FSAs and HRAs). The employee may use a debit card, credit card, or prepaid card for certain qualified medical expenses. Because no person other than the employer (or employer's agent) establishes an FSA or HRA, makes deposits into the FSA or HRA, and distributes funds from the FSA or HRA, the employer should be the issuing bank's customer for purposes of the CIP rule.

V. Contracts with Third-Party Program Managers

The issuing bank should enter into well-constructed, enforceable contracts with third-party program managers that clearly define the expectations, duties, rights, and obligations of each party in a manner consistent with this guidance.[20] For example, a binding contract or agreement should, at a minimum:

- **a.** outline CIP obligations of the parties;
- **b.** ensure the right of the issuing bank to transfer, store, or otherwise obtain immediate access to all CIP information collected by the third-party program manager on cardholders;
- **c.** provide for the issuing bank's right to audit the third-party program manager and to monitor its performance (generally, banks need to ensure that periodic independent internal and external audits are conducted to ensure prudent operations and compliance with applicable laws and regulations); and
- **d.** if applicable, indicate that, pursuant to the Bank Service Company Act (BSCA) or other appropriate legal authority, the relevant regulatory body has the right to examine the third-party program manager.[21]

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[20] For further information, see *FFIEC Information Technology Examination Handbook*, "Outsourcing Technology Booklet," available at http://ithandbook.ffiec.gov/it-booklets/outsourcing-technology-services.aspx. Other guidance issued by the Agencies may also be applicable.

[21] For example see, OCC Bulletin 2011-27, "Pre-Paid Access Programs: Risk Management Guidance and Sound Practices" (June 28, 2011). The BSCA does not confer authority to the NCUA. However, federally insured credit unions may refer to Letter to Credit Unions 07-CU-13 and associated enclosures for relevant guidance in addition to the *FFIEC Information Technology Examination Handbook*.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-15

October 28, 2016

TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK AND TO EACH FINANCIAL INSTITUTION SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: Exception to Appraisal Regulation Requirements in Areas Affected by Flooding in Louisiana

Applicability to Community Banking Organizations: This guidance applies to state member banks and bank holding companies and their nonbank subsidiaries, including those with $10 billion or less in consolidated assets that finance transactions secured by real property located in the affected areas.

The Federal Reserve and the other federal financial institutions regulatory agencies[1] have granted an exception to their appraisal regulations[2] to certain regulated financial institutions regarding their financing of real estate secured transactions in parishes declared major disaster areas due to storms and flooding in Louisiana.[3] The exception is expected to reduce loan processing times and therefore may assist institutions in responding to the financial needs of borrowers affected by the disaster.[4] See the attached *Federal Register* notice.[5]

[1] The other federal financial institutions regulatory agencies include the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation; and the National Credit Union Administration.

[2] Refer to 12 CFR 208 subpart E and 12 CFR 225 subpart G.

[3] See https://www.fema.gov/disaster/4277.

[4] Refer to SR letter 13-6/CA letter 13-3, "Supervisory Practices Regarding Banking Organizations and their Borrowers and Other Customers Affected by a Major Disaster or Emergency."

[5] This action is being taken pursuant to the federal financial institutions regulatory agencies' authority under the Depository Institutions Disaster Relief Act (DIDRA) of 1992 to grant exceptions to the appraisal requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the agencies' appraisal regulations for up to 36 months when the President, pursuant to section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, determines that a major disaster exists and the agencies determine that such an exception would both facilitate recovery in the disaster area and be consistent with safety and soundness.

Whether or not an institution elects to take advantage of the waiver is a business decision that may be determined by the institution on a case-by-case basis. When an institution decides to rely on the exception for a particular transaction, the institution should maintain sufficient documentation in the loan file to estimate the collateral's value and support the credit decision. For example, sufficient documentation in a disaster area may include an insurance adjustor's estimate of value. For properties in the disaster areas, the documentation required for excepted transactions will also be sufficient to meet the Board's evaluation standards for the duration of the exception.[6] Institutions should continue to extend credit for real estate related transactions on terms that are consistent with safe and sound banking practices. The exception expires on December 31, 2017.

Federal Reserve Banks are asked to distribute this letter to the financial institutions in their Districts, as well as to supervisory and examination staff. For questions related to this guidance, please contact the following staff in the Board's Risk Policy Section: Carmen Holly, Senior Supervisory Financial Analyst, at (202) 973-6122; or, Peter Clifford, Manager, at (202) 785-6057. In addition, questions may be sent via the Board's public website.[7]

Michael S. Gibson
Director

Attachment:

- *Federal Register Notice: Temporary Exceptions to FIRREA Appraisal Requirements in Areas Affected by Severe Storms and Flooding in Louisiana*

Cross References to:

- SR letter 13-6/CA letter 13-3, "Supervisory Practices Regarding Banking Organizations and their Borrowers and Other Customers Affected by a Major Disaster or Emergency."
- SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines."

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[6] Refer to SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines."

[7] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

SR 16-18

December 9, 2016

TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK AND TO FINANCIAL INSTITUTIONS SUBJECT TO SECTION 13 OF THE BANK HOLDING COMPANY ACT

SUBJECT: Procedures for a Banking Entity to Request an Extended Transition Period for Illiquid Funds

Applicability: This guidance applies to all banking entities, including those banking entities with $10 billion or less in total consolidated assets, subject to section 13 of the Bank Holding Company Act, regardless of the banking entity's primary financial regulatory agency.

The Federal Reserve is issuing this letter to provide banking entities[1] with information on the procedures for submitting a request for an extended transition period for a hedge fund or private equity fund (referred to as "covered fund") that qualifies as an illiquid fund pursuant to section 13 of the Bank Holding Company Act of 1956 (BHC Act).[2] Under the statute, a banking entity must apply to the Board for an extended transition period for an illiquid fund regardless of the banking entity's primary financial regulatory agency.

Background

Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act added a new section 13 to the BHC Act, also known as the Volcker Rule, which generally prohibits any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership

[1] The term "banking entity" is defined by statute to include, with limited exceptions: (i) any insured depository institution (IDI) (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)); (ii) any company that controls an IDI (including a bank holding company, savings and loan holding company, and any other company that controls an insured depository institution but that is not a BHC or SLHC, such as the parent company of an industrial loan company); (iii) any company that is treated as a bank holding company for purposes of section 8(a) of the International Banking Act of 1978 (for example, any foreign bank operating a branch or agency in the United States); and (iv) any affiliate or subsidiary of any of the foregoing (for example, a broker-dealer subsidiary of a BHC). 12 U.S.C. 1851(h)(1).

[2] 12 U.S.C. 1851(c)(3)-(4) and (h)(7).

interest in, sponsoring, or having certain relationships with a covered fund, subject to certain exemptions.[3] The restrictions and prohibitions of section 13 of the BHC Act became effective on July 21, 2012;[4] however, the statute provided banking entities a grace period until July 21, 2014, to conform their activities and investments to the requirements of the statute and any rule issued by the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Commission (CFTC), and the Securities and Exchange Commission (SEC). The statute also granted exclusively to the Board authority to provide banking entities additional time to conform or divest their activities and investments covered by section 13.

The statute provides that the Board may, by rule or order, extend this general conformance period "for not more than one year at a time," up to three times, if in the judgment of the Board, an extension is consistent with the purposes of section 13 and would not be detrimental to the public interest.[5] On July 7, 2016, the Board issued an Order extending the final one year conformance period for banking entities to conform investments in and relationships with covered funds and foreign funds that were in place prior to December 31, 2013 (legacy covered funds) until July 21, 2017.[6]

Section 13 also permits the Board, upon the application of a banking entity, to provide an additional transition period of up to 5 years to conform investments in a limited class of legacy illiquid funds.[7] An illiquid fund is defined by the statute as a fund that is "principally invested" in illiquid assets and holds itself out as employing a strategy to invest principally in illiquid assets.[8] The statute provides that this extension applies only to the extent that the banking entity's retention of the ownership interest in the fund, or provision of additional capital to the fund, is necessary to fulfill a contractual obligation of the banking entity that was in effect on May 1, 2010.[9] The statute provides that the Board may grant an extension for each illiquid fund only once and for a period of up to five years.[10] The Board's Conformance Rule sets forth provisions governing the submission and review of extension requests.[11]

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[3] *See* 12 U.S.C. 1851.

[4] *See* 12 U.S.C. 1851(c)(1).

[5] *See* 12 U.S.C. 1851(c)(2). The Board issued rules implementing the Volcker Rule conformance provisions in 2011. *See* Conformance Period for Entities Engaged in Prohibited Proprietary Trading or Private Equity Fund or Hedge Fund Activities, 76 *Fed. Reg.* 8265 (2011) ("Conformance Rule").

[6] *See* Board press release, July 7, 2016, at: http://www.federalreserve.gov/newsevents/press/bcreg/20160707a.htm.

[7] *See* 12 U.S.C. 1851(c)(3)-(4) and (h)(7).

[8] *See* 12 U.S.C. 1851(h)(7).

[9] *See* 12 U.S.C. 1851(c)(3)(A). In addition, the statute provides that a banking entity may not engage in a prohibited covered fund investment after the date on which the contractual obligation to invest in the illiquid fund terminates. *See* 12 U.S.C. 1851(c)(4)(A).

[10] *See* 12 U.S.C. 1851(c)(3)(B).

[11] *See* 12 CFR 225.181 and 225.182.

In its statement of policy for legacy illiquid covered funds, the Board also generally outlined a simplified and streamlined process for granting extensions of the holding period for illiquid funds. That process is outlined below.

Requirements for Submitting Requests

In filing a request for an extended transition period for illiquid funds, a banking entity is expected to provide:

- A list or simple chart of illiquid funds for which an extension is sought.

- A short description of each fund, including the investment strategy and types of investments made by each fund, which entity within the firm holds the investment, the size of each fund, the total exposure of the banking entity to each fund, the date by which each remaining illiquid fund is expected to mature by its terms or be conformed to section 13 of the BHC Act, and the banking entity's relationship with the fund (for example, general partner, sponsor, investment adviser, investor).

- A description of the banking entity's specific efforts to divest or conform its illiquid funds, including a description of the overall covered funds (both liquid and illiquid) that have been divested or conformed to date, the progress that has been made towards divesting or conforming the investments for which an extension is being sought (for example, the number of funds sold, the number of funds that continue to be held, and the amount of investments remaining in each fund and in aggregate).

- A certification by the General Counsel or Chief Compliance Officer of the entity that sponsors or invests in the illiquid funds that each fund meets the definition of illiquid funds in section 13 of the BHC Act and the Board's Conformance Rule, including that the extension is necessary to fulfill a contractual obligation of the banking entity that was in effect on May 1, 2010.[12]

- The length of the requested extension of the conformance period and a description of the banking entity's plan for divesting or conforming each illiquid fund prior to the end of the requested extension period.

In addition, the Federal Reserve may, on a case-by-case basis, require a banking entity to provide a progress report on fund sales, maturities, or other conformance efforts as appropriate at any time during the period that the banking entity continues to hold illiquid funds in reliance on an extension.

[12] *See* 12 U.S.C. 1851(c)(3)-(c)(4) and (h)(7); and 12 CFR 225.180(f).

A banking entity would not be required to exercise a so-called “regulatory out” provision[13] or otherwise seek consent from third parties (for example, the general partner or other investors in the fund) to terminate an investment in an illiquid fund in order to qualify for the extended transition period.

Procedures for Filing an Extension Request

A request for an extended transition period for illiquid funds should be submitted in writing to the Applications Unit of the appropriate Federal Reserve Bank by the top-tier banking entity in the district where it is headquartered (referred to as the “responsible Federal Reserve Bank”).[14] The request may be submitted at any time at least 180 days prior to the expiration of the general conformance period (that is, at least 180 days prior to July 21, 2017).[15] In the case where the banking entity that sponsors or invests in the illiquid fund is supervised primarily by another federal banking agency, the SEC, or the CFTC, the top-tier banking entity should also provide a copy of the extension request to the relevant agency for the subsidiary banking entity.[16] A banking entity also should provide the name, phone number, and email address of the banking entity’s point of contact to whom Board and Reserve Bank staff may submit all inquiries.

Authority to grant (but not to deny) requests has been delegated to the Federal Reserve Banks, in consultation with Board staff. Federal Reserve Banks may approve extension requests if all of the following criteria are met:

- The extension request relates only to illiquid funds;
- No significant issues have been identified regarding the firm’s compliance program required under section __.20 of the final rule designed to help ensure and monitor compliance with the prohibitions and restrictions of the Volcker Rule;
- The primary federal agency responsible for compliance with the Volcker Rule by the banking entity that invests in or sponsors the illiquid fund (if other than the Federal Reserve) does not object to the extension;
- The banking entity has made meaningful progress toward conforming the majority of its covered fund investments (including funds other than illiquid funds) as of the date of the extension request; and

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[13] So-called “regulatory-out” provisions are provisions whereby a banking entity’s contractual obligation to remain invested in a fund may be excused or otherwise terminated if the banking entity’s compliance with the obligation would cause, or would be reasonably likely to cause, the banking entity or the fund to be in violation of applicable laws and regulations.

[14] For banking entities not regulated by the Federal Reserve, the following link provides information on each of the 12 Reserve Banks, including their addresses: www.federalreserveeducation.org/about-the-fed/structure-and-functions/districts/. For Federal Reserve regulated banking entities, notices may also be submitted electronically through the Federal Reserve System’s Electronic Applications System, E-Apps.

[15] *See* 12 CFR 225.181(c)(1).

[16] *See* List of Contacts at Other Agencies in Attachment One.

- The banking entity provides supporting information regarding its efforts to conform the illiquid funds for which an extension is being sought. Such supporting information could include, but would not be limited to, information regarding specific bids that have been sought and other specific actions taken to conform the funds for which an extension is being sought.

Consistent with the statute, the extension would be granted for the shortest of (i) five years from the date of the expiration of the general conformance period (that is, July 21, 2017), (ii) the date by which each remaining fund is expected to mature by its terms or be conformed to section 13 of the BHC Act, or (iii) a shorter period determined by the Board. The responsible Federal Reserve Bank should expect to act on an extension request within 30 days of receiving all required information. If the request does not meet the requirements for delegated action, the Federal Reserve Bank will immediately refer the matter to the Board. The Board may then approve or deny the request based on the relevant facts. The Board expects that the illiquid funds of banking entities will generally qualify for extensions, though extensions may not be granted in certain cases—for example, where the banking entity has not demonstrated meaningful progress to conform or divest its illiquid funds, has a deficient compliance program under the Volcker Rule, or where the Board has concerns about evasion. Refer to Attachment Two, Sample Acknowledgment Letter.

Federal Reserve Banks are asked to distribute this letter to their supervised financial institutions and to appropriate supervisory staff. The Federal Reserve has provided a copy of this letter to the other agencies to inform their supervised institutions of this guidance. Questions regarding this guidance may be directed to:

- Division of Supervision and Regulation: Anna Harrington, Senior Supervisory Financial Analyst, at (202) 452-6406, and Kevin Tran, Supervisory Financial Analyst, at (202) 452-2309.
- Legal Division: Flora Ahn, Counsel, at (202) 452-2317, and Brian Chernoff, Senior Attorney, at (202) 452-2952.

In addition, questions may be sent via the Board's public website.[17]

Michael S. Gibson
Director

Attachments

- *Attachment One: List of Contacts at Other Agencies*
- *Attachment Two: Sample Acknowledgment Letter*

[17] *See* http://www.federalreserve.gov/apps/contactus/feedback.aspx.

SR letter 16-18, “Procedures for a Banking Entity to Request An Extended Transition Period for Illiquid Funds”

Attachment One
List of Contacts at Other Agencies

Last Updated: December 9, 2016

Office of the Comptroller of the Currency
Ted Dowd
Director, Securities and Corporate Practices Division
(202) 649-5510
ted.dowd@occ.treas.gov

Federal Deposit Insurance Corporation
Peter Yen
Chief, Capital Markets Strategies
Risk Management Supervision Division
(202) 898-6568
pyen@fdic.gov

Commodity Futures Trading Commission
Erik Remmler
Deputy Director, Registration and Compliance
Division of Swap Dealer and Intermediary Oversight
(202) 418-7630
eremmler@cftc.gov

Securities and Exchange Commission
Aaron T. Gilbride
Division of Investment Management, Chief Counsel’s Office
(202) 551-6906
gilbridea@sec.gov

SR letter 16-18, "Procedures for a Banking Entity to Request An Extended Transition Period for Illiquid Funds"

Attachment Two
Sample Acknowledgment Letter

[DATE]

[NAME]

[TITLE]

[FIRM NAME]

[ADDRESS]

[CITY, STATE, ZIP CODE]

Dear [NAME]:

This is to acknowledge receipt by the Federal Reserve Bank of [DISTRICT] ("Reserve Bank"), as of [RECEIPT DATE], of the request dated [APPLICATION DATE], by [APPLICANT], [CITY], [STATE] (the "Applicant"), for an extended transition period for hedge funds or private equity funds ("covered funds") that qualify as illiquid funds pursuant to section 13 of the Bank Holding Company Act (the "BHC Act"), 12 U.S.C. 1851.

Consistent with the statute, the extension would be granted for the shortest of (i) five years, (ii) the date by which each remaining fund is expected to mature by its terms or be conformed to section 13 of the BHC Act, or (iii) a shorter period determined by the Board.[1]

Please contact [RESERVE BANK PRIMARY CONTACT] at [PHONE NUMBER] or [ALTERNATE RESERVE BANK CONTACT], if you have any questions regarding this letter.

Sincerely,

Name of Reserve Bank Official
Title

[1] Authority to grant requests has been delegated to the Federal Reserve Banks in consultation with Board staff, if all of the delegation criteria have been met.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-2

January 15, 2016

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

SUBJECT: Interagency Advisory on External Audits of Internationally Active U.S. Financial Institutions

Applicability: This guidance applies to internationally active financial institutions as defined below.

The Federal Reserve, together with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency, (the agencies) has issued the attached interagency advisory to communicate the agencies' support for the principles and expectations set forth in Parts 1 and 2, respectively, of the Basel Committee on Banking Supervision's (the BCBS) March 2014 guidance on "External audits of banks" (hereafter, referred to as "the BCBS external audit guidance").[1]

In supporting these principles and expectations, the agencies acknowledge that the existing standards and practices in the United States are broadly consistent with the BCBS external audit guidance. However, because of the legal and regulatory framework in the United States, certain differences exist between the standards and practices followed in the United States and the principles and expectations in the BCBS external audit guidance. These differences are addressed in this advisory, which also describes the agencies' supervisory expectations for U.S. financial institutions within the scope of this advisory for incorporating the principles and expectations in the BCBS external audit guidance into their practices. This advisory also outlines examiner responsibilities related to these supervisory expectations.

The BCBS external audit guidance is intended for "internationally active banks" and is relevant for the management, audit committees, external auditors, and prudential supervisors of such financial institutions. For purposes of this advisory, the agencies are defining "internationally active banks" as:

[1] See http://www.bis.org/publ/bcbs280.pdf.

- Insured depository institutions that meet either of the following two criteria: (i) consolidated total assets of $250 billion or more; or, (ii) consolidated total on-balance sheet foreign exposure of $10 billion or more (referred to as "core banks"); and
- U.S. depository institution holding companies that meet any of the following three criteria: (i) consolidated total assets (excluding assets held by an insurance underwriting subsidiary) of $250 billion or more; (ii) consolidated total on-balance sheet foreign exposure of $10 billion or more; or (iii) have a subsidiary depository institution that is a core bank.

Financial institutions within the scope of this advisory are directly or indirectly subject to the FDIC's regulation on Annual Independent Audits and Reporting Requirements (12 CFR Part 363)[2] and supervisory guidance related to audits of financial institutions.[3]

Reserve Banks are asked to distribute this letter to supervised financial institutions that are within the scope of this advisory in their districts, as well as to the appropriate supervisory and examination staff. Questions regarding this letter should be directed to Joanne Wakim, Accounting Policy Manager, at (202) 912-4302; or Kevin Chiu, Accounting Policy Analyst, at (202) 912-4608. In addition, institutions may send questions via the Board's public website.[4]

Michael S. Gibson
Director

Attachment:

- *Interagency Advisory on External Audits of Internationally Active U.S. Financial Institutions*

Cross References to:

- SR letter 92-28, "Interagency Policy Statement on Coordination and Communication Between External Auditors and Examiners"
- SR Letter 03-05, "Amended Interagency Guidance on the Internal Audit Function and its Outsourcing"

[2] The FDIC regulation (12 CFR Part 363) applies to any insured depository institution with respect to any fiscal year in which its consolidated total assets as of the beginning of such fiscal year are $500 million or more.
12 CFR 363.3(f) requires external auditors to comply with the independence standards and interpretations of the American Institute of Certified Public Accountants, the Securities and Exchange Commission, and the Public Company Accounting Oversight Board.

[3] For example, SR letter 92-28, "Interagency Policy Statement on Coordination and Communication Between External Auditors and Examiners," (July 23, 1992).

[4] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

January 15, 2016

Interagency Advisory on External Audits of Internationally Active U.S. Financial Institutions

Purpose

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (hereafter, the agencies) are issuing this advisory to indicate their support for the principles and expectations set forth in Parts 1 and 2, respectively, of the Basel Committee on Banking Supervision's (the BCBS or the Committee) March 2014 guidance on "External audits of banks" (hereafter, the BCBS external audit guidance).[1] In supporting these principles and expectations, the agencies acknowledge that the existing standards and practices in the United States are broadly consistent with the BCBS external audit guidance. However, because of the legal and regulatory framework in the United States, certain differences exist between the standards and practices followed in the United States and the principles and expectations in the BCBS external audit guidance. These differences are addressed in this advisory, which also describes the agencies' supervisory expectations for U.S. financial institutions within the scope of this advisory for incorporating the principles and expectations in the BCBS external audit guidance into their practices. This advisory also outlines examiner responsibilities related to these supervisory expectations.

Scope

The BCBS external audit guidance is intended for "internationally active banks" and is relevant for the management, audit committees, external auditors, and prudential supervisors of such financial institutions. For purposes of this advisory, the agencies are defining "internationally active banks" as:

- Insured depository institutions that meet either of the following two criteria: (i) consolidated total assets of $250 billion or more; or (ii) consolidated total on-balance sheet foreign exposure of $10 billion or more (referred to as "core banks"); and

- U.S. depository institution holding companies that meet any of the following three criteria: (i) consolidated total assets (excluding assets held by an insurance underwriting subsidiary) of $250 billion or more; (ii) consolidated total on-balance sheet foreign exposure of $10 billion or more; or (iii) have a subsidiary depository institution that is a core bank.

[1] http://www.bis.org/publ/bcbs280.pdf.

In the United States, core banks are subject to 12 CFR Part 363, the Federal Deposit Insurance Corporation's (FDIC) regulation on Annual Independent Audits and Reporting Requirements (Part 363).[2] Core banks typically comply with the Part 363 requirements at a holding company level. In addition, these holding companies generally are public companies that are required to file annual, quarterly, and other periodic reports with the U.S. Securities and Exchange Commission (SEC). The Public Company Accounting Oversight Board (PCAOB) regulates the external auditors of these public companies.

Background

In March 2014, the Committee published the BCBS external audit guidance to improve the external audit quality of banks and enhance the effectiveness of prudential supervision, which contributes to financial stability. The BCBS external audit guidance elaborates on Core Principle 27, *Financial Reporting and External Audit*, of the Committee's Core Principles for Effective Banking Supervision[3] by providing guidance related to bank audit committees' responsibilities in overseeing the external audit function. This guidance also discusses prudential supervisors' relationships with external auditors of banks and audit oversight bodies. Additionally, the BCBS external audit guidance includes information relevant to external audits of financial statements that the Committee believes will enhance the quality of these external audits.

The BCBS external audit guidance has two parts:

- Part 1 provides guidance ("principles") on the roles and responsibilities of audit committees relevant to external audits and the engagement of bank supervisors with external auditors and external auditors' regulators.

- Part 2 of the document ("expectations") emphasizes the proper application of existing internationally accepted auditing standards. The BCBS external audit guidance also provides recommendations for procedures that external auditors could perform in the execution of bank audits to enhance audit quality.[4]

[2] 12 CFR Part 363 applies to any insured depository institution with respect to any fiscal year in which its consolidated total assets as of the beginning of such fiscal year are $500 million or more.

[3] The Committee's Core Principles are available at http://www.bis.org/publ/bcbs230.pdf. In particular, Core Principle 27 states, "The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function."

[4] The BCBS external audit guidance acknowledges that the Committee does not have the authority to set professional standards for external auditors.

Supervisory Expectations Regarding the Differences Between U.S. Standards and Practices and the BCBS External Audit Guidance

The BCBS external audit guidance builds upon internationally accepted auditing standards and sets expectations for institutions and their external auditors. In the United States, financial institutions within the scope of this advisory are directly or indirectly subject to the audit requirements of Part 363[5] and supervisory guidance related to audits of financial institutions.[6] In order for a core bank to comply with the audited financial statements requirement of Part 363 at a public holding company level, the audit must be performed in accordance with PCAOB standards. The Part 363 audit requirements, supervisory guidance, and PCAOB standards, collectively, are generally consistent with the BCBS external audit guidance, except for the differences noted below. This advisory discusses the agencies' supervisory expectations regarding these differences with reference to the corresponding principles from Part 1 and expectations from Part 2 of the BCBS external audit guidance.

Part 1, Principle 2: The audit committee should monitor and assess the independence of the external auditor.

Paragraph 49 of the BCBS external audit guidance indicates that an institution's audit committee should have a policy in place that stipulates the criteria for "tendering," i.e., putting its external audit contract out for bid. This paragraph further states that the policy also should call for the audit committee to periodically consider whether to put the external audit contract out for bid. Consistent with Part 363, the banking agencies encourage audit committees to establish policies and procedures addressing the retention and remuneration of the external auditor (independent public accountant).[7] In addition, the external auditors of insured depository institutions subject to Part 363 must comply with the SEC's rules regarding audit partner rotation. Audit committees are encouraged to consider whether their policies should explicitly address the criteria for tendering the audit contract and whether the contract should periodically be put out for bid.

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[5] 12 CFR Section 363.3(f) requires external auditors to comply with the independence standards and interpretations of the American Institute of Certified Public Accountants, the SEC, and the PCAOB.

[6] For example, *Interagency Policy Statement on Coordination and Communication Between External Auditors and Examiners* (July 23, 1992).

[7] 12 CFR Section 363.5(a) states, "The duties of the audit committee shall include the appointment, compensation, and oversight of the independent public accountant who performs services required under this part, and reviewing with management and the independent public accountant the basis for the reports issued under this part."

Part 1, Principle 6: The supervisor and the external auditor should have an effective relationship that includes appropriate communication channels for the exchange of information relevant to carrying out their respective statutory responsibilities.

and

Part 1, Principle 7: The supervisor should require the external auditor to report to it directly on matters arising from an audit that are likely to be of material significance to the functions of the supervisor.

Paragraphs 95 and 96 of the BCBS external audit guidance indicate that the auditor may share information about the external audit of an institution that may be of interest to the depository institution's supervisor (e.g., significant risks of material misstatements, significant or unusual transactions, evidence of management bias, significant deficiencies or material weaknesses in internal control over financial reporting, and actual or suspected breaches of regulations or laws[8]), either (1) directly with the supervisor when a safe harbor exists, or (2) indirectly through the institution to the supervisor when a legal safe harbor does not exist. Paragraph 99 of the BCBS external audit guidance provides that the external auditor should communicate matters arising from the audit that may be of material significance to the supervisor when required by the legal or regulatory framework or by a formal agreement or protocol. According to the BCBS external audit guidance, "[a] matter or group of matters is normally of material significance … when, due either to its nature or its potential financial impact, it is likely of itself to require investigation by the regulator." [9]

There is no generally applicable legal or regulatory requirement in the United States for external auditors of banks and holding companies to report directly to the institution's primary federal (and, if applicable, state) supervisor matters arising from the audit that may be of material significance, nor is there a legal safe harbor to do so. Insured depository institutions subject to Part 363 are required to file with appropriate federal and state supervisors copies of reports and other written communications issued by the external auditor to the institution in connection with the external audit services provided to the institution. Consistent with interagency policy statements[10] and practices, the agencies continue to encourage open and candid communication between an institution's external auditor and the institution's supervisors.

[8] See also paragraphs 90-94 of the BCBS external audit guidance.

[9] See footnote 9 in the BCBS external audit guidance.

[10] See footnote 6 of this advisory.

__Part 2, Expectation 5: The external auditor of a bank should identify and assess the risks of material misstatement in the bank's financial statements, taking into consideration the complexities of the bank's activities and the effectiveness of its internal control environment.__

__and__

__Part 2, Expectation 6: The external auditor of a bank should respond appropriately to the significant risks of material misstatement in the bank's financial statements.__

Paragraphs 157 and 168 of the BCBS external audit guidance set forth the Committee's expectations for external auditors to (1) consider regulatory ratios in the determination of materiality for the audit, and (2) evaluate any identified audit differences, errors, and adjustments and their effect on regulatory capital or regulatory capital ratios. PCAOB standards[11] and SEC Staff Accounting Bulletin Topic 1.M, *Materiality*, indicate external auditors should consider qualitative factors (which include regulatory capital, ratios, and disclosures) in determining materiality and when evaluating the effect of audit differences, errors, and adjustments. Therefore, the agencies expect institutions' audit committees will ensure that their external auditors consider regulatory capital ratios in planning and performing the audit. In this regard, audit committees are encouraged to inquire as to how the external auditors factored these ratios into their materiality assessments.

Additionally, paragraph 166 of the BCBS external audit guidance recommends that the external auditor provide written feedback about the audit engagement team's relations with the institution's internal audit function, including its observations on the adequacy of the work of internal audit, to those charged with governance of the bank. PCAOB Auditing Standard No. 16, *Communications with Audit Committees*, requires the external auditor, as part of communicating the overall audit strategy, to explain the extent to which the auditor plans to use the work of internal audit in an audit of the financial statements or an audit of internal control over financial reporting. However, PCAOB standards do not require the external auditor to provide written feedback about the audit engagement team's relations with the institution's internal audit function, including its observations on the adequacy of the work of internal audit. The agencies encourage audit committees to consider requesting their external auditor to provide written feedback about the audit engagement team's relations with internal audit, including its observations on the adequacy of the work of internal audit, as it relates to the audit of the financial statements or the audit of internal control over financial reporting.

Furthermore, consistent with the March 2003 *Interagency Policy Statement on the Internal Audit Function and Its Outsourcing*, an institution's audit committee should consider whether the institution's internal audit activities are conducted in accordance with professional standards, such as the Institute of Internal Auditors' (IIA) *International Professional Practices Framework* (previously known as the *Standards for the Professional Practice of Internal Auditing).* Audit committees may look to the IIA's Framework for guidance for both internal and external assessments of the internal audit function.

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[11] See PCAOB Auditing Standard No. 11, *Consideration of Materiality in Planning and Performing an Audit,* paragraph 6, and PCAOB Auditing Standard No. 14, *Evaluating Audit Results,* Appendix B, paragraph B2.

Examiner Responsibilities

Examiners should evaluate any actions taken by institutions within the scope of this advisory and their audit committees to ensure such actions are consistent with the objectives of this advisory and the BCBS external audit guidance. Where there are differences between the BCBS external audit guidance and U.S. standards, examiners should encourage institutions' audit committees to follow the practices identified in this advisory.

Conclusion

External auditors play an important role in contributing to financial stability when they deliver quality audits, which foster market confidence in institutions' financial statements. Quality audits are also a valuable complement to the supervisory process. The agencies support the principles and expectations set forth in the BCBS external audit guidance because enhanced audit quality is an important factor in ensuring the safety and soundness of U.S. institutions. Institutions and their external auditors are expected to comply with existing laws, regulations, and professional standards, as applicable, including those referenced in this advisory.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-3

March 1, 2016

TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH RESERVE BANK AND TO DOMESTIC AND FOREIGN LARGE FINANCIAL INSTITUTIONS

SUBJECT: Interagency Guidance on Funds Transfer Pricing Related to Funding and Contingent Liquidity Risks

Applicability: This guidance applies to large financial institutions that are domestic bank holding companies, savings and loan holding companies, and state member banks with consolidated assets of $250 billion or more or foreign exposure of $10 billion or more, and to the U.S. operations of foreign banking organizations with combined U.S. assets of $250 billion or more.

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency are issuing the attached guidance to address weaknesses observed in large financial institutions' funds transfer pricing (FTP) practices related to funding risk (including interest rate and liquidity components) and contingent liquidity risk.[1] The guidance builds on the principles of sound liquidity risk management described in SR letter 10-6, "Interagency Policy Statement on Funding and Liquidity Risk Management,"[2] and incorporates elements of the international statement issued by the Basel Committee on Banking Supervision titled "Principles for Sound Liquidity Risk Management and Supervision."[3]

FTP is an important tool for managing a firm's balance sheet structure and measuring risk-adjusted profitability. By allocating funding and contingent liquidity risks to business lines, products, and activities within a firm, FTP influences the volume and terms of new business and

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[1] While the guidance specifically addresses supervisory expectations for FTP practices related to funding and contingent liquidity risks, firms may incorporate other risks, such as compliance risk, in their overall FTP frameworks.

[2] SR letter 10-6, "Interagency Policy Statement on Funding and Liquidity Risk Management" is available at http://www.federalreserve.gov/boarddocs/srletters/2010/sr1006.htm.

[3] The Basel Committee on Banking Supervision statement on "Principles for Sound Liquidity Risk Management and Supervision" (September 2008) is available at http://www.bis.org/publ/bcbs144.htm.

ongoing portfolio composition. If done effectively, FTP promotes more resilient, sustainable business models. Conversely, failure to consistently and effectively apply FTP can misalign the risk-taking incentives of individual business lines with the firm's risk appetite, resulting in a misallocation of financial resources. This misallocation can arise in new business and ongoing portfolio composition where the business metrics do not reflect risks taken, thereby undermining the business model. Examples include entering into excessive off-balance sheet commitments and on-balance sheet asset growth because of mispriced funding and contingent liquidity risks.

FTP is also an important tool for centralizing the management of funding and contingent liquidity risks for all exposures. Through FTP, a firm can transfer these risks to a central management function that can take advantage of natural offsets, centralized hedging activities, and a broader view of the firm.

A firm should use the principles laid out in the guidance to develop, implement, and maintain an effective FTP framework. In doing so, a firm's risk-taking incentives should better align with its risk management and strategic objectives. The framework should be adequately tailored to a firm's size, complexity, business activities, and overall risk profile.

Reserve Banks are asked to distribute this letter to financial institutions in their district that are domestic bank and savings and loan holding companies and state member banks with consolidated assets of $250 billion or more or foreign exposure of $10 billion or more, and foreign banking organizations with combined U.S. assets of $250 billion or more and to appropriate supervisory staff. Questions regarding this letter should be directed to staff in the Risk Policy section: Adam Trost, Senior Supervisory Financial Analyst, at (202) 452-3814. In addition, questions may be sent via the Board's public website.[4]

Michael S. Gibson
Director

Attachment:

- *Interagency Guidance on Funds Transfer Pricing Related to Funding and Contingent Liquidity Risks*

Cross References to:

- SR letter 11-7, "Guidance on Model Risk Management"
- SR letter 10-6, "Interagency Policy Statement on Funding and Liquidity Risk Management"

[4] http://www.federalreserve.gov/apps/contactus/feedback.aspx

Interagency Guidance on Funds Transfer Pricing Related to Funding and Contingent Liquidity Risks

March 1, 2016

The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) are issuing this guidance on funds transfer pricing (FTP) practices related to funding risk (including interest rate and liquidity components) and contingent liquidity risk at large financial institutions (hereafter referred to as "firms") to address weaknesses observed in some firms' FTP practices.[1] The guidance builds on the principles of sound liquidity risk management described in the "Interagency Policy Statement on Funding and Liquidity Risk Management,"[2] and incorporates elements of the international statement issued by the Basel Committee on Banking Supervision titled "Principles for Sound Liquidity Risk Management and Supervision."[3]

Background

For purposes of this guidance, FTP refers to a process performed by a firm's central management function that allocates costs and benefits associated with funding and contingent liquidity risks (FTP costs and benefits), as measured at transaction or trade inception, to a firm's business lines, products, and activities. While this guidance specifically addresses FTP practices related to funding and contingent liquidity risks, firms may incorporate other risks in their overall FTP frameworks.

FTP is an important tool for managing a firm's balance sheet structure and measuring risk-adjusted profitability. By allocating funding and contingent liquidity risks to business lines, products, and activities within a firm, FTP influences the volume and terms of new business and ongoing portfolio composition. This process helps align a firm's funding and contingent liquidity risk profile and risk appetite and complements, but does not replace, broader liquidity and interest rate risk management programs (for example, stress testing) that a firm uses to capture certain risks (for example, basis risk). If done effectively, FTP promotes more resilient, sustainable business models. FTP is also an important tool for centralizing the management of

[1] For purposes of this guidance, large financial institutions includes: national banks, federal savings associations and state-chartered banks with consolidated assets of $250 billion or more, domestic bank and savings and loan holding companies with consolidated assets of $250 billion or more or foreign exposure of $10 billion or more, and foreign banking organizations with combined U.S. assets of $250 billion or more.

[2] Refer to: FRB's SR letter 10-6, "Interagency Policy Statement on Funding and Liquidity Risk Management"; FDIC's FIL-13-2010, "Funding and Liquidity Risk Management Interagency Guidance"; and OCC Bulletin 2010-13, "Final Policy Statement: Interagency Policy Statement on Funding and Liquidity Management."

[3] The Basel Committee on Banking Supervision statement on "Principles for Sound Liquidity Risk Management and Supervision" (September 2008) is available at http://www.bis.org/publ/bcbs144.htm.

funding and contingent liquidity risks for all exposures. Through FTP, a firm can transfer these risks to a central management function that can take advantage of natural offsets, centralized hedging activities, and a broader view of the firm.

Failure to consistently and effectively apply FTP can misalign the risk-taking incentives of individual business lines with the firm's risk appetite, resulting in a misallocation of financial resources. This misallocation can arise in new business and ongoing portfolio composition where the business metrics do not reflect risks taken, thereby undermining the business model. Examples include entering into excessive off-balance sheet commitments and on-balance sheet asset growth because of mispriced funding and contingent liquidity risks.

The 2008 financial crisis exposed weak risk management practices for allocating liquidity costs and benefits across business lines. Several firms "acknowledged that if robust FTP practices had been in place earlier, and if the systems had charged not just for funding but for liquidity risks, they would not have carried the significant levels of illiquid assets and the significant risks that were held off-balance sheet that ultimately led to sizable losses."[4]

Funds Transfer Pricing Principles

A firm should have an FTP framework to support its broader risk management and governance processes that incorporates the general principles described in this section and is commensurate with its size, complexity, business activities, and overall risk profile. The framework should incorporate FTP costs and benefits into product pricing, business metrics, and new product approval for all material business lines, products, and activities to align risk-taking incentives with the firm's risk appetite.

Principle 1: A firm should allocate FTP costs and benefits based on funding risk and contingent liquidity risk.

A firm should have an FTP framework that allocates costs and benefits based on the following risks.

- *Funding risk*, measured as the cost or benefit (including liquidity and interest rate components) of raising funds to finance ongoing business operations, should be allocated based on the characteristics of the business lines, products, and activities that give rise to those costs or benefits (for example, higher costs allocated to assets that will be held over a longer time horizon and greater benefits allocated to stable sources of funding).

- *Contingent liquidity risk*, measured as the cost of holding standby liquidity composed of unencumbered, highly liquid assets, should be allocated to the business lines, products, and activities that pose risk of contingent funding needs during a stress event (for example, draws on credit commitments, collateral calls, deposit run-off, and increasing haircuts on secured funding).

[4] Senior Supervisors Group report on "Risk Management Lessons from the Global Financial Crisis of 2008" (October 21, 2009) is available at https://www.newyorkfed.org/medialibrary/media/newsevents/news/banking/2009/SSG_report.pdf.

Principle 2: A firm should have a consistent and transparent FTP framework for identifying and allocating FTP costs and benefits on a timely basis and at a sufficiently granular level, commensurate with the firm's size, complexity, business activities, and overall risk profile.

FTP costs and benefits should be allocated based on methodologies that are set forth by a firm's FTP framework. The methodologies should be transparent, repeatable, and sufficiently granular such that they align business decisions with the firm's desired funding and contingent liquidity risk appetite. To the extent a firm applies FTP at an aggregated level to similar products and activities, the firm should include the aggregating criteria in the report on FTP.[5] Additionally, the senior management group that oversees FTP should review the basis for the FTP methodologies. The attachment to this guidance describes illustrative FTP methodologies that a firm may consider when implementing its FTP framework.[6]

A firm should allocate FTP costs and benefits, as measured at transaction or trade inception, to the appropriate business line, product, or activity. If a firm retains any FTP costs or benefits in a centrally managed pool pursuant to its FTP framework, it should analyze the implications of such decisions on business line incentives and the firm's overall risk profile. The firm customarily would include its findings in the report on FTP.

The FTP framework should be implemented consistently across the firm to appropriately align risk-taking incentives. While it is possible to apply different FTP methodologies within a firm due to, among other things, legal entity type or specific jurisdictional circumstances, a firm should generally implement the FTP framework in a consistent manner across its corporate structure to reduce the likelihood of misaligned incentives. If there are implementation differences across the firm, management should analyze the implications of such differences on business line incentives and the firm's overall funding and contingent liquidity risk profile. The firm customarily would include its findings in the report on FTP.

A firm should allocate, report, and update data on FTP costs and benefits at a frequency that is appropriate for the business line, product, or activity. Allocating, reporting, and updating of data should occur more frequently for trading exposures (for example, on a daily basis). Infrequent allocation, reporting, or updating of data for trading exposures (for example, based on month-end positions) may not fully capture a firm's day-to-day funding and contingent liquidity risks. For example, a firm should monitor the age of its trading exposures, and those held longer than originally intended should be reassessed and FTP costs and benefits should be reallocated based on the modified holding period.

A firm's FTP framework should address derivative activities commensurate with the size and complexity of those activities. The FTP framework may consider the fair value of current positions, the rights of rehypothecation for collateral received, and contingent outflows that may occur during a stress event.

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[5] See Principle 3 for a discussion of the report on FTP.

[6] The FRB, the FDIC, and the OCC will monitor evolving FTP practices in the market and may update or add to the illustrative methodologies in the attachment.

To avoid a misalignment of risk-taking incentives, a firm should adjust its FTP costs and benefits as appropriate based on both market-wide and idiosyncratic conditions, such as trapped liquidity, reserve requirements, regulatory requirements, illiquid currencies, and settlement or clearing costs. These idiosyncratic conditions should be contemplated in the FTP framework, and the firm customarily would include a discussion of the implications in the report on FTP.

Principle 3: A firm should have a robust governance structure for FTP, including the production of a report on FTP and oversight from a senior management group and central management function.

A firm should have a senior management group that oversees FTP, which should include a broad range of stakeholders, such as representatives from the firm's asset-liability committee (if separate from the senior management group), the treasury function, and business line and risk management functions. This group should develop the policy underlying the FTP framework, which should identify assumptions, responsibilities, procedures, and authorities for FTP. The policy should be reviewed and updated on a regular basis or when the firm's asset-liability structure or scope of activities undergoes a material change. Further, senior management with oversight responsibility for FTP should periodically, but no less frequently than quarterly, review the report on FTP to ensure that the established FTP framework is being properly implemented.

A firm should also establish a central management function tasked with implementing the FTP framework. The central management function should have visibility over the entire firm's on- and off-balance sheet exposures. Among its responsibilities, the central management function should regularly produce and analyze a report on FTP generated from accurate and reliable management information systems. The report on FTP should be at a sufficiently granular level to enable the senior management group and central management function to effectively monitor the FTP framework (for example, at the business line, product, or activity level, as appropriate). Among other items, all material approvals, such as those related to any exception to the FTP framework, including the reason for the exception, would customarily be documented in the report on FTP. The report on FTP may be standalone or included within a broader risk management report.

Independent risk and control functions and internal audit should provide oversight of the FTP process and assess the report on FTP, which should be reviewed as appropriate to reflect changing business and financial market conditions and to maintain the appropriate alignment of incentives. Lastly, consistent with existing supervisory guidance on model risk management,[7] models used in FTP implementation should be independently validated and regularly reviewed to ensure that the models continue to perform as expected, that all assumptions remain appropriate, and that limitations are understood and appropriately mitigated.

Principle 4: A firm should align business incentives with risk management and strategic objectives by incorporating FTP costs and benefits into product pricing, business metrics, and new product approval.

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[7] Refer to: FRB's SR letter 11-7, "Guidance on Model Risk Management"; OCC Bulletin 2011-12, "Supervisory Guidance on Model Risk Management."

Through its FTP framework, a firm should incorporate FTP costs and benefits into product pricing, business metrics, and new product approval for all material business lines, products, and activities (both on- and off-balance sheet). The framework, the report on FTP, and any associated management information systems should be designed to provide decision makers sufficient and timely information about FTP costs and benefits so that risk-taking incentives align with the firm's strategic objectives.

The information may be either at the transaction level or, if the transactions have homogenous funding and contingent liquidity risk characteristics, at an aggregated level. In deciding whether to allocate FTP costs and benefits at the transaction or aggregated level, firms should consider advantages and disadvantages of both approaches when developing the FTP framework. Although transaction-level FTP allocations may add complexity and involve higher implementation and maintenance costs, such allocations may provide a more accurate measure of risk-adjusted profitability. A firm assigning FTP allocations at an aggregated level should have aggregation criteria based on funding and contingent liquidity risk characteristics that are transparent.

There should be ongoing dialogue between the business lines and the central function responsible for allocating FTP costs and benefits to ensure that funding and contingent liquidity risks are being captured and are well-understood for product pricing, business metrics, and new product approval. The business lines should understand the rationale for the FTP costs and benefits, and the central function should understand the funding and contingent liquidity risks implicated by the business lines' transactions. Decisions by senior management to incentivize certain behaviors through FTP costs and benefits customarily would be documented and included in the report on FTP.

Conclusion

A firm should use the principles laid out in this guidance to develop, implement, and maintain an effective FTP framework. In doing so, a firm's risk-taking incentives should better align with its risk management and strategic objectives. The framework should be adequately tailored to a firm's size, complexity, business activities, and overall risk profile.

Attachment
Illustrative Funds Transfer Pricing Methodologies

March 1, 2016

The Funds Transfer Pricing (FTP) methodologies described below are intended for illustrative purposes only and provide examples for addressing principles set forth in the guidance. A firm's FTP framework should be commensurate with its size, complexity, business activities, and overall risk profile. In designing its FTP framework, a firm may utilize other methodologies that are consistent with the principles set forth in the guidance. Therefore, these illustrative methodologies should not be interpreted as directives for implementing any particular FTP methodology.

Non-Trading Exposures

For non-trading exposures, a firm's FTP methodology may vary based on its business activities and specific exposures. For example, certain firms may have higher concentrations of exposures that have less predictable time horizons, such as non-maturity loans and non-maturity deposits.

Matched-Maturity Marginal Cost of Funding

Matched-maturity marginal cost of funding is a commonly used methodology for non-trading exposures. Under this methodology, FTP costs and benefits are based on a firm's market cost of funds across the term structure (for example, wholesale long-term debt curve adjusted based on the composition of the firm's alternate sources of funding such as Federal Home Loan Bank advances and customer deposits). This methodology incentivizes business lines to generate stable funding (for example, core deposits) by crediting them the benefit or premium associated with such funding. It also ensures that business lines are appropriately charged the cost of funding for the life of longer-dated assets (for example, a five-year commercial loan). Given that funding costs can change over time, the market cost of funds across the term structure should be derived from reliable and readily available data sources and be well understood by FTP users.

FTP rates should, as closely as possible, match the characteristics of the transaction or the aggregated transactions to which they are applied. In determining the appropriate point on the derived FTP curve for a transaction or pool of transactions, a firm could consider a variety of characteristics, including the holding period, cash flow, re-pricing, prepayments, and expected life of the transaction or pool. For example, for a five-year commercial loan that has a rate that resets every three months and will be held to maturity, the interest rate component of the funding risk could be based on a three-month horizon for determining the FTP cost, and the liquidity component of the funding risk could be based on a five-year horizon for determining the FTP cost. Thus, the total FTP cost for holding the five-year commercial loan would be the combination of these two components.

Contingent Liquidity Risk

A firm may calculate the FTP cost related to non-trading exposure contingent liquidity risk using models based on behavioral assumptions. For example, charges for contingent commitments could be based on their modeled likelihood of drawdown, considering customer drawdown history, credit quality, and other factors; whereas, credits applied to deposits could be based on volatility and modeled behavioral maturity. A firm should document and include all modeling analyses and assumptions in the report on FTP. If behavioral assumptions used in a firm's FTP framework do not align with behavioral assumptions used in its internal stress test for similar types of non-trading exposures, the firm should document and include in the report on FTP these inconsistencies.

Trading Exposures

For trading exposures, a firm could consider a variety of factors, including the type of funding source (for example, secured or unsecured), the market liquidity of the exposure (for example, the size of the haircut relative to the overall exposure), the holding period of the position, the prevailing market conditions, and any potential impact the chosen approach could have on firm incentives and overall risk profile. If a firm's trading activities are not material, its FTP framework may require a less complex methodology for trading exposures. The following FTP methodologies have been observed for allocating FTP costs for trading exposures.

Weighted Average Cost of Debt (WACD)

WACD is the weighted average cost of outstanding firm debt, usually expressed as a spread over an index. Some firms' practices apply this rate to the amount of an asset expected to be funded unsecured (repurchase agreement market haircuts may be used to delineate between the amount being funded secured and the amount being funded unsecured). A firm using WACD should analyze whether the methodology misaligns risk-taking incentives and document such analyses in the report on FTP.

Marginal Cost of Funding

Marginal cost of funding sets the FTP costs at the appropriate incremental borrowing rate of a firm. Some firms' practices apply a marginal secured borrowing rate to the amount of an asset expected to be funded secured and a marginal unsecured borrowing rate to the amount of an asset expected to be funded unsecured (repurchase agreement market haircuts may be used to delineate between the amount being funded secured and the amount being funded unsecured). A firm using marginal cost of funding should analyze whether the methodology misaligns risk-taking incentives, considering current market rates compared to historical rates, and document such analyses in the report on FTP.

Contingent Liquidity Risk

A firm may calculate the FTP costs related to contingent liquidity risk from trading exposures by considering the unencumbered liquid assets that are held to cover the potential for widening haircuts of trading exposures that are funded secured. If haircuts used in a firm’s FTP framework do not align with haircuts used in its internal stress test for similar types of trading exposures, the firm should document and include in the report on FTP these inconsistencies. Haircuts should be updated at a frequency that is appropriate for a firm’s trading activities and market conditions.

A firm may also include the FTP costs related to contingent liquidity risk from potential derivative outflows in stressed market conditions, which may be due to, for example, credit rating downgrades, additional termination rights, or market shocks and volatility.

BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-4

March 3, 2016

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

SUBJECT: Relying on the Work of the Regulators of the Subsidiary Insured Depository Institution(s) of Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of Less than $50 Billion

Applicability: This letter applies to the supervision of all bank holding companies and savings and loan holding companies with total consolidated assets of less than $50 billion.[1]

The Federal Reserve is issuing this letter to explain its expectations for its examiners' reliance on the work of the regulators of insured depository institution subsidiaries (IDI regulators[2]) in the supervision of bank holding companies (BHCs) and savings and loan holding companies (SLHCs).[3] The letter presents separate tailored supervisory approaches for community banking organizations (CBOs), which are defined as companies with total consolidated assets of $10 billion or less, and for regional banking organizations (RBOs), which are defined as companies with total consolidated assets between $10 billion and $50 billion.

Background

The principle of relying on the work of the IDI regulators is a well-established tenet of Federal Reserve supervisory policy and is required by statute.[4] BHC and SLHC supervision

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[1] "[A]ll bank holding companies…with total consolidated assets of less than $50 billion" includes by definition any U.S. bank holding company with total consolidated assets of less than $50 billion that is owned or controlled by a foreign banking organization.

[2] For the purpose of this SR Letter, "IDI regulator" is defined as the prudential bank regulator(s) other than the Federal Reserve, which includes the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the state banking supervisory authorities.

[3] This letter is limited to safety-and-soundness supervision. For holding company supervision with respect to consumer compliance, Reserve Bank safety-and-soundness and consumer compliance staff review information from the Consumer Financial Protection Bureau (CFPB) and the safety-and-soundness regulator of the IDI to inform Federal Reserve supervisory plans and evaluations. Primarily for IDIs with total consolidated assets over $10 billion (and their affiliates), the CFPB shares supervisory responsibility with the IDI regulator with respect to various federal consumer protection laws.

[4] Refer to sections 5(c)(1)–(2) of the Bank Holding Company Act of 1956 (BHC Act) and sections 10(b)(2) and (b)(4) of the Home Owners' Loan Act (HOLA), as amended by section 604 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). 12 U.S.C. 1844(c)(1)–(2); 12 U.S.C 1467a(b)(2), (b)(4).

focuses on the Federal Reserve's assessment of the consolidated organization based on a review of parent and nonbank activities, together with an assessment of the organization's IDI subsidiaries. When assigning Federal Reserve supervisory ratings to BHCs and SLHCs where the Federal Reserve is not the IDI regulator, the Federal Reserve will rely to the fullest extent possible on the assessment of the IDI as reflected in the examination work performed by the IDI regulator(s). This letter outlines how the Federal Reserve implements such reliance consistent with its supervisory responsibilities.

The Federal Reserve tailors its supervision of holding companies based on the size of the organization, complexity, and the degree of systemic risk that the organization poses to the U.S. financial system and the economy, including the deposit insurance fund. Within this framework of tailored supervision, the Federal Reserve focuses on the goals of both macroprudential and microprudential supervision for systematically important institutions, and microprudential supervisory goals for BHCs and SLHCs with total consolidated assets of less than $50 billion.[5]

The BHC Act and the HOLA authorize the Federal Reserve to conduct examinations of BHCs and SLHCs, and certain subsidiaries of such holding companies, to obtain information needed to assess the safety and soundness of supervised financial institutions.[6] At the same time, the Dodd-Frank Act requires the Federal Reserve, to the fullest extent possible, to rely on the reports and supervisory information from other regulatory agencies to avoid duplication of examination activities, reporting requirements, and requests for information. Supervisory overlap at the level of the IDI can be avoided through reliance on the examination work performed by the IDI regulators, as each agency follows similar rules and supervisory guidance when assessing the financial and managerial condition of an insured depository institution.

Consistent with this mandate to rely on the work of the IDI regulators, the IDI regulators and the Federal Reserve have the mutual responsibility to foster the timely sharing of information, including their risk-focused supervisory analysis and conclusions. Moreover, the sharing of information is necessary so that Federal Reserve staff have an adequate basis for relying on the IDI regulators' work. While exercising the Federal Reserve's responsibility to assess and assign appropriate supervisory ratings to the consolidated holding company, the microprudential supervision framework for smaller BHCs and SLHCs provides the Federal Reserve with the flexibility to rely on the assessment of an IDI's condition by another regulator.

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[5] While recognizing that a large number of smaller BHCs and SLHCs simultaneously experiencing financial distress could have a harmful effect on a local economy's availability of credit or on certain sectors or regions of the U.S. economy, institutions that are not systemically important do not have the size or degree of interconnectedness to the financial system to individually pose macroprudential risk.

[6] 12 U.S.C. 1844(c)(2); 12 U.S.C. 1467a(b)(4)(A). This information pertains to the nature of the operations and financial condition of the holding company and its subsidiaries; the financial, operational, and other risks within the holding company system that may pose a threat to the safety and soundness of the holding company or of any depository institution subsidiary of the holding company, or the stability of the financial system of the United States; the systems of the holding company for monitoring and controlling any such risks; and the holding company's and subsidiaries' compliance with federal law, other than in the case of an insured depository institution or functionally regulated subsidiary.

Relying on the Work of IDI Regulators for RBOs

The Federal Reserve supervises RBOs using a program of continuous oversight which is characterized by a series of targeted examinations during the annual supervisory cycle, a roll-up examination at the end of the cycle, and continuous monitoring between examination events during the cycle.

1. Taking into account a holding company's complexity, risk profile, and condition, the Federal Reserve will rely to the fullest extent possible on the work of the IDI regulators to supplement its own supervisory work regarding the consolidated holding company and its nonbank subsidiaries.

2. Federal Reserve staff will promote the sharing of information with the IDI regulators throughout the supervisory cycle, which will foster collaborative interagency relationships. Federal Reserve staff and the IDI regulators generally may participate on each other's inspections and examinations to support and complement each other's work as necessary. Through ongoing dialogue and exchange of supervisory documents and information, Federal Reserve staff are expected to:

    - Understand the IDI regulators' risk assessment and supervisory plan for each IDI, to inform the Federal Reserve's evaluation of consolidated holding company risk and to support development of the Federal Reserve's supervisory plan for the holding company;
    - Understand the IDI regulators' examination work, including the scope, basis for, and support of conclusions reached, and the goal of any supervisory action;
    - Communicate to the IDI regulators the Federal Reserve's supervision goals and approach with respect to the holding company and any subsidiaries not subject to the supervision of IDI regulators; and
    - Use all information made available from the IDI regulators to reach conclusions regarding the consolidated holding company's overall condition and to assign appropriate Federal Reserve supervisory ratings.

3. Federal Reserve staff should verify that the Federal Reserve's supervisory ratings of the consolidated holding company are adequately supported by information that is timely and complete, including the information received from the IDI regulators.

4. Federal Reserve staff will scale their supervisory approach, including the review of and reliance on the IDI regulators' work, according to the complexity,[7] risk, and condition of the consolidated organization, and to the timeliness of information available from the IDI regulators. For noncomplex holding companies with satisfactory supervisory ratings,

[7] The Federal Reserve distinguishes between complex and noncomplex holding companies by evaluating a number of factors, including: the size and structure of the company; the extent of intercompany transactions between IDI subsidiaries and the holding company or its non-depository subsidiaries; the risk, scale, and complexity of activities of any non-depository subsidiaries; and the degree of leverage at the holding company, including the extent of debt outstanding to the public. Companies are also designated "complex" if material risk management processes for the holding company and its affiliates are consolidated at the parent company.

Federal Reserve supervisory ratings should heavily rely on the IDI regulators' work for IDI subsidiaries exhibiting the following characteristics:

- CAMELS Composite 1 or 2;
- Low or moderate risk profiles;
- Stable financial condition;
- Satisfactory management practices and an associated satisfactory Management component rating; and
- IDI regulator examination reports issued within the past year.

In these situations, the Federal Reserve expects to limit its supervisory work to verify that the holding company can serve as a source of strength to, and the non-bank subsidiaries do not pose a threat to, the safety and soundness of the IDI(s). Thus, Federal Reserve staff will likely need to perform only limited analysis outside of the required annual on-site holding company inspection of the parent and nonbank subsidiaries. In addition, this analysis will be supplemented by the Federal Reserve's continuous monitoring process.

In other situations, the Federal Reserve will scale its supervisory approach, including performing more detailed monitoring of a consolidated holding company's internal management information systems, internal audit, and loan review reports, depending on the company's complexity, risk, condition of the consolidated organization, and timeliness of information available from the IDI regulator. For example, a holding company with the following characteristics is a candidate for closer Federal Reserve supervision to ensure the conclusions reached by the IDI regulators remain a valid basis for assigning the supervisory ratings to the consolidated holding company:

- The IDI examination reports are not current;[8]
- The Composite rating for the holding company or any of its IDI subsidiaries is less than satisfactory; or
- The holding company has deteriorating financial or risk trends that are not reflected in the most current IDI regulators' examination reports.

5. If Federal Reserve staff do not have an adequate basis for relying on the IDI regulators' supervisory findings, the Federal Reserve will work to resolve information gaps with the IDI regulators.[9]

[8] For the purpose of this guidance, RBO IDI examination reports that are not current are defined as reports older than one year, measured from the mailing date of a IDI regulator's report to the start date of the Federal Reserve supervisory evaluation.

[9] In rare and limited circumstances, where unresolved information gaps exist or reliance upon information obtained from the IDI regulators does not sufficiently support the Federal Reserve's supervision of a consolidated holding company, the Federal Reserve would consider invoking its expanded examination authority under section 5(c)(2) of the BHC Act and section 10(b)(4) of the HOLA, as amended by section 604 of the Dodd-Frank Act, to examine IDIs for which the Federal Reserve is not the primary regulator. 12 U.S.C. 1844(c)(2); 12 U.S.C. 1467a(b)(4).

Relying on the Work of IDI Regulators for CBOs

The Federal Reserve's approach to the supervision of holding companies with total consolidated assets of $10 billion or less is primarily described in SR letter 13-21, "Inspection Frequency and Scope Requirements for Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of $10 Billion or Less." Reserve Banks, in the vast majority of cases, conduct abbreviated off-site reviews of small, noncomplex holding companies with total consolidated assets of up to $1 billion upon receipt of examination reports from the IDI regulator of the lead subsidiary IDI. These Reserve Bank reviews assess activities conducted outside of the subsidiary IDI and rely substantially on the findings of the IDI regulator to evaluate the overall condition of the holding company.

For larger CBO holding companies, Reserve Banks conduct point-in-time on- or off-site reviews that are coordinated with, or closely follow, on-site examinations of the lead subsidiary IDI by its IDI regulator. The Reserve Bank reviews of larger CBO holding companies are targeted toward assessing parent company and nonbank activities and their potential effect on the safety and soundness of the subsidiary IDI. The Reserve Bank evaluates the condition, performance, and prospects of the subsidiary IDI based on the conclusions of the IDI regulator and does not duplicate the work of the other regulator.

Contact for Questions

Questions regarding this letter may be directed to:

- BHCs: Keith Coughlin, Manager, (202) 452-2056, or Nigel Ogilvie, Senior Supervisory Financial Analyst, (202) 973-5090, for Regional Banking Organizations; and Anthony Cain, Manager, (202) 912-4377, for Community Banking Organizations; or
- SLHCs: Karen Caplan, Manager, (202) 452-2710, or Andrea Nore, Supervisory Financial Analyst, (202) 475-6368.

In addition, institutions may send questions via the Board's public website.[10]

Michael S. Gibson
Director

Cross Reference to:

- SR letter 13-21, "Inspection Frequency and Scope Requirements for Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of $10 Billion or Less"

[10] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS
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WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-8

April 19, 2016

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

SUBJECT: Off-site Review of Loan Files

Applicability to Community Banking Organizations: This letter applies to all state member banks and U.S. branches and agencies of foreign banking organizations with less than $50 billion in total assets.

The purpose of this letter is to announce to state member banks (SMBs) and U.S. branches and agencies of foreign banking organizations (FBOs) with less than $50 billion in total assets that there is an option to have Federal Reserve examiners review loan files off-site during full-scope or target examinations. Federal Reserve examiners may conduct an off-site loan review provided the SMB or FBO is amenable to such an arrangement, and the SMB or FBO can send legible and sufficiently comprehensive loan information to the Reserve Bank in a secure manner.

To date, most of the Federal Reserve's off-site examination work has focused on financial performance analyses and the review of bank policies, procedures and certain bank internal reports.[1] However, with technological advancements, such as secure data transmission and electronic file imaging, examiners now have the ability to collect and review loan file information off-site without compromising the effectiveness of the examination process. As a result, Federal Reserve examiners may use the off-site loan review program when leading examinations of SMBs and FBOs with less than $50 billion in total assets where the bank has communicated its willingness to participate in the program and is able to appropriately image and send its loan documents to the Reserve Bank in a secure manner.

[1] Refer to SR letter 95-13, "Recommendations to Increase the Portion of Examinations and Inspections Conducted in Reserve Bank Offices."

Process for Determining if an SMB or FBO can Participate in the Off-Site Loan Review Program

Reserve Banks should query an SMB or FBO prior to conducting an examination to confirm the institution's interest in participating in the off-site loan review program.[2] SMBs or FBOs interested in participating in the program should be prepared to demonstrate their ability to appropriately image and send loan documents to the Reserve Bank in a secure manner. The Reserve Bank will consider the following when determining whether an off-site review of loan files is appropriate for a particular institution.

- Will the institution submit the loan file data using a secure transmission method such as cloud-based collaboration products, secure email services, encrypted removable media, virtual private networks, or remote desktop control services?
- Is the institution able to provide loan data and imaged loan documents that are legible, easily viewable, and properly organized to allow for timely review by examiners?
- Are the loan files comprehensive to allow an examiner to come to a conclusion as to the appropriate rating of a credit without having to request additional information from the institution?

For SMBs or FBOs that have demonstrated these technological capabilities, Reserve Banks should make all efforts to accommodate the request for an off-site loan review. However, the Reserve Bank may decline a request if it has justifiable reasons to believe that an off-site review would impede the examiners from efficiently and effectively assessing the institution's asset quality and credit risk management process.

Security of Loan File Data Submitted to the Reserve Banks

Loan file data obtained from an SMB or FBO will be handled in accordance with existing Federal Reserve information security requirements. A Reserve Bank should explain its procedures and practices for safeguarding loan file data to an SMB or FBO considering participation in the off-site loan review program, including its procedures for coordinating off-site loan reviews with state banking agencies.

Adjustments to the Examination Process

Reserve Banks will need to adjust the examination process in order to ensure successful execution of an off-site loan review. Generally, examiners should allocate adequate time prior to the start of the examination to confirm that an SMB or FBO has successfully transmitted its loan file data to the Reserve Bank. Further, examiners are expected to maintain ongoing communication with the institution's management during the examination process. Prior to the start of the examination, examiners should establish a schedule with the institution's management for status calls during the off-site portion of the examination. Typically, examiners should conduct regular calls with management to discuss loan file review and the status of other examination work.

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[2] In order for a Reserve Bank to be able to complete an off-site loan review, an SMB or FBO will need to submit all requested information in a timely manner, including confirming its interest in being considered for the off-site review program and providing all information needed for a Reserve Bank to confirm the institution's technological preparedness.

Scope of the Off-Site Examination Work

As directed in SR 95-13, Reserve Banks should continue to conduct as much of the examination work off-site as feasible without compromising the effectiveness of the examination process. Specific to loan review, examiners should typically conduct the following portions of examination work off-site regardless of whether the SMB or FBO is participating in the off-site loan review program. This examination work includes:

- Determination of the scope of the loan review;
- Risk assessment to determine the areas to be emphasized (for example, management of credit concentrations and the loan approval process);
- Review of the bank's loan policies;
- Review of financial performance reports and management reports;
- Preliminary review of the loan loss reserve methodology;
- Determination of the loans to be reviewed, and the selection of individual credits;
- Grouping of loans to related obligors; and
- Preparation of loan line sheets.

In addition, for SMBs or FBOs participating in the off-site loan review program, the review of credit files for quality, documentation, and compliance with bank policy and laws and regulations will be performed off-site. Further, at the discretion of the examiners, Reserve Banks may hold either off-site or on-site discussions with the institution's management regarding preliminary loan review findings such as the appropriateness of individual credit ratings assigned by the SMB or FBO and the completeness of credit file documentation.

Scope of On-Site Examination Work

On-site examination work remains an indispensable component of bank supervision that plays a critical role in ensuring the Federal Reserve fulfills its supervisory responsibilities. As directed in SR 95-13, Reserve Banks are expected to continue to perform on-site those activities that require physical observation such as transaction testing and direct monitoring of an institution's operations and internal controls. While on-site, examiners will also review documents such as meeting minute books of the board of directors that would be inappropriate or impractical for the SMB or FBO to send to the Reserve Bank. Further, Federal Reserve examiners should conduct exit meetings in-person with the institution's management to communicate final supervisory findings and conclusions, including the final supervisory findings from any off-site loan review examination work.

Questions regarding this letter and the attached examiner guidance may be directed to the following staff in the Board's Division of Banking Supervision and Regulation:

- Community Banking Organizations: Anthony Cain, Manager, at (202) 912-4377; and Laura A. Macedo, Senior Supervisory Financial Analyst, at (202) 452-5268.
- Regional Banking Organizations: Keith Coughlin, Manager, at (202) 452-2056.

- Foreign Banking Organizations: Celeste Molleur, Manager, at (202) 452-2783, and Kwayne Jennings, Manager, at (202) 452-3088.

In addition, questions may be sent via the Board's public website.[3]

Michael S. Gibson
Director

Cross reference to:

- SR letter 95-13, "Recommendations to Increase the Portion of Examinations and Inspections Conducted in Reserve Bank Offices"

[3] http://www.federalreserve.gov/apps/contactus/feedback.aspx

BOARD OF GOVERNORS

OF THE

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WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-9
April 21, 2016

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

SUBJECT: Inactive Supervisory Guidance

Applicability to Community Banking Organizations: This letter applies to all organizations supervised by the Federal Reserve, including community banking organizations with $10 billion or less in total consolidated assets.

The purpose of this letter is to announce that Federal Reserve staff are making certain previously issued Supervision and Regulation (SR) letters inactive. Most SR letters identified in the attachment have been determined to be inactive and no longer applicable to the Federal Reserve's supervision program. In many cases, the information transmitted in these issuances was a point-in-time announcement, or has become outdated, or has been superseded by subsequent regulations, policies, and guidance. In some instances, letters were made inactive because more comprehensive guidance on the topic can be located in the *Commercial Bank Examination Manual* or the *Bank Holding Company Supervision Manual*. The attachment lists the letters deemed inactive and provides a brief explanation indicating why each letter has been made inactive.

Questions or comments about the inactive status of any of these letters or concerns that they may contain supervisory guidance of continuing relevance should be addressed to Virginia Gibbs, Manager, Policy Implementation and Effectiveness, at (202) 452-2521, or Alex Kobulsky, Supervisory Financial Analyst, at (202) 452-2031, in the Division of Banking Supervision and Regulation. In addition, questions may be sent via the Board's public website.[1]

Maryann F. Hunter
Deputy Director

Attachment:

- *Inactive SR and SR/CA Letters*

[1] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Inactive SR and SR/CA Letters

April 21, 2016

Letter No.	**Date**	**Subject/Title**	**Reason**
SR 14-7	7/29/2014	Loan Coverage Requirements for Safety and Soundness Examinations of Community State Member Banks	Contents incorporated into sections 2082.1 and 2086.1 of the *Commercial Bank Examination Manual*.
SR 13-25	12/27/2013	Interagency Statement Regarding the Treatment of Certain Collateralized Debt Obligations Backed by Trust Preferred Securities under the Volcker Rule	Outdated announcement. Applicable only to 12/31/2013 financial reports.
SR 12-13	10/19/2012	FFIEC Statement on the Impact of Drought Conditions on Financial Institutions	Outdated announcement. See SR 13-6 / CA 13-3, "Supervisory Practices Regarding Banking Organizations and their Borrowers and Other Customers Affected by a Major Disaster or Emergency."
SR 12-6	4/12/2012	Inactive Supervisory Guidance	Superseded by this letter.
SR 11-4	3/2/2011	Interagency Statement on Reorganization of FinCEN's Bank Secrecy Act Regulations	Outdated announcement of changes in another agency's regulations. Refer to 31 CFR Chapter X Financial Crimes Enforcement Network, Department of the Treasury.

Letter No.	Date	Subject/Title	Reason
SR 10-14	8/2/2010	Implementation of Registration Requirements for Federal Mortgage Loan Originators	Outdated. Rulemaking authority for the SAFE Act was transferred to the Bureau of Consumer Financial Protection, which issued implementing regulations at 12 CFR parts 1007 and 1008, superseding the Board's rules and guidance. The Board's Division of Consumer and Community Affairs is responsible for examining compliance of certain institutions. Refer to CA letter 15-5, "Transfer of SAFE Act Supervisory Responsibilities and Publication of SAFE Act Examination Procedures."
SR 10-13 / CA 10-8	7/14/2010	Interagency Supervisory Guidance for Institutions Affected by the Deepwater Horizon Oil Spill	Outdated announcement. Refer to SR 13-6 / CA 13-3, "Supervisory Practices Regarding Banking Organizations and their Borrowers and Other Customers Affected by a Major Disaster or Emergency."
SR 09-2	1/14/2009	FFIEC Guidance Addressing Risk Management of Remote Deposit Capture Activities	Outdated announcement. Refer to the *FFIEC Retail Payment System IT Examination Handbook* available at www.ffiec.gov.
SR 08-4	7/8/2008	Qualification Process for Advanced Approaches Risk-Based Capital Framework Implementation	Outdated. Refer to the Board's regulatory capital rules at 12 CFR part 217 (Regulation Q).
SR 08-2 / CA 08-2	3/03/2008	Statement to Financial Institutions Servicing Residential Mortgages on Reporting Loss Mitigation of Subprime Mortgages	Outdated announcement.
SR 07-9	6/19/2007	Notification of Delay in the Implementation of the Revised Suspicious Activity Report by Depository Institutions	Outdated announcement.

Letter No.	Date	Subject/Title	Reason
SR 06-7	3/20/2006	Amendments to Regulation K to include Bank Secrecy Act compliance program requirement	Outdated announcement about changes to a Board regulation. Refer to 12 CFR part 211 (Regulation K).
SR 05-21	11/2/2005	Guidance on the Examination Treatment of Assets Related to the Tobacco Transition Payment Program	Outdated. Program expired.
SR 05-6	3/30/2005	Risk-Based Capital Treatment for Unrated Direct Credit Substitutes Extended to Asset-Backed Commercial Paper Programs	Outdated. Refer to the Board's regulatory capital rules at 12 CFR part 217 (Regulation Q).
SR 04-14/ CA 04-7	10/19/2004	FFIEC Brochure with Information on Internet "Phishing"	Outdated announcement.
SR 04-7	5/14/2004	SEC Guidance on the Potential Liability of Financial Institutions for Securities Law Violations Arising from Deceptive Structured Finance Products and Transactions	Outdated announcement about the issuance of another agency's guidance. Refer to www.sec.gov. See also SR 07-5, "Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Activities."
SR 03-14	7/16/2003	Fraudulent Federal Reserve Note Schemes	Outdated announcement.
SR 02-20	10/29/2002	The Sarbanes-Oxley Act of 2002	Outdated announcement about new legislation. Refer to 15 U.S.C. 7201–7266 and implementing regulations of other agencies.
SR 02-19	10/29/2002	Use of Statistical Sampling in the Review of Commercial and Industrial Loans and Commercial Real Estate Loans during On-Site Safety and Soundness Examinations of Community Banks	Contents incorporated into sections 2082.1 and 2086.1 of the *Commercial Bank Examination Manual*.

Letter No.	Date	Subject/Title	Reason
SR 02-13	5/20/2002	"Prime Bank" and Other Financial Instrument Fraud Schemes	Outdated announcement.
SR 01-27	11/9/2001	The Use of Forward Equity Transactions by Banking Organizations	Outdated. Refer to the Board's regulatory capital rules at 12 CFR part 217 (Regulation Q).
SR 01-7	4/02/2001	Revisions to Article 9 of the Uniform Commercial Code (UCC)	Outdated announcement. Refer to a state's UCC.
SR 01-6	3/23/2001	Enhancements to Public Disclosure	Outdated announcement. Refer to the Board's regulatory capital rules at 12 CFR part 217(Regulation Q).
SR 00-18	12/19/2000	Revisions to the Federal Reserve's Fiduciary Education Program for Banking Supervision Staff	Outdated announcement to Federal Reserve staff.
SR 00-2	2/8/2000	The Addition of Fundamentals of Interest Rate Risk Management Course to Examiner Training Program	Outdated announcement to Federal Reserve staff.
SR 99-22	7/26/1999	Joint Interagency Letter on the Loan Loss Allowance	Outdated announcement.
SR 99-13	5/21/1999	Recent Developments Regarding Loan Loss Allowances	Outdated announcement.
SR 98-33	12/3/1998	Interagency Country Risk Management Study	Outdated announcement.
SR 97-22	7/18/1997	Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks ("FFIEC 002") - Filing Requirements for "Zero Assets" Branches and Agencies	Outdated announcement clarifying reporting requirements. Refer to instructions for the preparation of FFIEC 002 available at www.ffiec.gov.
SR 97-18	6/13/1997	Application of Market Risk Capital Requirements to Credit Derivatives	Outdated. Refer to the Board's regulatory capital rules at 12 CFR part 217 (Regulation Q).

Letter No.	Date	Subject/Title	Reason
SR 96-30	11/7/1996	Risk-Based Capital Treatment for Spread Accounts that Provide Credit Enhancement for Securitized Receivables	Outdated. Refer to the Board's regulatory capital rules at 12 CFR part 217 (Regulation Q).
SR 96-29	11/7/1996	Supervisory Program for Risk-Based Inspections of Top 50 Bank Holding Companies	Outdated announcement to Federal Reserve staff.
SR 96-21	9/12/1996	FDIC Final Rule Regarding "Golden Parachutes" and Indemnification Payments	Outdated announcement about changes in another agency's regulations. Refer to FDIC rules at 12 CFR part 369.
SR 96-17	8/12/1996	Supervisory Guidance for Credit Derivatives	Outdated. Refer to the Board's regulatory capital rules at 12 CFR part 217 (Regulation Q).
SR 96-4	3/29/1996	FDIC Amendment to Annual Audit and Reporting Requirements (Part 363)	Outdated announcement about changes in another agency's regulations. Refer to FDIC rules at 12 CFR part 363.
SR 95-49	10/17/1995	Addition to the "Report on the Target Inspections of Management Information Systems"	Outdated. Refer to sections 5050 and 5052 of the *Bank Holding Company Supervision Manual*. See also the FFIEC IT Handbook available at www.ffiec.gov.
SR 95-47	10/10/1995	Transfer Agent Registration	Outdated announcement about form changes. Refer to FFIEC Reporting Forms available at www.ffiec.gov.
SR 95-45	9/11/1995	Inspections of Management Information Systems	Outdated. Refer to sections 5050 and 5052 of the *Bank Holding Company Supervision Manual*. See also the FFIEC IT Handbook available at www.ffiec.gov.
SR 95-39	7/7/1995	Examination Procedures for the New "Pass-Through" Deposit Insurance Disclosure Rules Concerning Employee Benefit Plan Deposits	Outdated announcement about changes to another agency's regulations. Refer to section 3000.1 of the *Commercial Bank Examination Manual*. See also the FDIC's rules at 12 CFR 330.14.

Letter No.	**Date**	**Subject/Title**	**Reason**
SR 95-37	6/19/1995	Reporting of Loans to Executive Officers Public Law 90-44	Outdated announcement to Federal Reserve staff. Refer to 12 CFR part 215 (Regulation O). See also Schedule RC-M on the Call Report and the Call Report instructions available at www.ffiec.gov.
SR 95-36	6/19/1995	Bank Lending Terms and Standards	Outdated. Refer to section 2040.1 of the *Commercial Bank Examination Manual*.
SR 95-32	5/30/1995	Amendment to the Board's Anti-Tying Rules—A "Combined-Balance Discount" Safe Harbor	Outdated announcement about a change to a Board regulation. Refer to 12 CFR 225.7, "Exceptions to tying restrictions."
SR 95-21	5/3/1995	Security Reclassification of FR 2064 "Changes in Foreign Investments by U.S. Bank Holding Companies" and FR Y-20 "Financial Statements for a Bank Holding Company Subsidiaries Engaged in Ineligible Securities Underwriting and Dealing"	Outdated announcement.
SR 95-20	3/30/1995	Financial standby letters of credit and performance standby letters of credit	Outdated. Refer to the Board's regulatory capital rules at 12 CFR part 217 (Regulation Q).
SR 94-35	6/8/1994	Amendments to the Real Estate Appraisal Regulation	Outdated announcement about amendments to the Board's appraisal regulation. Refer to 12 CFR 208 subpart E (Regulation H) and 12 CFR 225 subpart G (Regulation Y).
SR 94-25	4/18/1994	Interim Revision to the Supervisory Policy Statement on Securities Activities	Outdated announcement. Refer to SR 98-12, "FFIEC Policy Statement on Investment Securities and End-User Derivatives Activities."
SR 94-7	1/27/1994	System Training Procedures	Outdated announcement to Federal Reserve staff.

Letter No.	Date	Subject/Title	Reason
SR 93-72	12/30/1993	Guidance on the Capital Treatment and Other Issues Relating to the Financial Accounting Standards Board Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”	Outdated. Refer to Call Report instructions available at www.ffiec.gov.
SR 93-51	9/8/1993	Amendments to Money Laundering Laws and Related Legislation and Federal Reserve 1992 Report to Congress Regarding Administrative Enforcement and Criminal Investigatory and Prosecutorial Activities	Outdated announcement about new legislation and a congressional report. Refer to the FFIEC *Bank Secrecy Act Examination Manual* available at www.ffiec.gov.
SR 93-42	7/16/1993	Interagency Guidance on Accounting for Disposition of Other Real Estate Owned	Outdated. Refer to Call Report instructions available at www.ffiec.gov.
SR 93-36	6/18/1993	Preliminary Examiner Guidance for Regulation F – Interbank Liabilities	Outdated. Refer to section 2040.1 of the *Commercial Bank Examination Manual* and SR 10-10, “Interagency Guidance on Correspondent Concentration Risk.”
SR 93-31	6/11/1993	Procedures for Candidates Taking the Core Proficiency Examination	Outdated announcement to Federal Reserve staff.
SR 93-10	3/10/1993	Revised Procedures Regarding Processing of Dividend Requests from State Member Banks and Bank Holding Companies Under Formal Action	Outdated announcement to Federal Reserve staff.
SR 93-1	1/11/1993	Real Estate Lending Standards	Outdated announcement about the issuance of the Board’s real estate lending standards regulation. Refer to 12 CFR 208 subpart E and appendix C (Regulation H).

Letter No.	**Date**	**Subject/Title**	**Reason**
SR 92-40	11/3/1992	Call Report Treatment for Debt-for-Equity and Debt-for-Debt Exchanges	Outdated. Refer to Appendix C to the attachment of SR 08-12, “Revisions to the Guide to the Interagency Country Exposure Review Committee (ICERC) Process.”
SR 92-37	10/15/1992	Clarification of August 28, 1992 Interpretation on Subordinated Debt	Outdated. Refer to section 4060.3 of the *Bank Holding Company Supervision Manual*.
SR 92-11	4/2/1992	Asset-Backed Commercial Paper Programs	Outdated. Refer to the Board’s regulatory capital rules at 12 CFR part 217 (Regulation Q).
SR 91-31	12/19/1991	Guidance to Foreign Banks in Complying with New Deposit-Taking Restrictions	Outdated announcement about new legislation. Refer to 12 CFR part 211 (Regulation K) and FDIC’s International Banking rules (12 CFR part 347).
SR 91-1	1/4/1991	System Training Procedures	Outdated announcement to Federal Reserve staff.
SR 90-38	12/5/1990	The Comprehensive Thrift and Bank Fraud Prosecution and Taxpayer Recovery Act of 1990	Outdated announcement about new legislation.
SR 90-12	4/9/1990	Infrastructure Reviews for Banking Organizations Seeking Expanded Securities Underwriting and Dealing Powers	Outdated. Applications are no longer being accepted under Section 20 procedures.
SR 89-23	10/24/1989	Definition of Highly Leveraged Transaction (HLT)	Outdated. Refer to SR 13-3, “Interagency Guidance on Leveraged Lending,” and section 2115 of the *Commercial Bank Examination Manual*.
SR 89-20	9/21/1989	Cash Redemption of Perpetual Preferred Stock	Outdated. Refer to the Board’s regulatory capital rules at 12 CFR part 217 (Regulation Q).

Letter No.	Date	Subject/Title	Reason
SR 89-5	1/16/1989	Highly Leveraged Financings	Outdated. Refer to SR 13-3, "Interagency Guidance on Leveraged Lending," and section 2115 of the *Commercial Bank Examination Manual*.
SR 88-37	12/28/1988	Disclosure of Numeric Composite Examination and Inspection Ratings to Examined/Inspected Institutions	Outdated. Refer to SR 96-26, "Provision of Individual Components of Supervisory Rating Systems to Management and Boards of Directors," and SR 05-4, "Interagency Advisory on the Confidentiality of Nonpublic Supervisory Information."
SR 86-49	12/30/1986	Preemption of the Farm Products Rule Under the Uniform Commercial Code by Section 1324 of the Food Security Act of 1985	Outdated announcement about new legislation. Refer to a state's UCC.
SR 85-35	12/20/1985	Confidentiality of Sender Net Debit Caps and Self-Assessment Ratings	Outdated. Refer to the Board's Payment System Risk Policy dated 12/31/2014.
SR 84-16	6/15/1984	Farm and Agricultural-Related Loans	Outdated. Refer to section 2142 of the *Commercial Bank Examination Manual*.
SR 83-24	6/28/1983	Transfers of Assets between Banks and Bank Holding Companies	Outdated announcement to Federal Reserve staff. See also Sections 23A and 23B of the Federal Reserve Act and 12 CFR part 223 (Regulation W).
SR 83-14	3/24/1983	Memorandums of Understanding	Outdated announcement to Federal Reserve staff.
SR 83-3	1/21/1983	Lending of Tax-Exempt Securities Transactions	Outdated. Industry practices have changed.
SR 81-715	10/1/1981	Examination Procedures and Classification Criteria for Contingent Liabilities	Refer to sections 2060.1 and 4110.1 of the *Commercial Bank Examination Manual*.

Letter No.	Date	Subject/Title	Reason
SR 81-714	9/24/1981	Revised FDIC Procedures for the Review of Bank Holding Company Inspection Reports	Outdated announcement to Federal Reserve staff.
SR 81-708	8/11/1981	Guidelines for Providing Information to Internal Auditors	Outdated announcement to Federal Reserve staff.
SR 78-438	2/28/1978	Authority to Request FDIC Bank Examination Reports	Outdated announcement to Federal Reserve staff.
SR 77-402	8/25/1977	Standby Letters of Credit	Refer to sections 2060.1 and 4110.1 of the *Commercial Bank Examination Manual*.
SR 77-395	7/18/1977	Exemptions from Prohibited Transactions Provision of ERISA	Outdated announcement about other agencies' regulations. Refer to the regulations of the Department of Labor and the Department of the Treasury.
SR 68-12	11/19/1968	Certificate of Appointment	Outdated announcement to Federal Reserve staff.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-11

June 8, 2016

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

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

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

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

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

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

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

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

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

Michael S. Gibson
Director

Attachment

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

Partially Supersedes

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

Cross-references to:

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

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

[4] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

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

BOARD OF GOVERNORS

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FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-12

June 17, 2016

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

SUBJECT: Interagency Guidance on the New Accounting Standard on Financial Instruments – Credit Losses

Applicability: This guidance applies to all Federal Reserve supervised financial institutions, including those with $10 billion or less in consolidated assets, that file regulatory reports prepared in accordance with generally accepted accounting principles (GAAP).

The Federal Reserve, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency (agencies) are issuing the attached joint statement to provide supervised institutions[1] with initial information and supervisory views on the new accounting standard for credit losses recently issued by the Financial Accounting Standards Board (FASB). The new accounting standard, Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology (CECL). It also allows a financial institution to leverage its current internal credit risk systems as a framework for estimating expected credit losses. The new standard will not be effective until 2020 for institutions that are required to file financial statements with the U.S. Securities and Exchange Commission or the appropriate federal financial institution regulatory agency under the federal securities laws, and 2021 for all other institutions (with early adoption allowed in 2019). The agencies encourage financial institutions to begin planning for implementation and ensure that appropriate staff work closely with their senior management and board of directors during the transition.

While the standard applies to institutions of all asset sizes, the agencies believe the new accounting standard can be implemented in a manner appropriate to an institution's asset size and complexity. Similar to the existing incurred losses model, the new accounting standard does not prescribe the use of specific estimation methods. The new standard allows institutions to apply judgment in developing estimation methods that are appropriate and practical for their

[1] For the Federal Reserve, this includes state member banks, bank and savings and loan holding companies, Edge and agreement corporations, and U.S. branches and agencies of foreign banking organizations.

circumstances. The agencies do not expect that smaller and less complex institutions will need to implement complex modeling techniques.

Until the effective date of the new accounting standard, institutions should continue using the incurred losses model to estimate allowances as required by current accounting standards.[2] That said, the change to an institution's expected losses methodology may impact its retained earnings and, thus, regulatory capital. Therefore, institutions are encouraged to plan for the potential impact on capital in advance of the new standard's effective date.

Reserve Banks are asked to distribute this letter to the supervised organizations in their districts and to appropriate supervisory staff. Questions regarding this letter should be directed to Shuchi Satwah, Senior Accounting Policy Analyst, at (202) 912-4620 in the Division of Banking Supervision and Regulation. In addition, institutions may send questions via the Board's public website.[3]

Michael S. Gibson
Director

Attachment:

- *Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses*

Cross Reference to:

- SR 13-19, "Guidance on Managing Outsourcing Risk"

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[2] Please refer to the table and discussion in the joint statement for details on the effective dates for the new standard.

[3] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-13

July 29, 2016

TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE BANK AND EACH DOMESTIC AND FOREIGN BANKING ORGANIZATION SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: Imposition of Special Measures by the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN)

Applicability: This letter on special measures is directed to all covered financial institutions supervised by the Federal Reserve, regardless of asset size.

The purpose of this letter is to advise Federal Reserve supervised institutions of the special measures imposed by the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) under section 311 of the USA PATRIOT Act (31 U.S.C. 5318A).[1] Special measures create legal obligations for covered financial institutions with respect to certain jurisdictions, financial institutions, or international transactions of primary money laundering concern to the United States (collectively, "311 entities").[2]

[1] For background information on section 311, refer to the "Special Measures" section of the *Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering Examination Manual*, available at http://www.ffiec.gov/bsa_aml_infobase/.

[2] FinCEN's special measures rule (31 C.F.R. 1010.658(a)(3)) defines "covered financial institution" to include the following: (i) an insured bank (as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h))); (ii) a commercial bank; (iii) an agency or branch of a foreign bank in the United States; (iv) a federally insured credit union; (v) a savings association; (vi) a corporation acting under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*); (vii) a trust bank or trust company that is federally regulated and is subject to an anti-money laundering program requirement; (viii) a securities broker or dealer registered, or required to be registered, with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 ("Exchange Act") (15 U.S.C. 78a *et seq.*), except persons who register pursuant to section 15(b)(11) of the Exchange Act; (ix) a futures commission merchant or an introducing broker registered, or required to be registered, with the Commodity Futures Trading Commission under the Commodity Exchange Act (7 U.S.C. 1 *et seq.*), except persons who register pursuant to section 4(f)(a)(2) of the Commodity Exchange Act; and (x) a mutual fund, which means an investment company (as defined in section 3(a)(1) of the Investment Company Act of 1940 (("Investment Company Act") (15 U.S.C. 80a-3(a)(1))) that is an open-end company (as defined in section 5(a)(1) of the Investment Company Act (15 U.S.C. 80a-5(a)(1))) and that is registered, or is required to register, with the SEC pursuant to the Investment Company Act.

Under section 311 of the USA PATRIOT Act, FinCEN has authority to require covered financial institutions to take one or more of the following special measures with regard to a 311 entity:

1. maintain records, file reports, or both, concerning the aggregate amount of transactions, or concerning each transaction of the entity;
2. obtain and retain beneficial ownership information regarding U.S. accounts that involves the entity;
3. identify and obtain information comparable to U.S. customer identification requirements regarding customers permitted to use, or whose transactions are routed through, payable through accounts of financial institutions involving the entity;
4. identify and obtain information comparable to U.S. customer identification requirements regarding customers permitted to use, or whose transactions are routed through, correspondent accounts of financial institutions involving the entity; and
5. prohibit, or impose conditions upon, the opening or maintaining in the United States of a correspondent account or payable-through account for the entity.

Because the specific special measures imposed regarding 311 entities can vary, covered financial institutions should refer to FinCEN's rulemaking or order pertaining to each 311 entity for guidance regarding the nature, applicability, and scope of the imposed special measures.[3] Generally, the special measure most commonly imposed under section 311 is the fifth special measure. The fifth special measure must be issued by rulemaking and prohibits all covered financial institutions from opening or maintaining a correspondent account in the United States for, or on behalf of, entities identified as a primary money laundering concern. The first four special measures may be imposed by order, without a final rulemaking.

Attached to this SR letter is a list of the 311 entities for which a special measure is in place creating obligations on the part of covered financial institutions. This list will be updated periodically whenever FinCEN imposes a new special measure or removes, or changes an existing special measure.

Federal Reserve Banks are asked to distribute this letter to covered supervised domestic and foreign financial institutions as well as to supervisory and examination staff. For questions regarding these special measures, please contact Koko Ives, Manager, Bank Secrecy Act/Anti-Money Laundering Compliance Section (202) 973-6163. In addition, questions may be sent via the Board's public website.[4]

Michael Gibson
Director

[3] The list of FinCEN's findings, notices of proposed rulemakings, and final rulemakings on *Special Measures for Jurisdictions, Financial Institutions or International Transactions of Primary Money Laundering Concerns* is available at: http://www.fincen.gov/statutes_regs/patriot/section311.html.

[4] See: http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Attachment:

- *List of Entities for Which FinCEN Has Imposed Special Measures Under Section 311 of the USA PATRIOT Act*

Supersedes:

- SR letter 07-4, “Imposition of Special Measures against Banco Delta Asia SARL”
- SR letter 06-6, “Imposition of Special Measures against Commercial Bank of Syria”
- SR letter 04-6, “Imposition of Special Measures against Burma, Myanmar Mayflower Bank, and Asia Wealth Bank”

List of Entities for Which FinCEN Has Imposed Special Measures Under Section 311 of the USA PATRIOT Act

Last Updated: August 12, 2016

Entity	Location	Notice of Finding[1]	Final Rule or Order	Final Rule or Order Effective Date	Notes
Banco Delta Asia SARL	Macau Special Administrative Region, China	9/20/05 70 FR 55214	3/19/07 72 FR 12730	4/18/07	Imposes Fifth Special Measure prohibiting opening or maintaining correspondent accounts for the institution.
Commercial Bank of Syria (Includes Syrian Lebanese Commercial Bank)	Damascus, Syria and Beirut, Lebanon	5/18/04 69 FR 28098 (Contained in Notice of Proposed Rulemaking)	3/15/06 71 FR 13260	4/14/06	Imposes Fifth Special Measure prohibiting opening or maintaining correspondent accounts for the institution.
Burma	Burma (also known as Myanmar)	11/25/03 68 FR 66299 (Contained in Notice of Proposed Rulemaking)	4/12/04 69 FR 19093	5/12/04	Imposes Fifth Special Measure prohibiting opening or maintaining correspondent accounts for certain institutions in the jurisdiction.

[1] Institutions may consider information contained in FinCEN's findings or notices of proposed rulemaking as part of their customer risk assessments.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING SUPERVISION AND REGULATION

SR 16-14

September 19, 2016

TO: OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK AND TO INSTITUTIONS SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: *FFIEC Information Technology Examination Handbook* – Information Security Booklet

Applicability: This letter applies to all institutions supervised by the Federal Reserve, including those with $10 billion or less in consolidated assets.

The Federal Financial Institutions Examination Council (FFIEC) has revised the July 2006 version of the "Information Security" booklet of the *FFIEC Information Technology Examination Handbook (IT Handbook)*. The Information Security booklet is one of 11 booklets that make up the *IT Handbook.*[1] This revised booklet provides guidance to examiners for assessing the level of security risks to a financial institution's information systems. The booklet describes effective information security program management and helps examiners evaluate the adequacy of a financial institution's integration of information security into its overall risk management program.[2] The booklet also provides an overview of information security operations, including the need for effective: (1) threat identification, assessment, and monitoring; and (2) incident identification, assessment, and response.

The revised booklet highlights important attributes among effective information security programs, including assurance and testing, and the adequacy of an institution's culture,

[1] To consolidate letters that announce revisions to FFIEC IT-related booklets, this letter supersedes the following letters: SR letter 16-10, "*FFIEC Information Technology Examination Handbook* – Retail Payment Systems Booklet," which addresses IT practices associated with activities and devices for mobile financial services; SR letter 15-14, "*FFIEC Information Technology Examination Handbook*," which provides guidance on the oversight and administration of IT and IT risk management practices and SR letter 15-3, "*FFIEC Information Technology Examination Handbook*," which explains the components of an effective third-party management program that can identify, measure, monitor, and control the risks associated with outsourcing. The information in those booklets is still relevant, and examiners can find the latest versions of those booklets on the *FFIEC IT Examination Handbook* InfoBase at: http://ithandbook.ffiec.gov/it-booklets.aspx.

[2] For purposes of this guidance, "financial institutions" refers to state member banks, bank and savings and loan holding companies (including their nonbank subsidiaries), and U.S. operations of foreign banking organizations.

governance, and security operations. Further, the revised booklet includes examination procedures to evaluate these areas and addresses:

- cybersecurity concepts such as threats, controls and resource requirements for preparedness; and
- the stages of the IT risk management program, including risk identification, risk measurement, risk mitigation, monitoring, and reporting.

Electronic versions of the Information Security booklet and the other booklets in the *IT Handbook* are available at http://ithandbook.ffiec.gov/it-booklets.aspx.

Reserve Banks are asked to distribute this SR letter to the Federal Reserve-supervised institutions in their districts, as well as to their supervisory and examination staff. Questions regarding the revised guidance should be addressed to the following staff in the Board's Systems and Operational Resiliency Policy section: Todd Sheets, Supervisory Financial Analyst, at (202) 872-7541. In addition, questions may be sent via the Board's public website.[3]

Maryann F. Hunter
Acting Director

Supersedes:

- SR letter 16-10, "*FFIEC Information Technology Examination Handbook* – Retail Payment Systems Booklet"
- SR letter 15-14, "*FFIEC Information Technology Examination Handbook*"
- SR letter 15-3, "*FFIEC Information Technology Examination Handbook*"

[3] http://www.federalreserve.gov/apps/contactus/feedback.aspx

BOARD OF GOVERNORS
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WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

SR 16-16

CA 16-7

November 16, 2016

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

SUBJECT: Special Post-Employment Restriction for Senior Examiners

Applicability: This letter applies to: (1) examiners who have served as a "senior examiner" for a depository institution or depository institution holding company for two or more months during the examiner's final twelve months of employment with a Reserve Bank, and (2) any examiner or Reserve Bank supervision staff who accepts employment with a depository institution or depository institution holding company that he or she examined in the twelve months prior to his or her departure from the Reserve Bank.

This letter is being issued to announce the recent amendment to the Board's rule on Post-Employment Restrictions for Senior Examiners (12 CFR 264a) that expands the definition of "senior examiner." This amendment is intended to promote consistency in post-employment ethics rules across the Federal Reserve System and to address the risk associated with individuals leaving the Federal Reserve for employment with a regulated entity. Further, Reserve Banks are required to notify their employees when they are considered a "senior examiner" and subject to the post-employment restriction.

Summary of the Special Post-Employment Restriction

In 2005, the federal bank regulatory agencies[1] issued rules to implement the special post-employment restriction set forth in the Intelligence Reform and Terrorism Prevention Act of 2004 (referred to as the "Act"). The special post-employment restriction set forth in the Act prohibits an examiner who served as a "senior examiner" for a depository institution or depository institution holding company for two or more months during the examiner's final twelve months of employment with a Reserve Bank from knowingly accepting compensation as an employee, officer, director, or consultant from that depository institution or depository institution holding company, or from certain related entities.

[1] The federal bank regulatory agencies are the Board of Governors of the Federal Reserve System (Board), Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation.

For purposes of this rule, an officer or employee of the Federal Reserve is considered to be a "senior examiner" for a particular depository institution or depository institution holding company[2] if the individual meets all of the following criteria:

- The officer or employee has been authorized by the Board to conduct examinations or inspections on behalf of the Board.
- The officer or employee has been assigned continuing, broad, and lead responsibility for examining or inspecting that depository institution or depository institution holding company.
- The officer's or employee's responsibilities for examining, inspecting, and supervising the depository institution or depository institution holding company:
    - ➢ represent a substantial portion of the officer's or employee's assigned responsibilities, and
    - ➢ require the officer or employee to interact routinely with officers or employees of the depository institution or depository institution holding company.

This rule applies only to an individual serving in a leadership role who is dedicated to supervising a ***single*** depository institution (or group of affiliated depository institutions) or depository institution holding company. Specifically, the rule applies to senior supervisory officers (SSOs), deputy SSOs, enterprise risk officers (EROs),[3] central points of contact (CPCs), deputy CPCs, and supervisory team leaders.[4]

The rule does ***not*** cover an individual who:

- is dedicated to supervising a single depository institution (or group of affiliated depository institutions) or depository institution holding company, but does not have leadership responsibilities in conjunction with this role;
- serves in a leadership role for ***multiple*** unaffiliated depository institutions or depository institution holding companies at the same time; or
- performs only periodic, short-term examinations of a depository institution or depository institution holding company, dedicating less than two months in a year to that institution.

Table 1 summarizes how the restriction applies to "senior examiners" of the different types of organizations within the Federal Reserve's jurisdiction.

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[2] This is applicable to financial market utilities (FMUs), and nonbank financial companies (NFCs) that are designated by the Financial Stability Oversight Council (FSOC) for supervision by the Federal Reserve, only to the extent that they are depository institutions or depository institution holding companies.

[3] SSOs, Deputy SSOs, and EROs are job titles used by the Federal Reserve Bank of New York for senior officers serving on dedicated teams for Large Institution Supervision Coordinating Committee (LISCC) firms. For comparative purposes, the SSO job title is considered equivalent to the CPC job title, while the ERO job title is equivalent to the deputy SSO/CPC job title.

[4] A supervisory team leader is defined as any Reserve Bank officer or employee who serves in a leadership role as part of a dedicated supervisory team. Examples of supervisory team leaders may include risk team leaders, business line team leaders, and the chief operating officers assigned to or supporting a dedicated supervisory team. The application of this rule is determined based on the roles and responsibilities of individuals rather than their specific job title. Questions regarding applicability and interpretation should be directed to the Board's Division of Banking Supervision and Regulation conflicts staff.

Table 1--Summary of Prohibited Employment Based on Examination Responsibility

Senior Examiner Assignment	**Corresponding Prohibition**
If, during two or more months of your last twelve months of service, you served as a "senior examiner" [for example, as an SSO, deputy SSO, ERO, CPC, deputy CPC, or supervisory team leader] for a:	*Then, for one year after leaving the Federal Reserve System, you may not knowingly accept compensation as an officer, director, employee, or consultant from:*
State member bank	• The state member bank (including any subsidiary of the state member bank), or • Any company (including a bank holding company) that controls the state member bank.
Bank holding company (BHC) or savings and loan holding company (SLHC)	• The BHC or SLHC, or • Any depository institution controlled by the BHC or SLHC (including any subsidiary of the depository institution).
Foreign bank	• The foreign bank, • Any U.S. branch or agency of the foreign bank, or • Any U.S. depository institution controlled by the foreign bank (including any subsidiary of the depository institution).
Financial market utility (FMU)	• The FMU, but only if it is a depository institution or depository institution holding company, or • Any entity controlled by the FMU, but only if the FMU is a depository institution holding company (including any subsidiary of the entity).
Nonbank financial company (NFC) that is designated by the Financial Stability Oversight Council (FSOC) for supervision by the Federal Reserve	• The NFC if it is a depository institution or depository institution holding company, or • Any entity controlled by the NFC, but only if the NFC is a depository institution holding company (including any subsidiary of the institution).

Penalty for Violating "Senior Examiner" Restriction

The restriction applies to a covered individual for one year after the individual terminates his or her employment with the Reserve Bank. If an examiner violates the one-year restriction, the statute requires the appropriate federal bank regulatory agency to seek an order of removal and industry-wide employment prohibition for up to five years, a civil money penalty of up to $250,000, or both. In special circumstances, the Chairman of the Board of Governors may waive the restriction for a "senior examiner" of the Federal Reserve by certifying in writing that granting the individual a waiver of the restriction would not affect the integrity of the Federal Reserve's supervisory program.

Administrative Procedures for Implementing the "Senior Examiner" Restriction and Additional Guidelines

At a minimum, Reserve Banks shall adopt the following procedures to ensure that the "senior examiner" rule is properly implemented:

Notification to senior examiners: To help examiners comply with the statute, Reserve Banks shall establish procedures to periodically and regularly review examiners' duties and promptly notify examiners in writing when a change in duties would cause an examiner to be considered a "senior examiner" or cease to be considered a "senior examiner" with respect to an institution or holding company for purposes of the rule. Reserve Banks should consult with Board staff if questions arise as to whether an examiner would be considered a "senior examiner." The attachment to this letter provides a sample form for a Notice of Post-Employment Restriction that Reserve Banks can use for such notification.

Examiners' responsibility: Examiners are responsible for becoming familiar with the rule and ensuring that they comply with the rule. Examiners should direct any questions they may have regarding the rule to the Reserve Bank's designated ethics officers.

Monitoring of senior examiner assignments. Reserve Banks shall maintain electronic records of examiners covered by the rule. These records at a minimum shall include:

- the name of each "senior examiner;"
- the name of the depository institution or depository institution holding company for which the examiner is considered a "senior examiner;"
- the duration of the examiner's service as a "senior examiner" for the depository institution or depository institution holding company; and
- if the "senior examiner" ends employment with the Reserve Bank, the last date of Reserve Bank employment, the reason for leaving, and the name of the organization with which the examiner has accepted employment, if available.

Work Paper review: If ***any*** examiner, regardless of whether he or she is designated as a "senior examiner," accepts employment with a depository institution or depository institution holding company that he or she examined in the twelve months prior to his or her departure from Federal Reserve employment, the Reserve Bank shall review the work papers related to his or her assignment supervising that institution. The work paper review should be performed within 60 days of the examiner's departure and should consider whether the examiner compromised examination findings or supervisory proceedings because of pending employment with the relevant depository institution or depository institution holding company (for example, the examiner failed to bring significant findings or concerns forward to examination management, or omitted important examination processes or elements of the examination scope).

Disciplinary procedures: If a Reserve Bank becomes aware that a former examiner has violated the rule, the Reserve Bank shall promptly notify the Reserve Bank's officer-in-charge of supervision, its ethics officer, and the Board's designated agency ethics officer.

Implementation

Reserve Banks are expected to implement this policy within 45 days from the date of this letter. In early 2017, a horizontal review will be conducted by each Reserve Bank's Quality

Assurance function, in partnership with Board staff, to ensure that Reserve Banks have effectively implemented the new policy. In addition, Board staff may review compliance with this policy during the operations review program and may request local Reserve Bank departments, such as a Reserve Bank's Internal Audit function, to assist in validating compliance.

Questions regarding this supervisory letter should be directed to:

- Division of Banking Supervision and Regulation: Steven Merriett, Associate Director, at (202) 452-2531; Ryan Lordos, Deputy Associate Director, at (202) 452-2961; or Lori Jackson, Senior Supervisory Financial Analyst, at (202) 452-2048.
- Division of Consumer and Community Affairs: Phyllis Harwell, Associate Director, at (202) 452-3658; or Tracy Anderson, Manager, at (202) 736-1921.

In addition, individuals may send questions via the Board's public website.[5]

Michael S. Gibson
Director
Division of Banking Supervision
and Regulation

Eric S. Belsky
Director
Division of Consumer and Community
Affairs

Attachments:

- Sample Form for Notice of Post-Employment Restriction

Supersedes:

- SR letter 05-26, "Special Post-Employment Restriction Set Forth in the Intelligence Reform and Terrorism Prevention Act of 2004"

[5] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

SR letter - Attachment
Notice of Post-Employment Restriction

TO: ___________________________________ **DATE:** ______________

You have been identified by this Federal Reserve Bank as a "senior examiner" as described by section 10(k) of the Federal Deposit Insurance Act for the financial organization listed below.

Under the statute and the Board's implementing rule (12 CFR 264a), an examiner who served as the "senior examiner" for a depository institution or depository institution holding company for two or more months during the examiner's final twelve months of employment with a Reserve Bank is prohibited from knowingly accepting compensation as an employee, officer, director, or consultant from that institution or holding company, or from certain related entities.

For covered examiners, the restriction applies for one year after terminating employment with the Reserve Bank. If an examiner violates the one-year restriction, the statute requires the appropriate federal bank regulatory agency to seek an order of removal and industry-wide employment prohibition for up to five years, a civil money penalty of up to $250,000, or both.

Name of Institution: ____ is a (check one below):

☐ state member bank ☐ bank holding company ☐ foreign bank

☐ savings and loan holding company

☐ financial market utility ☐ nonbank financial company

Use the following table to determine the applicable prohibition.

<u>**Senior Examiner Assignment**</u> *If, during two or more months of your last twelve months of service, you served as the senior supervisory officer (SSO), central point of contact (CPC), deputy SSO/CPC, enterprise risk officer, or supervisory team*	<u>**Corresponding Prohibition**</u> *Then, for one year after leaving, you may not knowingly accept compensation as an officer, director, employee or consultant from*:
State member bank	• The state member bank (including any subsidiary of the state member bank), or • Any company (including a bank holding company) that controls the state member bank.
Bank holding company (BHC) or savings and loan holding company (SLHC)	• The BHC or SLHC, or • Any depository institution controlled by the BHC or SLHC (including any subsidiary of the depository institution).
Foreign bank	• The foreign bank; • Any U.S. branch or agency of the foreign bank; or • Any U.S. depository institution controlled by the foreign bank (including any subsidiary of the depository institution).
Financial market utility (FMU)	• The FMU if it is a depository institution or a depository institution holding company, or • Any entity controlled by the FMU (including any subsidiary) if the FMU is a depository institution or a depository institution holding company.
Nonbank financial company (NFC) that is designated by the Financial Stability Oversight Council (FSOC) for supervision by the Federal Reserve	• The NFC if it is a depository institution or a depository institution holding company, or • Any entity controlled by the NFC (including any subsidiary) if the NFC is a depository institution or a depository institution holding company.

By signing below (either in paper or electronic PDF form), you acknowledge receipt of this letter and affirm that you have read the rule and understand your responsibilities under it. Please retain a copy for your records.

Signature: ____ Date: ________________________________

Return completed signed form to: [designate appropriate Reserve Bank contact and phone]. Questions about this rule should be directed to: [designate appropriate Reserve Bank contact and phone].

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-17

December 1, 2016

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

SUBJECT: Supervisory Expectations for Risk Management of Reserve-Based Energy Lending Risk

Applicability: This guidance applies to state member banks, U.S. branches and agencies of foreign banking organizations, and depository institution holding companies and nonbank subsidiaries of such holding companies involved in energy lending, regardless of the asset size of the supervised institution.

The purpose of this letter is to enhance existing energy lending guidance[1] and to update financial institutions and supervisory staff about key risks and risk management factors for reserve-based lending activities.

Reserve-based lending is a type of financing where a loan is secured by the reserves of oil and gas of a borrower and repaid primarily using the proceeds from the future sale of encumbered oil or gas reserves. The amount of a reserve-based loan is determined based on the borrower's "proved reserves" borrowing base, adjusted for certain risk factors. Categories of proved reserves include proved-developed-producing,[2] proved-developed-nonproducing,[3] and proved-undeveloped reserves.[4] While this guidance is being issued largely in response to recent

[1] See Energy Lending—Production Loans, *Commercial Bank Examination Manual*, Section 2150.1.

[2] **Proved-developed-producing** reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (90%) to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. Reserves subcategorized as **producing** are expected to be recovered from completion intervals which are open and producing at the time of the estimate. "Petroleum Reserves Definitions," Society of Petroleum Engineers, last modified March 1997, www.spe.org/industry/petroleum-reserves-definitions.php.

[3] **Proved-developed-nonproducing** reserves include shut-in (open but not producing, waiting on market/pipeline connections, or mechanical problems) and behind pipe (requires additional completion or future recompletion) reserves. *Ibid.*

[4] **Proved-undeveloped** reserves are reserves to be recovered from additional drilling, deepening existing wells to a different reservoir, or where a relatively large expenditure is required to complete an existing well or install production or transportation facilities. *Ibid.*

oil and gas industry developments, the risk-management principles are broadly applicable irrespective of market conditions.

Market Issues and Risk Ramifications

A financial institution engaging in reserve-based lending should maintain a robust risk management program to manage and control the level of risk in and concentration of its reserve-based lending portfolio. The program should include timely market condition analysis that supports sound credit risk management and underwriting practices. The range and extent of market analysis may vary depending on the composition of the institution's energy-related loan portfolio and overall risk exposure to the energy industry. The analysis should provide an institution's management and its board of directors with sufficient information on market conditions to make informed decisions regarding both loan and portfolio risk changes.

Prolonged declines in crude oil prices often result in substantial declines in crude oil and natural gas reserve collateral values and associated cash flows, challenging the loan repayment ability of oil and gas exploration and production borrowers. Highly leveraged borrowers and those that are in weakened financial condition are most vulnerable to these market conditions. Financial institutions should monitor market factors to better manage and control the risk of their reserve-based lending portfolios and to determine the repayment ability of their borrowers. These factors include:

- ***Oil and gas commodity prices.*** Commodities are particularly susceptible to price volatility. Global supply and demand imbalances can affect commodity prices and the cost of production. For example, weather events, economic conditions, and numerous other factors can alter global supply as well as demand and place downward pressure on exploration and production company performance. Financial institutions should take market developments and price volatility into consideration when critically reviewing collateral valuation assumptions and managing their reserve-based lending exposure.

- ***Production costs and capital expenditure.*** Production costs are also known as "lifting costs." These costs are incurred in the operation and maintenance of wells, related equipment, and facilities, and can affect sustained production. Financial institutions should critically review production costs and capital expenditures when determining borrower repayment capacity, financial viability, and liquidity. Additionally, production costs can vary significantly between wells and fields. Financial institutions should use location-specific production cost and capital expenditure estimates instead of general assumptions, particularly for those reserve-based lending portfolios containing wells in different oil fields.

  New technological drilling and completion improvements, such as horizontal wells with multistage hydraulic fracturing completions, have significantly increased the up-front capital needs for exploration and production borrowers. Financial institutions engaging in exploration and production lending should understand the capital needs of these borrowers, including the use of new technologies, when determining borrower repayment ability. As reserves are depleted, additional capital spending is required to bring additional reserves into production and maintain productivity levels.

- ***Lease provision and maintenance***. Oil and gas leases generally include a "continuous drilling" or "continuous operations" clause to prevent the lease from expiring at the end of the primary term while drilling operations are in progress. It gives the lessee the right to continue drilling any well that was begun before the lease expired and to begin drilling more wells. Maintaining production in order to exercise these lease maintenance clauses can potentially cause financial challenges to a borrower, particularly during weak market condition. Financial institutions should understand the scope of lease maintenance clauses in place and assess the borrower's ability to remain in compliance during stressed time periods.

Supervisory Expectations for Credit Risk Management and Underwriting Practices

Financial institutions should have in place appropriate risk management programs and prudent underwriting standards for reserve-based lending. A risk management program should cover concentration limits and market condition analysis, as well as expectations to identify, measure, monitor and control concentration risks associated with reserve-based lending. Moreover, an institution's risk management program for reserve-based lending should be effectively integrated into its capital planning practices. A financial institution should regularly review its policies and practices for reserve-based lending, including any relevant contingency plans in the event of market changes, and should maintain capital levels commensurate with the level and nature of its reserve-based lending exposure.

At a minimum, an institution with significant reserve-based lending exposure should have established risk management practices that address the following:

Individual Reserve-Based Lending Credit Monitoring

- *Assessment of a Borrower's Creditworthiness.* An institution should conduct a thorough analysis of a borrower's past and prospective creditworthiness, including:
    - projected income and expenses compared to actual results, as well as the results of peer oil and gas producers in the region,
    - working capital adequacy,
    - capital expense analysis,
    - cash flow analysis, and
    - price sensitivity analysis.

  Current borrower financial information is essential to the institution's ability to evaluate the borrower's creditworthiness, leverage, and liquidity. A creditworthy exploration and production business should exhibit strong repayment ability, risk analysis, liquidity, solvency, reserve valuation, credit management, profitability, and management performance.

- *Assessment of a Borrower's Cash Flow.* In volatile markets, a highly leveraged borrower may not have the necessary cash flow to properly service its debt according to the loan terms. By reviewing borrower-prepared cash flow statements, an institution should be able to identify potential repayment ability problems, calculate key cash flow ratios, and assess the ability of the business to handle risk and uncertainty.

Risk and uncertainty due to market factors, commodity prices, and production levels are prevalent characteristics of most exploration and production operations and should be reflected in the cash flow projections. A sensitivity analysis that determines an exploration and production operator's ability to withstand fluctuations in commodity prices and uncertainty in production levels is critical in analyzing cash flow projections. Some key elements of sound financial analysis that an institution should conduct include:

- Reviewing the reasonableness of underlying assumptions and projections for production, pricing, and price differentials;
- Comparing these projections with historical production and performance results;
- Analyzing hedges in place as of collateral valuation date;
- Assessing the impact of changes in capital expenditures on production levels; and
- Evaluating a borrower's ability to timely service total debt and significant changes in its balance sheet structure.

- *Reliable Collateral Evaluations.* Valuation of oil and gas reserves demands expertise and industry experience. The interconnected nature of the energy industry is complex and demands breadth and depth of understanding across all business sectors which include upstream, midstream, and downstream segments. Specialized contracts with energy services providers, such as transportation to market or delivery point, should be carefully reviewed as part of risk management practices for reliable collateral valuation.

A typical reserve-based lending credit facility requires a borrower to deliver an updated reserve engineering report twice a year to the lender. A financial institution should identify additional costs and value adjustments not included in the engineering report, such as information on land mortgage restrictions and lease assignments, and use this information to understand the scope and limitation of the collateral securing the reserve-based lending. An institution should assess the assumptions contained in the reserve report, as this information forms the basis for its analysis of the reserve valuation.

A financial institution should have a well-defined and consistently applied process, including minimum frequency, for obtaining independent reserve engineering reports. These reports require significant industry expertise and should include a complete analysis of the wells and production requirements from current production and over the life of a well.

A financial institution should periodically conduct independent assessments of reserve valuation. Depending on the level and complexity of reserve-based lending in its portfolio, an institution should utilize its own independent staff engineers (if available) or retain independent petroleum engineers to conduct a comprehensive assessment of reserve valuation. This assessment should consider such factors as the relevant production volumes, expected ultimate recovery of reserves, and capital expenditures needed to convert reserves into production. An institution should also have processes in place to monitor periodically (at minimum, twice a year) the value of collateral pledged in order to manage repayment risk over the life of the loan. An institution's processes, risk adjustment factors, and discount rates for reserve analyses should be well defined in policy and consistently applied. Additionally, evidence of collateral lien perfection and collateral inspections should be documented in loan files.

- *Loan structure.* The structure of a reserve-based loan should depend on the nature of a borrower's business. To properly structure a borrowing relationship, a financial institution should be able to:
  - Project how the borrower will perform in the future, including likely primary and secondary repayment sources from producing and developing assets. There should be limits to the portion of repayment capacity derived from developing assets.
  - Anticipate challenges and problems that the borrower may encounter, such as commodity price volatility, operational risks, and lease maintenance requirements.
  - Match the type and terms of the loan to both the loan purpose and the likely repayment sources. This includes ensuring the loan is supported by sufficient cash flow from the expected repayment source, particularly when a reserve-based loan's collateral includes undeveloped fields (that is, proved-developed-nonproducing reserves and proved-undeveloped reserves) or fields that do not have a continuous production history as collateral. The primary source of repayment is typically proved producing reserves.
  - Develop loan agreement covenants that protect the financial institution, including provisions for monitoring the borrower's expenditures for the term of the loan. For example, a forward-looking liquidity test should provide an institution with visibility to the future consolidated liquidity position of the borrower and all guarantors to the loan. In addition, covenants should require the borrower to obtain the financial institution's approval prior to lifting any hedges upon which the institution is relying to mitigate collateral market value fluctuation.
  - Secure the credit facility with collateral and consider requiring the borrower to provide loan support such as guarantees and hedges for commodity price volatility. Any guarantor should be included in the loan agreement. A financial institution should have processes and procedures in place to limit a borrower's commodity price hedging to its total production and thereby avoid over-hedging.
- *Risk rating credit facilities.* A financial institution should have in place a robust process to risk rate reserve-based loans. Risk rating for reserve-based loans should be based on realistic repayment assumptions for a borrower's ability to de-lever and repay the reserve-based loan and its total debt relative to the economic life of the borrower's oil and gas reserves. Financial support or credit enhancement from a sponsor (such as the borrower's parent company) should be demonstrated and documented for rating conclusions.
- *Timing of collateral impairment testing and impairment indicators*. Generally, reserve-based loan terms require a borrower to prepare a reserve impairment assessment at least annually, and more frequently depending on events or changes in circumstances. A financial institution should review the reserve impairment assessment report and associated recoverability test of pledged assets' value whenever events or changes in circumstances indicate that a pledged asset's carrying amount may not be recoverable.

Reserve-Based Lending Portfolio Monitoring

- *Underwriting standards*. An institution should periodically review its underwriting standards to ensure its reserve-based lending policies do not become outdated, ineffective, or unaligned with its stated risk appetite. The frequency and depth of the review will depend on circumstances specific to the institution, such as growth expectations, competitive factors, economic conditions, and overall financial condition. An institution's management should review and modify, as appropriate, reserve-based lending policies based on any planned changes to its reserve-based lending function or business plan. An institution should also address significant criticisms and recommendations about its underwriting standards that have been identified in recent audits and examinations.
- *Concentration limits.* In general, a financial institution should monitor and manage its aggregate energy lending portfolio to avoid concentration risk. The institution should set risk limits for reserve-based energy lending that are consistent with the risk appetite approved by the board of directors. In addition, an institution should monitor and manage its production and regional concentration risk for exploration and production borrowers to avoid any single well or field accounting for a high percentage of its energy-related loan portfolio.[5]
- *Credit administration and controls.* An institution should have appropriate policies and controls to monitor and separately manage troubled reserve-based loans for which a borrower is unable to generate sufficient cash flow from oil and/or gas production to repay the loan (sometimes called "stretched" reserve-based loans). A stretched reserve-based loan reflects a borrower with credit or liquidity weaknesses, and an institution should understand the fundamental causes of those weaknesses. An institution may still work with a troubled borrower to continue to service existing loans. An institution should confirm the reasons for the borrower's cash flow problems (for example, weaknesses in a borrower's financial condition or operations, or poor market conditions). An institution's credit administration process should appropriately monitor exposure to the borrower and adjust the credit facility rating to reflect the borrower's credit condition, as well as the viability of the borrower's operation, so that the institution can make an informed decision as to whether advancing additional funds is appropriate. Any additional funds advanced should be for the purpose of improving the borrower's financial condition.

Expectations for the level of sophistication of risk management systems will vary based on the specific risk characteristics, complexity, and size of an institution's reserve-based lending exposure. In general, there are higher expectations around risk management for financial institutions with significant reserve-based lending exposures in concentrated geographic locations and market segments. An institution should assess the effect, if any, of its reserve-based lending activities on the institution's overall financial condition, including capital, the allowance for loan and lease losses, and liquidity.

[5] For more information, see 17 CFR 210.4-10, "Financial accounting and reporting for oil and gas producing activities pursuant to the Federal securities laws and the Energy Policy and Conservation Act of 1975."

Contacts

Reserve Banks are asked to distribute this letter to supervised organizations in their districts and to appropriate supervisory staff. Questions regarding this letter should be directed to Peter Clifford, Manager, Risk Policy, at (202) 785-6057; or Lesley Chao, Senior Supervisory Financial Analyst, Risk Policy, at (202) 974-7063. In addition, questions may be sent via the Board's public website.[6]

Michael S. Gibson
Director

[6] See: http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

ERIC S. BELSKY
DIRECTOR
DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

CA 16-1

April 7, 2016

TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS SECTIONS:

Applicability to Community Banking Organizations: This guidance applies to institutions supervised by the Federal Reserve with total consolidated assets of $10 billion or less.

SUBJECT: Revised Interagency Examination Procedures for the Flood Disaster Protection Act

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council recently developed the attached interagency examination procedures for the Flood Disaster Protection Act (FDPA). These revised procedures supersede the FDPA interagency examination procedures transmitted with CA 97-1.

The attached procedures reflect a July 2015 interagency rulemaking addressing force placement of flood insurance, escrow of flood insurance premiums and fees, and the exemption to the mandatory purchase of flood insurance requirement for certain detached structures. Additionally, these examination procedures also reflect edits to clarify requirements and improve readability.

If you have any questions, please contact Lanette Meister, Senior Supervisory Consumer Financial Services Analyst, at (202) 452-2705, or Amy Henderson, Managing Counsel, at (202) 452-3140. In addition, questions may be sent via the Board's public website.[1]

Sincerely,

Attachment: Interagency Examination Procedures for the Flood Disaster Protection Act

Supersedes: CA 97-1 "Revised examination procedures which reflect changes in Regulation H, the Flood Disaster Protection Act" (June 19, 1997)

[1] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ERIC S. BELSKY
DIRECTOR
DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

CA 16 – 2

May 18, 2016

TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS SECTIONS AND FINANCIAL INSTITUTIONS SUPERVISED BY THE FEDERAL RESERVE:

Applicability to Community Banking Organizations: This guidance applies to all state member banks supervised by the Federal Reserve, including those with total consolidated assets of $10 billion or less.

SUBJECT: Interagency Guidance Regarding Deposit Reconciliation Practices

The Federal Reserve Board (Board), the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency (collectively, the "Agencies") have issued the attached interagency guidance to explain the Agencies' supervisory expectations regarding institutions' account deposit reconciliation practices. Among other things, the guidance highlights the requirement in the Expedited Funds Availability Act, as implemented by Regulation CC, 12 CFR Part 229, that financial institutions make funds that have been deposited in a transaction account available for withdrawal within prescribed time limits, as well as the Federal Trade Commission Act's prohibition against unfair or deceptive acts or practices.

If you have any questions concerning this guidance, please contact Dana Miller, Senior Supervisory Consumer Financial Services Analyst, at (202) 452-2751, or Amy Henderson, Managing Counsel, at (202) 452-3140. In addition, questions may be sent via the Board's public website.[1]

Sincerely,

Attachments:
1. Interagency Guidance Regarding Deposit Reconciliation Practices

[1] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

CA 16-3

June 8, 2016

TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS SECTIONS:

Applicability to Community Banking Organizations: This guidance applies to institutions supervised by the Federal Reserve with total consolidated assets of $10 billion or less.

SUBJECT: Revised Interagency Examination Procedures for Regulation P

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council recently developed the attached interagency examination procedures for Regulation P – Privacy of Consumer Financial Information. These revised examination procedures supersede the Regulation P interagency examination procedures transmitted with CA 15-7.

The revised examination procedures incorporate amendments made by section 75001 of the Fixing America's Surface Transportation Act (FAST Act) to section 503 of the Gramm-Leach-Bliley Act (GLBA). GLBA section 503, which is implemented by Regulation P, generally requires a financial institution to provide annual notice to its customers of its policies and practices with respect to disclosing and protecting nonpublic personal information. Section 75001 was effective upon enactment on December 4, 2015 and establishes an exception to this annual privacy notice requirement.

Specifically, the exception in section 75001 applies to any financial institution that: (1) solely shares nonpublic personal information in accordance with the provisions of GLBA sections 502(b)(2) or 502(e) or regulations prescribed under GLBA section 504; and (2) has not changed its policies and practices with regard to disclosing nonpublic personal information since its most recent disclosure to its customers. Beginning on December 4, 2015, if a financial institution meets these conditions, it is not required to provide an annual privacy notice to its customers and, accordingly, should not be cited either for failing to provide an annual privacy notice or for providing an annual privacy notice using an improper delivery method.

Section 75001 does not affect the GLBA/Regulation P content and delivery requirements in cases where a financial institution is still required to provide annual notice of its privacy policies and practices to its customers.

If you have any questions, please contact Amal Patel, Senior Supervisory Consumer Financial Services Analyst, at (202) 912-7879, or Tim Robertson, Manager, at (202) 452-2565. In addition, questions may be sent via the Board's public website.[1]

Sincerely,

Carol A. Evans
Assistant Director

Attachment:
- Revised Interagency Examination Procedures for Regulation P

Supersedes: CA 15-7 "Revised Interagency Examination Procedures for Regulation P" (October 5, 2011)

[1] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

CA 16-4

July 13, 2016

TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS SECTIONS:

Applicability to Community Banking Organizations: This guidance applies to all institutions supervised by the Federal Reserve, including those with total consolidated assets of $10 billion or less.

SUBJECT: Repeal of Regulation AA and Publication of Revised Examination Procedures for Section 5 of the Federal Trade Commission (FTC) Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) repealed the Board's authority to write rules that address unfair or deceptive acts or practices, which were contained in Regulation AA. Regulation AA included the Board's "credit practices rule," which prohibited banks from using certain practices to enforce consumer credit obligations and from including these practices in their consumer credit contracts. The Dodd-Frank Act provides the Consumer Financial Protection Bureau separate authority to promulgate rules to identify and prohibit unfair, deceptive, or abusive acts or practices.

Consequently, the Board repealed Regulation AA.[1] This letter also serves as notice that the Board has retired the corresponding Regulation AA examination procedures (Unfair or Deceptive Acts or Practices: Credit Practices Rule). Supervised institutions are reminded that it is the Board's view that the unfair or deceptive acts or practices described in its former credit practices rule could violate the prohibition against unfair or deceptive acts or practices in section 5 of the FTC Act and Title X of the Dodd-Frank Act, even in the absence of a specific regulation governing the conduct.[2]

[1] See 81 *Fed. Reg.* 8133 (Feb. 18, 2016), https://www.gpo.gov/fdsys/pkg/FR-2016-02-18/pdf/2016-03228.pdf.

[2] Refer to CA 14-5.

The Board is also publishing a revised version of the examination procedures for Section 5 of the FTC Act[3] that reflects the repeal of Regulation AA. These examination procedures – including the incorporated March 11, 2004 joint statement issued with the Federal Deposit Insurance Corporation, which outlines the standards to be used in determining whether specific acts or practices by state-chartered banks are unfair or deceptive[4] – are otherwise unchanged.

If you have any questions, please contact Amal Patel, Senior Supervisory Consumer Financial Services Analyst, at (202) 912-7879, or Tim Robertson, Manager, at (202) 452-2565. In addition, questions may be sent via the Board's public website.[5]

Sincerely,

Carol A. Evans
Associate Director

Attachment:

- Revised Federal Reserve Examination Procedures for Section 5 of the FTC Act

Cross-references:

- CA 04-2 "Unfair or Deceptive Acts or Practices by State-Chartered Banks" (March 11, 2004)
- CA 14-5 "Interagency Guidance Regarding Unfair or Deceptive Credit Practices" (August 22, 2014)

Supersedes:

- CA 07-8 "Consumer Compliance Examination Procedures for the Unfair or Deceptive Acts or Practices Provisions of Section 5 of the Federal Trade Commission Act" (November 6, 2007)

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[3] These examination procedures were originally issued under cover of CA 07-8.

[4] The joint statement was originally issued as a standalone document under cover of CA 04-2.

[5] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Board of Governors of the Federal Reserve System
Washington, DC 20551

Division of Consumer
and Community Affairs

CA 16-5

July 15, 2016

TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS SECTIONS:

SUBJECT: Final Interagency Questions and Answers Regarding Community Reinvestment

Applicability to Community Banking Organizations: This guidance applies to all institutions supervised by the Federal Reserve, including institutions with total consolidated assets of $10 billion or less.

The Federal Reserve, along with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, published final revisions to *"Interagency Questions and Answers Regarding Community Reinvestment"* (Interagency Qs and As) today. The Interagency Qs and As provide guidance on the Community Reinvestment Act regulations for use by agency supervisory staff, examiners, financial institutions, and the public. The 2016 Interagency Qs and As supersedes the 2010 Interagency Qs and As and the 2013 Interagency Qs and As distributed under CA 13-18 and CA 10-2.

The revisions to the Interagency Qs and As address several community development related issues, including economic development, community development loans and activities that are considered to revitalize or stabilize underserved nonmetropolitan middle-income geographies, the availability and effectiveness of retail banking services, community development services, innovative or flexible lending practices, and general guidance on responsiveness and innovativeness. In addition, technical corrections reflecting changes in the financial regulatory landscape over the last several years have been made. The document can be found at http://www.ffiec.gov/cra.

Questions on this letter and the Interagency Qs and As should be directed to Cathy Gates, Senior Project Manager, at 202-452-2099; or Theresa Stark, Senior Project Manager, at (202) 452-2302 in the Division of Consumer and Community Affairs. In addition, questions may be sent via the Board's public website.[1]

Sincerely,

Suzanne Killian
Senior Associate Director

Attachments: Press Release and Federal Register Notice for *Interagency Questions and Answers Regarding Community Reinvestment*

Supersedes: CA 13-18 "Final Revisions to Interagency Questions and Answers Regarding Community Reinvestment" (November 15, 2013) and CA 10-2 "Revised Interagency Questions and Answers on Community Reinvestment" (March 11, 2010)

[1] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

CA 16-6

September 29, 2016

TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS SECTIONS:

Applicability to Community Banking Organizations: This guidance applies to all institutions supervised by the Federal Reserve, including those with total consolidated assets of $10 billion or less.

SUBJECT: Revised Interagency Military Lending Act Examination Procedures

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council recently developed the attached interagency Military Lending Act (MLA) examination procedures. The MLA and its implementing regulation contain limitations on and requirements for certain types of consumer credit extended to active duty service members and their spouses, children, and other dependents. These revised examination procedures supersede the interagency MLA examination procedures transmitted with CA 08-4.

The revised examination procedures reflect amendments to the MLA implementing regulation made by the U.S. Department of Defense (DOD) in a final rule issued in July 2015.[1] The DOD amended the regulation to extend the protections of the MLA to a wider range of closed-end and open-end credit products, including credit cards. Consequently, the amended MLA regulation generally applies to all consumer credit other than home-secured credit and loans to finance the purchase of motor vehicles and other consumer goods that are secured by the purchased item. For extensions of credit covered by the rule, the Military Annual Percentage Rate (MAPR) applicable to the loan may not exceed 36 percent.

Among a range of other amendments, DOD's final rule modifies: the fees that must be included when calculating the MAPR; the optional safe harbor provisions for creditors to determine whether consumers are entitled to MLA protections; and MLA disclosure requirements.

The compliance date for the final rule is October 3, 2016, but for credit card accounts the compliance date is October 3, 2017 (which may, at DOD's option, be extended by one year).

[1] *See* 80 FR 43560 (July 22, 2015). Additional background information regarding compliance with the amended regulation is available in an Interpretive Rule issued by DOD, 81 FR 58840 (August 26, 2016).

If you have any questions, please contact Amal Patel, Senior Supervisory Consumer Financial Services Analyst, at (202) 912-7879, or Tim Robertson, Manager, at (202) 452-2565. In addition, questions may be sent via the Board's public website.[2]

Sincerely,

Carol A. Evans
Associate Director

Attachment:

- Revised Interagency Military Lending Act Examination Procedures

Supersedes:

- CA 08-4 "Interagency Examination Procedures for the Department of Defense's Final Rule on Limitations on Consumer Credit Extended to Service Members and Dependents ('Talent Amendment')" (July 31, 2008)

[2] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ERIC S. BELSKY
DIRECTOR
DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

CA 16-8

November 22, 2016

TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS SECTIONS:

Applicability to Community Banking Organizations: This guidance applies to all institutions supervised by the Federal Reserve, including those with total consolidated assets of $10 billion or less.

SUBJECT: Uniform Interagency Consumer Compliance Rating System

The Federal Financial Institutions Examination Council (FFIEC) recently announced the issuance of an updated Uniform Interagency Consumer Compliance Rating System (CC Rating System).[1] The CC Rating System is a supervisory policy for evaluating financial institutions' adherence to consumer compliance requirements.[2] Federal Reserve examiners will apply the CC Rating System to all consumer compliance examinations that begin on or after March 31, 2017.

The new CC Rating System is designed to better reflect current consumer compliance supervisory approaches and to more fully align the CC Rating System with current risk-based, tailored examination processes. The revisions to the CC Rating System were not developed to set new or higher supervisory expectations for financial institutions and their adoption will represent no additional regulatory burden.

The CC Rating System provides a general framework for evaluating compliance assessment factors in order to assign a consumer compliance rating to each federally regulated financial institution. The primary purpose of the CC Rating System is to ensure that regulated financial institutions are evaluated in a comprehensive and consistent manner and that supervisory resources are appropriately focused on areas exhibiting risk of consumer harm and on institutions that warrant elevated supervisory attention. The revised CC Rating System emphasizes the importance of institutions' compliance management systems (CMS), with emphasis on compliance risk management practices designed to manage consumer compliance risk, support compliance, and prevent consumer harm.

[1] See the press release and Federal Register Notice at https://www.ffiec.gov/%5C/press/pr110716.htm.
[2] The term financial institutions is defined in 12 U.S.C. 3302(3).

The CC Rating System is composed of guidance and definitions. The guidance provides examiners with direction on how to use the definitions when assigning a consumer compliance rating to an institution. The definitions consist of qualitative descriptions for each rating category and include CMS elements reflecting risk control processes designed to manage consumer compliance risk and considerations regarding violations of laws, consumer harm, and the size, complexity, and risk profile of an institution.

The CC Rating System is based upon a scale of 1 through 5, in increasing order of supervisory concern. Thus, 1 represents the highest rating and consequently the lowest level of supervisory concern, while 5 represents the lowest rating and consequently the most critically deficient level of performance and the highest degree of supervisory concern. The consumer compliance rating reflects the effectiveness of an institution's CMS to ensure compliance with consumer protection laws and regulations and reduce the risk of harm to consumers.

If you have any questions, please contact Lanette Meister, Senior Supervisory Consumer Financial Services Analyst, at (202) 452-2705, or Tim Robertson, Manager, at (202) 452-2565. In addition, questions may be sent via the Board's public website.[3]

Sincerely,
Eric S. Belsky
Director
Division of Consumer and Community Affairs

Attachment:

- Uniform Interagency Consumer Compliance Rating System

Supersedes:

- CA 80-15 "Letter Transmitting the Interagency Compliance Rating System" (December 11, 1980)

[3] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

BASEL COORDINATION COMMITTEE
(BCC) BULLETIN

BCC 16-1

April 6, 2016

SUBJECT: Supervisory Guidance Pertaining to the Issuance of the Basel Committee on Banking Supervision's Second Consultative Paper, "Standardised Measurement Approach for Operational Risk"

The Basel Committee on Banking Supervision (BCBS) on March 4 published a consultative paper entitled, "Standardised Measurement Approach for Operational Risk"[1] that proposes a non-model-based method for the calculation of operational risk risk-weighted assets. The paper also proposes to withdraw the advanced measurement approaches (AMA) for operational risk from the Basel capital framework. The proposed revisions would apply to large, internationally active banking organizations and not to community banking organizations.[2]

The Federal Reserve Board will consider the proposals identified in the consultative paper in connection with the U.S. advanced approaches risk-based capital rule. Any change to the capital framework as a result of proposals in this or subsequent papers released by the BCBS will be considered in a manner consistent with the U.S. notice and comment process.

The existing AMA capital requirements will remain in effect while the proposals are being considered. Reconsideration of the AMA for operational risk presents transitional implications both for banking supervisors and supervised banking organizations. While this matter is under review by the Board, operational risk supervisory resources of the Federal Reserve will be focused on operational risk management processes and elements of the AMA that are important for overall safety and soundness. Board supervisory staff will contact affected banking organizations to discuss individual supervisory plans that are consistent with this principle and designed to limit burden on the institutions.

[1] http://www.bis.org/press/p160304.htm.

[2] The Board's advanced approaches rules are set forth at 12 CFR 217, subpart E. The advanced approaches rule applies to an organization described in 12 CFR 217.100(b)(1).

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc -ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
Banks and banking	**F**	Limitations on Interbank Liabilities	Prescribes standards to limit the risks that the failure of one depository institution would pose to another	None.	None.	None.	None.		N/A			No direct effect.
	H	Membership of State Banking Institutions in the Federal Reserve System	Defines the requirements for membership of state-chartered banks in the Federal Reserve System; sets limitations on certain investments and requirements for certain types of loans; describes rules pertaining to securities-related activities; establishes the minimum ratios of capital to assets that banks must maintain and procedures for prompt corrective action when banks are not adequately capitalized; prescribes real estate lending and appraisal standards; sets out requirements concerning bank security procedures, suspicious-activity reports, and compliance with the Bank Secrecy Act; and establishes rules governing banks' ownership or control of financial subsidiaries	SR 16-6, Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations (March 10, 2016).	None.	None.	Interim Final Rule, Expanded Examination Cycle for Certain Small Insured Depository Institutions and U.S. Branches and Agencies of Foreign Banks, 81 Fed. Reg. 10063 (Feb. 29, 2016); Final Rule, __ Fed. Reg. __ (Announced Dec. 12, 2016). See also revisions to Regulation K.		Joint with OCC and FDIC.			Choice Act would redefine "well capitalized" contained in Regulation H for institutions that have "opted out" based on leverage ratio.
				None.	None.	Proposed Rule on Private Flood Insurance, 81 Fed. Reg. 78063 (Nov. 7, 2016).	None.		Joint with OCC, FDIC, Farm Credit Administration, NCUA.			
				SR 16-5, Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions (March 4, 2016), joint with FDIC and OCC. SR 16-7, Interagency Guidance to Issuing Banks on Applying Customer Identification Program Requirements to Holders of Prepaid Access Cards (March 21, 2016), joint with FDIC, NCUA, OCC, and Treasury.	N/A	N/A	N/A		N/A			

Federal Reserve Regulations By Topic													
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/ Admin. Enforc-ement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
	I	Issue and Cancellation of Federal Reserve Bank Capital Stock	Sets out stock-subscription requirements for all banks joining the Federal Reserve System	None.	None.	None.	Federal Reserve Bank Capital Stock Changes Required by the FAST Act, Interim Final Rule, 81 Fed. Reg. 9082 (Feb. 24, 2016); Final Rule, 81 Fed. Reg. 84415 (Nov. 23, 2016).		N/A			No direct effect.
	K	International Banking Operations	Governs the international banking operations of U.S. banking organizations and the operations of foreign banks in the United States	SR 16-6, Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations (March 10, 2016).	None.	None.	Interim Final Rule, Expanded Examination Cycle for Certain Small Insured Depository Institutions and U.S. Branches and Agencies of Foreign Banks, 81 Fed. Reg. 10063 (Feb. 29, 2016); Final Rule, __ Fed. Reg. __ (Announced Dec. 12, 2016). See also changes to Regulation H.		Joint with OCC and FDIC.			Choice Act would redefine "well capitalized" contained in Regulation K for institutions that have "opted out" based on leverage ratio.
				SR 16-7, Interagency Guidance to Issuing Banks on Applying Customer Identification Program Requirements to Holders of Prepaid Access Cards (March 21, 2016), joint with FDIC, NCUA, OCC, and Treasury.	N/A	N/A	N/A		N/A			

Federal Reserve Regulations By Topic													
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/ Admin. Enforcement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
	L	Management Official Interlocks	Generally prohibits a management official from serving two non-affiliated depository institutions, depository institution holding companies, or any combination thereof, in situations where the management interlock would likely have an anticompetitive effect	None.	None.	None.	None.		N/A			Choice Act repeals Dodd-Frank provision concerning application of Regulation L to Board-supervised nonbank financial companies.
	O	Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks	Restricts credit that a member bank may extend to its executive officers, directors, and principal shareholders and their related interests	None.	None.	None.	None.		N/A			No direct effect.

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected): Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date	Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc -ement	Impact of Financial CHOICE Act
	Q	Capital Adequacy of Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks	Establishes minimum capital requirements and overall capital adequacy standards for bank holding companies, savings and loan holding companies, and state member banks*	None.	None.	Proposed Technical amendments to GSIB Surcharge Rule, 81 Fed. Reg. 20579, (April 8, 2016).	Final Rule, Technical Amendments to GSIB Surcharge Rule, press release December 9, 2016. Interim final rule, Extension of Initial Implementation of Certain Reporting Requirements related to GSIB Surcharge Rule, press release December 9, 2016.		N/A	"Financial Regulation Since the Crisis," Gov. Tarullo, Dec. 2, 2016, Potential replacement of existing buffer requirements with "stressed capital buffer," continue to reduce/simplify rules for small banks. "Trends in Community Bank Performance over the Past 20 Years," Gov. Powell, Sep. 29, 2016, simplify regulatory capital requirements for community banks. "Next Steps in the Evolution of Stress Testing," Gov. Tarullo, Sep. 12, 2016, Potential replacement of existing buffer requirements with "stressed capital buffer." "Insurance Companies and the Role of the Federal Reserve," Gov. Tarullo, May 20, 2016, regulatory capital requirements should track supervisory goals. Testimony of Chair Yellen, [date], potential replacement of existing buffer with "stress capital buffer"		Choice Act would allow "qualifying banking organizations" to "opt out" of Regulation Q, and expand eligibility for an institution to be subject to capital requirements through the small BHC policy statement rather than Regulation Q. Choice Act would repeal the authority to establish capital requirements for systemically important nonbank financial companies.
				None.	None.	None.	Final Rule, Amendments to Liquidity Coverage Ratio, 81 Fed. Reg. 21223 (Apr. 11, 2016).		N/A			
				None.	None.	Proposed Restrictions on Qualified Financial Contracts; Revisions to the Definition of Qualifying Master Netting Agreement, Related Definitions, 81 Fed. Reg. 29169, (May 11, 2016). See also proposed changes to Regulations WW, YY.	None.		OCC, FDIC expected to publish similar rules.*			
				None.	ANPR on capital for insurance institutions supervised by the Board, 81 Fed. Reg. 38631 (June 14, 2016).	None.	None.		N/A			
				None.	None.	Proposal on Physical Commodities and Merchant Banking Investments, 81 Fed. Reg. 67220, (Sep. 30, 2016). See also proposed changes to Regulation Y.	None.		N/A			
				None.	None.	None.	Final Rule, Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements; Regulatory Capital Deduction for Investments in Certain Unsecured Debt of Systemically Important U.S. BHCs expected December 2016. See also proposed changes to Regulation YY.		N/A			

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc -ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
				Countercyclical Capital Buffer Policy Statement, (81 Fed. Reg. 63682), Sep. 16, 2016 (final), (81 Fed. Reg. 05661, Feb. 3, 2016 (proposal). Supervisory Guidance Pertaining to use of model-based approach for calculation of Operational Risk (Apr. 6, 2016). Publication of values for use in calculation of GSIB Surcharge, expected December 2016.	N/A	N/A	N/A		N/A			
	R	Exceptions for Banks from the Definition of Broker in the Securities Exchange Act of 1934	Defines the scope of securities activities that banks may conduct without registering with the Securities Exchange Commission as a securities broker and implements the most important exceptions from the definition of the term broker for banks under section 3(a)(4) of the Securities Exchange Act of 1934	None.	None.	None.	None.		N/A			No direct effect.

Federal Reserve Regulations By Topic													
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/ Admin. Enforc -ement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
	S	Reimbursement for Providing Financial Records; Recordkeeping Requirements for Certain Financial Records	Establishes rates and conditions for reimbursement to financial institutions for providing customer records to a government authority and prescribes recordkeeping and reporting requirements for insured depository institutions making domestic wire transfers and for insured depository institutions and nonbank financial institutions making international wire transfers	None.	None.	None.	None.		N/A			No direct effect.
	W	Transactions Between Member Banks and Their Affiliates	Implements sections 23A and 23B of the Federal Reserve Act, which establish certain restrictions on and requirements for transactions between a member bank and its affiliates	None.	None.	None.	None.		N/A			No direct effect.

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc -ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
	KK	Swaps Margin and Swaps Push-Out	Implements the prohibition against federal assistance to swap entities (*Swaps Push-Out provisions in section 716 of Dodd- Frank Act substantially repealed). Regulation KK also implements Swaps Margin Rule included in sections 731 and 764 of the Dodd-Frank Act.**	None.	None.	None.	Final Rule Exempting Certain Swaps from Margin and Capital Requirements for Covered Swap Entities, 81 Fed. Reg. 50605 (Aug. 2, 2016).		Joint with OCC, FDIC, FCA, FHFA.			No direct effect.
	NN	Retail Foreign Exchange Transactions	Sets standards for banking organizations regulated by the Federal Reserve that engage in certain types of foreign exchange transactions with retail consumers	None.	None.	None.	None.		N/A			No direct effect.
	VV	Proprietary Trading and Certain Interests in and Relationships with Covered Funds	Establishes prohibitions and restrictions on proprietary trading and investments in or relationships with covered funds by certain banking entities	FAQ regarding capital treatment of TruPS CDOs, posted March 4, 2016. Board order extending conformance period for illiquid funds until July 2017. July 7, 2016. SR 16-18, Procedures for a Banking Entity to Request an Extended Transition Period for Illiquid Funds, December 9, 2016.	None.	None.	None.		N/A			Choice Act would repeal underlying Dodd-Frank authority.

Federal Reserve Regulations By Topic													
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/ Admin. Enforc -ement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
Federal Reserve Bank activities	**J**	Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through Fedwire	Establishes procedures, duties, and responsibilities among: (1) Federal Reserve Banks, (2) the senders and payors of checks and other items, and (3) the senders and recipients of Fedwire funds transfers	None.	None.	None.	None.		N/A			No direct effect.
	N	Relations with Foreign Banks and Bankers	Governs relationships and transactions between Federal Reserve Banks and foreign banks, bankers, or governments	None.	None.	None.	None.		N/A			No direct effect.

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc -ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
Holding companies and nonbank financial companies	**Y**	Bank Holding Companies and Change in Bank Control	Regulates the acquisition of control of banks and bank holding companies by companies and individuals, defines and regulates the nonbanking activities in which bank holding companies (including financial holding companies) and foreign banking organizations with U.S. operations may engage, an d imposes capital planning requirements on large bank holding companies	None.	None.	Proposed amendments to the Capital Plan and Stress Test Rules, 81 Fed. Reg. 67239 (Sep. 30, 2016). See also, proposed changes to Regulation YY.	None.		N/A	Gov. Powell, Sep. 29, 2016, "Trends in Community Bank Performance over the Past 20 Years," suggesting reduction in burden associated with real estate appraisal requirements. Gov. Tarullo, "Next Steps in the Evolution of Stress Testing," Sep. 12, 2016, suggesting changes to policy statement on scenario design framework for stress testing, tailoring capital plan and stress test rules. See September proposal.		Choice Act would allow "qualifying banking organizations" to "opt out" of capital plan rule, and amend or limit the underlying statutory authority. Choice Act could affect the factors considered in evaluating applications.
				None.	None.	Proposed rule on Physical Commodities Activities, 81 Fed. Reg. 67220 (Sep. 30, 2016). See also proposed changes to Regulation Q.	None.		N/A			
				SR 16-5, Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions (Mar. 4, 2016). SR 16-5 Joint with FDIC, OCC. SR 16-15, Exception to Appraisal Regulation Requirements in Areas Affected by Flooding in Louisiana (Oct. 28, 2016). SR 16-15 Joint with FDIC, OCC, NCUA.	N/A	N/A	N/A		N/A			

Federal Reserve Regulations By Topic												
Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc-ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
	LL	Savings and Loan Holding Companies	Regulates the acquisition of control of savings associations, defines and regulates the activities of savings and loan holding companies, and sets forth procedures under which directors and executive officers may be appointed or employed	None.	None.	None.	None.		N/A			Choice Act could affect the factors considered in evaluating applications.
	MM	Mutual Holding Companies	Regulates the reorganization of mutual savings associations to mutual holding companies and the creation of subsidiary holding companies of mutual holding companies, defines and regulates the operations of mutual holding companies and their subsidiary holding companies, and sets forth procedures for securing approval for these transactions	None.	None.	None.	None.		N/A			Choice Act could affect the factors considered in evaluating applications.
	OO	Securities Holding Companies	Outlines the procedures and requirements for securities holding companies to elect to be supervised by the Federal Reserve	None.	None.	None.	None.		N/A			Choice Act would repeal underlying Dodd-Frank authority.

Federal Reserve Regulations By Topic												
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/ Admin. Enforc -ement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
	QQ	Resolution Plans	Requires large, systemically significant bank holding companies and nonbank financial companies to submit annual resolution plans	Guidance for 2017 §165(d) Annual Resolution Plan Submissions By Domestic Covered Companies that Submitted Resolution Plans in July 2015. Resolution Plan Assessment Framework and Firm Determinations (2016), April 13, 2016. Permitting Reduced Content Plan Submissions for Firms with Limited US Operations, June 10, 2016. Extension of Deadline for Foreign Banking Organization Plan Submissions, June 8, 2016.	None.	None.	None.		Official Interpretation/ Guidance Joint with FDIC.			Choice Act would allow "qualifying banking organizations" to "opt out" of Regulation QQ, and would amend the statutory provisions on resolution planning.
	RR	Credit Risk Retention	Requires sponsors of securitization transactions to retain risk in those transactions	None.	None.	None.	None.		N/A			Choice Act could limit the scope of application of Regulation RR.

Federal Reserve Regulations By Topic													
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/ Admin. Enforc -ement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
	TT	Supervision and Regulation Assessments of Fees	Establishes an annual assessment of fees on certain bank holding companies, savings and loan holding companies, and nonbank financial companies supervised by the Federal Reserve	None.	None.	None.	None.		N/A			Choice Act would repeal authority to assess nonbank financial firms designated by FSOC.

Federal Reserve Regulations By Topic													
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/ Admin. Enforc-ement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
	WW	Liquidity Risk Measurement Standards	Establishes a minimum liquidity standard for certain Board-regulated institutions on a consolidated basis	No official interpretations/guidance related to final rules published between 1/1/16 and 1/20/17 or Regulation WW generally.	None.	None.	Liquidity Coverage Ratio: Treatment of U.S. Municipal Securities as High-Quality Liquid Assets, 81 Fed. Reg. 21223 (April 11, 2016).		N/A			Choice Act would allow "qualifying banking organizations" to "opt out" of liquidity requirements.
					None.	Restrictions on Qualified Financial Contracts; Revisions to the Definition of Qualifying Master Netting Agreement and Related Definitions, 81 Fed. Reg. 29169 (May 11, 2016).	None.		OCC, FDIC expected to publish similar rules.*			
					None.	Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements, 81 Fed. Reg. 35124 (June 1, 2016).	None.		Joint with OCC and FDIC.			
					None.	None.	Liquidity Coverage Ratio: Public Disclosure Requirements: Extension of Compliance Period for Certain Companies to Meet the Liquidity Coverage Ratio Requirements, expected prior to January 2017.		N/A			

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc-ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
	XX	Concentration Limits	Establishes a financial sector concentration limit that generally prohibits a financial company from merging or consolidating with, or acquiring, another company if the resulting company's liabilities would exceed 10 percent of the aggregated liabilities of all financial companies	Announcement of Financial Sector Liabilities pursuant to section 622 of DFA, and implemented by Regulation XX. 81 Fed. Reg. 45288 (July 13, 2016).	None.	None.	None.		N/A			Choice Act would allow "qualifying banking organizations" to avoid being subject to limitations on mergers and acquisitions based on concentration limits.

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc -ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
	YY	Enhanced Prudential Standards	Implements the enhanced prudential standards mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act for large bank holding companies	No official interpretations/guidance related to final rules published between 1/1/16 and 1/20/17 or Regulation YY generally.	None.	Proposal regarding Single-Counterparty Credit Limits for Large Banking Organizations, 81 Fed. Reg. 14327 (March 16, 2016).	None.		N/A			Choice Act would repeal underlying Dodd-Frank authority related to supervision of non-bank financial firms designated by FSOC. Choice Act would repeal underlying Dodd-Frank authority to establish early remediation requirements. Choice Act would allow “qualifying banking organizations” to “opt out” of certain enhanced prudential standards.
					None.	Proposed Restrictions on Qualified Financial Contracts; Revisions to the Definition of Qualifying Master Netting Agreement and Related Definitions, 81 Fed. Reg. 29169 (May 11, 2016).	None.		OCC, FDIC expected to publish similar rules.*			
					None.	Proposed Enhanced Prudential Standards for Supervised Institutions Significantly Engaged in Insurance Activities, 81 Fed. Reg. 38610 (June 6, 2016).	None.		N/A			
					None.	Proposed Amendments to the Capital Plan and Stress Test Rules, 81 Fed. Reg. 67239 (Sep. 30, 2016).	None.		N/A.			
					None.	None.	Final Rule on Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements; Regulatory Capital Deduction, expected December 2016. See also proposed changes to Regulation Q.		N/A			

Federal Reserve Regulations By Topic

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/ Admin. Enforc-ement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
Federal Reserve Credit	**A**	Extensions of Credit by Federal Reserve Banks	Governs borrowing by depository institutions and others at the Federal Reserve discount window	None.	None.	None.	None.		N/A			Choice Act would place further restrictions on emergency lending authority under FRA section 13(3).
Monetary policy and reserve requirements	**D**	Reserve Requirements of Depository Institutions	Sets uniform requirements for all depository institutions to maintain reserves either with their Federal Reserve Bank or as cash in their vaults	None.	None.	None.	Technical amendment indexing reserve requirement exemption amount and low reserve tranche for 2017, October 27, 2016.		N/A			Choice Act would require FOMC rather than Board to change rates of interest on balances at Reserve Banks.
Securities credit transactions	**T**	Credit by Brokers and Dealers	Governs extension of credit by securities brokers and dealers, including all members of national securities exchanges (see also Regulations U and X)	None.	None.	None.	None.		N/A			No direct effect.
	U	Credit by Banks and Persons Other Than Brokers or Dealers for the Purpose of Purchasing or Carrying Margin Stock	Governs extension of credit by banks or persons other than brokers or dealers to finance the purchase or the carrying of margin securities (see also Regulations T and X)	None.	None.	None.	None.		N/A			No direct effect.
	X	Borrowers of Securities Credit	Applies the provisions of Regulations T and U to borrowers who are subject to U.S. laws and who obtain credit within or outside the United States for the purpose of purchasing securities	None.	None.	None.	None.		N/A			No direct effect.

Regulation (by letter and name)		Description	For Period 1/1/16 through 1/29/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/Admin. Enforcement	Impact of Financial CHOICE Act
			Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
FeJ	Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through Fedwire	Governs the collection and return of checks through the Reserve Banks and Fedwire funds transfers	None.	None.	None.	None.		N/A			No direct effect.
CC	Availability of Funds and Collection of Checks	Governs the availability of funds deposited in transaction accounts and the collection and return of checks	None.	None.	Proposed rule on inflation adjustments to dollar amounts in Regulation CC expected January 2017.	None.		Joint with CFPB.			No direct effect. Choice Act would make minor/technical changes to the Expedited Funds Availability Act.
			None.	None.	None.	Final rule on electronic check collection and return expected January 2017.		N/A			
			CA 16-2: Interagency Guidance Regarding Deposit Reconciliation Practices, May 18, 2016. Joint with CFPB, FDIC, NCUA, and OCC.	N/A	N/A	N/A		N/A			
EE	Netting Eligibility for Financial Institutions	Defines financial institutions to be covered by statutory provisions that validate netting contracts, thereby permitting one institution to pay or receive the net, rather than the gross, amount due, even if the other institution is insolvent	None.	None.	None.	None.		N/A			No direct effect.
GG	Prohibition on Funding of Unlawful Internet Gambling	Requires U.S. financial firms that participate in designated payment systems to establish and implement policies and procedures reasonably designed to prevent payments connected to unlawful Internet gambling	None.	None.	None.	None.		N/A			No direct effect.

Federal Reserve Regulations Governing the Payment System

Regulation (by letter and name)		Description	For Period 1/1/16 through 1/29/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/Admin. Enforcement	Impact of Financial CHOICE Act
			Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
HH	Designated Financial Market Utilities	Establishes standards and procedures related to the supervision of certain financial market utilities designated as systemically important	Notice of adoption of ORSOM rating system for FMIs, 81 Fed. Reg. 58932 (Aug. 26, 2016).	None.	None.	None.		Joint with OCC and FDIC.			Choice Act would repeal underlying Dodd-Frank authority related to supervision of financial market utilities designated by FSOC.
II	Debit Card Interchange Fees and Routing	Establishes standards for debit card interchange fees and prohibits payment card network exclusivity arrangements and routing restrictions for debit card transactions	FAQ on cardholder choice and network routing restrictions, added November 2, 2016. FAQ on ATM decline fees and the prepaid card exemption, added November 2, 2016.	None.	None.	None.		N/A			Choice Act would repeal underlying Dodd-Frank authority related to interchange fees and prohibiting routing restrictions.

Federal Consumer Financial Protection Laws and Regulations Applicable to Banks

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/Admin. Enforcement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
General banking		Federal Trade Commission Act	Prohibits unfair or deceptive acts or practices in any aspect of banking transactions.	CA 16-4: Repeal of Regulation AA and Publication of Revised Examination Procedures for Section 5 of the FTC Act. July 13, 2016.	None.	None.	Final rule to repeal Reg. AA. 81 Fed. Reg. 8133 (Feb. 18, 2016).		N/A			No direct effect.

Federal Consumer Financial Protection Laws and Regulations Applicable to Banks												
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/Admin. Enforcement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
		Gramm-Leach-Bliley Act (title V, subpart A), Disclosure of Nonpublic Personal Information	Describes the conditions under which a financial institution may disclose nonpublic personal information about consumers to nonaffiliated third parties, provides a method for consumers to opt out of information sharing with nonaffiliated third parties, and requires a financial institution to notify consumers about its privacy policies and practices.*	CA 16-3: Revised Interagency Examination Procedures for Regulation P, June 8, 2016. Joint with FDIC, NCUA, and OCC.	None.	None.	None.		N/A			No direct effect. Choice Act would affect structure, purpose and oversight of CFPB.
Depository accounts	**E**	Electronic Fund Transfer Act	Requires disclosure of the terms and conditions of electronic fund transfers. Protects consumers against unauthorized transfers and establishes procedures for resolving errors and disputes.*	None.	None.	None.	None.		N/A			Choice Act would affect structure, purpose and oversight of CFPB. Choice Act would amend the Electronic Transfer Act.
	CC	Expedited Funds Availability Act	Limits hold periods on deposits made to depository institutions and requires appropriate consumer disclosures.	None.	None.	Proposed rule on inflation adjustments to dollar amounts in Regulation CC expected January 2017.	None.		Joint with CFPB.			No direct effect.
				None.	None.	None.	Final rule on electronic check collection and return expected January 2017.		N/A			
				CA 16-2: Interagency Guidance Regarding Deposit Reconciliation Practices, May 18, 2016. Joint with CFPB, FDIC, NCUA, and OCC.	N/A	N/A	N/A		N/A			

Federal Consumer Financial Protection Laws and Regulations Applicable to Banks

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/Admin. Enforcement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
	DD	Truth in Savings Act	Requires uniform disclosure of terms and conditions regarding interest rates and fees associated with deposit accounts. Prohibits misleading and inaccurate advertisements.*	None.	None.	None.	None.		N/A			No direct effect. Choice Act would affect structure, purpose and oversight of CFPB.
Credit/general lending	**Z**	Truth in Lending Act	Requires lenders to clearly disclose lending terms and costs to borrowers, and incorporates the provisions of the Credit Card Accountability Responsibility and Disclosure Act, Fair Credit Billing Act, Fair Credit and Charge Card Disclosure Act, Home Equity Loan Consumer Protection Act, and Home Ownership and Equity Protection Act.* *(The Federal Reserve shares rule-writing responsibility for provisions related to real estate appraisals. For other provisions, the Federal Reserve's rule writing authority is limited to motor vehicle dealers as defined in section 1029 of the Dodd-Frank Act.)*	No official interpretations/guidance related to final rules published between 1/1/16 and 1/20/17 or Regulation Z generally.	None.	Proposed rule to explain methodology for determining inflation adjustment of dollar threshold for exempt consumer credit transactions. 81 FR 51401 (Aug. 4, 2016).	Final rule to explain methodology for determining inflation adjustment of dollar threshold for exempt consumer credit transactions and apply methodology to 2017 threshold. 81 FR 86260 (Nov. 30, 2016).		Joint with CFPB.			Choice Act would create certain safe harbors for provisions of the Truth in Lending Act. Choice Act also would affect structure, purpose and oversight of CFPB.
					None.	Proposed rule to explain methodology for determining inflation adjustment of dollar threshold for exemption to special appraisal requirements for higher priced mortgage loans. 81 FR 51394 (Aug. 4, 2016).	Final rule to explain methodology for determining inflation adjustment of dollar threshold for exemption to special appraisal requirements for higher priced mortgage loans and apply methodology to 2017 threshold. 81 FR 86250 (Nov. 30, 2016).		Joint with CFPB and OCC.			

Federal Consumer Financial Protection Laws and Regulations Applicable to Banks

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/Admin. Enforcement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
		Fair Credit Reporting Act	Protects consumers from unfair credit reporting practices and requires credit-reporting agencies to allow credit applicants to correct inaccurate credit reports.* *(The Board retains rulemaking with the other banking agencies with respect to identity theft red flags programs and the proper disposal of records containing information derived from consumer reports. The Board retains rulemaking with the FTC for motor vehicle dealers (as defined in section 1029 of the Dodd-Frank Act) regarding risk-based pricing notices .)*	None.	None.	None.	None.		N/A			No direct effect. Choice Act would affect structure, purpose and oversight of CFPB.
	B	Equal Credit Opportunity Act	Prohibits creditors from discriminating on the basis of race, color, national origin, religion, sex, marital status, age, receipt of public assistance, and exercise of rights under the Consumer Credit Protection Act.* *(Motor vehicle dealers as defined in section 1029 of the Dodd-Frank Act)*	None.	None.	None.	None.		N/A			No direct effect. Choice Act would affect structure, purpose and oversight of CFPB.
	BB	Community Reinvestment Act	Encourages financial institutions to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods.	None.	None.	None.	Final rule to adjust the asset-size thresholds used to define small banks and savings associations expected December 2016.		Joint with OCC and FDIC.			No direct effect.

Federal Consumer Financial Protection Laws and Regulations Applicable to Banks

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/Admin. Enforcement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
				CA 16-5: Guidance on the interpretation and application of the Community Reinvestment Act regulations. Joint with OCC and FDIC. 81 FR 48506 (July 25, 2016).	N/A	N/A	N/A		N/A			
	G	Disclosure and Reporting of CRA-Related Agreements	Requires banks and their affiliates and other parties to make public certain agreements that are in fulfillment of the Community Reinvestment Act, and to file annual reports concerning the agreements with the appropriate agency.	None.	None.	None.	None.		N/A			No direct effect.
		Fair and Accurate Credit Transaction Act	Amends the Fair Credit Reporting Act. Enhances consumers' ability to combat identity theft, increases the accuracy of consumer reports, allows consumers to exercise greater control over the type and amount of marketing solicitations they receive, restricts the use and disclosure of sensitive medical information, and establishes uniform national standards in the regulation of consumer reporting.* *(Motor vehicle dealers as defined in section 1029 of the Dodd-Frank Act)*	None.	None.	None.	None.		N/A			No direct effect. Choice Act would affect structure, purpose and oversight of CFPB.

Federal Consumer Financial Protection Laws and Regulations Applicable to Banks

Topic	Regulation (by letter and name)		Description	For Period 1/1/16 through 1/20/17 (Issued or Expected)				Federal Register Publication Date of Related Final Rule	Overlapping Regulation	Fed Consideration of Regulatory Revision	Civil/Admin. Enforcement	Impact of Financial CHOICE Act
				Official Interpretations/ Guidance & Date	Reg. Related Concept Release & FR Date	Reg. Related Rule Proposal & FR Date	Reg. Related Final Rule Adoption & FR Date					
		Service Members Civil Relief Act and Military Lending Act	Provides members of the military certain financial protections while on active duty.	None.	None.	None.	None.		N/A			No direct effect.
Mortgage lending		Fair Housing Act	Prohibits discrimination in the sale, rental, and financing of dwellings and housing-related transactions on the basis of race, color, national origin, religion, sex, handicap, or familial status.	None.	None.	None.	None.		N/A			No direct effect.
	X*	Real Estate Settlement Procedures Act	Requires that the nature and costs of real estate settlements be disclosed to borrowers. Also protects borrowers against abusive practices, such as kickbacks, and regulates the use of escrow accounts.*	None.	None.	None.	None.		N/A			Choice Act would affect structure, purpose and oversight of CFPB.
	C	Home Mortgage Disclosure Act	Requires mortgage lenders to annually disclose to the public data on the geographic distribution of applications and loans for originations, purchases, home-improvement, and refinancings. Requires lenders to report data on the ethnicity, race, sex, income of applicants and borrowers, and other data. Also directs the Federal Financial Institutions Examination Council, of which the Federal Reserve is a member, to make summaries of the data available to the public.*	None.	None.	Proposed rule to repeal Regulation C. 81 FR 8667 (Feb. 22, 2016).	None.		N/A			Choice Act would affect structure, purpose and oversight of CFPB.

Federal Consumer Financial Protection Laws and Regulations Applicable to Banks												
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				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
Other financial topics	**H**	Flood Disaster Protection Act	Requires flood insurance in connection with loans secured by property located in a flood hazard area designated under the National Flood Insurance Program. *See also Regulation H listed above.*	CA 16-1: Revised Interagency Examination Procedures for the Flood Disaster Protection Act, April 7, 2016. Joint with OCC, FDIC, FCA, NCUA.	None.	Proposed rule on Loans in Areas Having Special Flood Hazards – Private Flood Insurance, 81 Fed. Reg. 78063 (Nov. 7, 2016).	None.		Joint with OCC, FDIC, FCA, and NCUA.			No direct effect.
	M	Consumer Leasing Act	Requires disclosure of information about the costs and terms of consumer leases for vehicles and other personal property.* *(Motor vehicle dealers as defined in section 1029 of the Dodd-Frank Act)*	None.	None.	Proposed rule to explain methodology for determining inflation adjustment of dollar threshold for exempt consumer leases, 81 Fed. Reg. 51400 (Aug. 4, 2016).	Final rule to explain methodology for determining inflation adjustment of dollar threshold for exempt consumer leases and apply methodology to threshold for 2017. 81 Fed. Reg. 86256 (Nov. 30, 2016).		Proposed and final rules joint with CFPB.			No direct effect.

Regulations/Proposals Not Included in Request												
Topic	**Regulation (by letter and name)**		**Description**	**For Period 1/1/16 through 1/20/17 (Issued or Expected)**				**Federal Register Publication Date of Related Final Rule**	**Overlapping Regulation**	**Fed Consideration of Regulatory Revision**	**Civil/Admin. Enforcement**	**Impact of Financial CHOICE Act**
				Official Interpretations/ Guidance & Date	**Reg. Related Concept Release & FR Date**	**Reg. Related Rule Proposal & FR Date**	**Reg. Related Final Rule Adoption & FR Date**					
Regulations/ Proposals Not included in Request	**n/a**	Enhanced Cyber Risk Management Standards	Establishment enhanced standards to increase operational resilience of large, interconnected institutions in the event of a cyber event	N/A	ANPR on Enhanced Cyber Risk Management Standards, 81 Fed. Reg. 74315 (October 26, 2016).	None.	None.		Joint with FDIC and OCC.			Impact of Choice Act unknown as no rule text has been proposed.
	JJ	Incentive Compensation	Prohibit incentive-based compensation arrangements that encourage inappropriate risks at covered institutions	N/A	None.	Proposed Incentive Compensation, 81 Fed. Reg. 37670 (June 10, 2016).	None.		Joint with OCC, FDIC, NCUA, FHFA, SEC.			Choice Act would repeal the underlying Dodd-Frank authority for the Incentive Compensation rule.
	N/A	Application of the RFI/C(D) Rating System to Savings and Loan Holding Companies	Proposal to apply the same supervisory rating system to savings and loan holding companies as currently applies to bank holding companies	Application of the RFI/C(D) Rating System to Savings and Loan Holding Companies __ FR __ (Dec. 9, 2016).	None.	None.	None.		N/A			No direct effect.

Public/Private Competition in connection with Payment and Settlement System (Monetary Control Act)*								
Service	Federal				Private			
	Retail		Wholesale		Retail		Wholesale	
	Volume	Revenue	Volume	Revenue	Volume	Revenue	Volume	Revenue
Checks								
ACH								
Credit Cards								
Debit cards								
Wire transfers								
Fedwire Funds and Securities Services								
National Settlement Service								

* See next page for response in modified chart

Public/Private Competition in connection with Payment and Settlement System (Monetary Control Act)[1]								
	Federal				Private			
	Retail		Wholesale		Retail		Wholesale	
Service	2015 Volume (millions)	2015 Revenue (millions)	2015 Volume (millions)	2015 Revenue (millions)	2015 Volume (millions)	2015 Revenue (millions)	2015 Volume (millions)	2015 Revenue (millions)
Checks	5,604.0[2,3]	$160.6[4]	Not applicable[5]		2,571.3[6,7]	Not available	Not applicable	
ACH	10,618.7[8,9]	$125.5[10]	Not applicable[5]		8,694.4[11,12]	Not available	Not applicable[5]	
Credit Cards	Not applicable[13]		Not applicable[13]		33,398.0[14]	Not available	Not applicable[5]	
Debit cards	Not applicable[13]		Not applicable[13]		64,268.0[14]	Not available	Not applicable[5]	
Wire transfers[15]	Not applicable[5]		142.8[16]	$116.0[17]	Not applicable[5]		110.4[18,19]	Not available
National Settlement Service	Not applicable[5]		0.569[20]		Not applicable[21]		Not applicable[21]	

[1] Data provided for 2015, the most recent period for which full-year data are available.
[2] Data provided for the BIS Red Book release of the final 2015 figures anticipated year-end 2016, http://www.bis.org/list/cpmi/tid_57/index.htm. Additional annual data, as well as quarterly data, for each type of item are available at https://www.federalreserve.gov/paymentsystems/check_data.htm.
[3] In addition to collection of commercial checks, data include U.S. Government checks, and postal money orders; for 2015 that volume was estimated to be 60.0 and 92.0, respectively, expressed in millions. Available at https://www.federalreserve.gov/paymentsystems/check_data.htm.
[4] 2015 total revenue received by the Reserve Banks for processing transactions. Available at https://www.federalregister.gov/documents/2016/10/28/2016-26068/federal-reserve-bank-services, Table 7.
[5] Check, ACH, credit cards and debit cards are generally considered “Retail” payment systems whereas wire, securities and NSS are considered “Wholesale.”
[6] Data provided for the BIS Red Book release of the final 2015 figures anticipated year-end 2016, http://www.bis.org/list/cpmi/tid_57/index.htm.
[7] Data excludes private-sector on-us check payments (deposited and drawn on only one depository institution.); for 2015 that volume was estimated to be 4,111.8, expressed in millions (BIS Red Book release of the final 2015 figures anticipated year-end 2016).
[8] Data provided for the BIS Red Book release of the final 2015 figures anticipated year-end 2016, http://www.bis.org/list/cpmi/tid_57/index.htm. Data does not include transactions originated with the private-sector operator, EPN, and processed through FedACH for receipt by Reserve Bank customers. In 2015, these transfers, expressed in millions, totaled 3,337.5. Additional annual data, as well as quarterly data, for total transactions processed through FedACH for each type of item are available at https://www.federalreserve.gov/paymentsystems/fedach_data.htm.
[9] In addition to commercial items, data include U.S. Government items originated through the Reserve Banks’ FedACH service; for 2015 that volume was estimated to be 1,558, expressed in millions. Available at https://www.federalreserve.gov/paymentsystems/fedach_data.htm.
[10] 2015 total revenue received by the Reserve Banks for processing transactions. Available at https://www.federalregister.gov/documents/2016/10/28/2016-26068/federal-reserve-bank-services, Table 8.
[11] Data provided for the BIS Red Book release of the final 2015 figures anticipated year-end 2016, http://www.bis.org/list/cpmi/tid_57/index.htm. Data includes transactions originated through the private-sector operator, EPN, but does not include transactions originated with the Reserve Banks’ FedACH service and processed through EPN for receipt by EPN customers. In 2015, these transfers, expressed in millions, totaled 1,431.8.
[12] Data excludes private-sector on-us ACH payments (processed by only one depository institution.); for 2015 that volume was estimated to be 6,179.9, expressed in millions (BIS Red Book release of the final 2015 figures anticipated year-end 2016).
[13] The Reserve Banks do not provide credit or debit cards services.
[14] Data provided for the BIS Red Book release of the final 2015 figures anticipated year-end 2016, http://www.bis.org/list/cpmi/tid_57/index.htm. These data were not included in the preliminary BIS Red Book release of 2015 figures.
[15] These data are for the Reserve Banks’ wire transfer service, Fedwire Funds.
[16] Data provided for the BIS Red Book release of the final 2015 figures anticipated year-end 2016, http://www.bis.org/list/cpmi/tid_57/index.htm. Additional annual data, as well as quarterly data, are available at https://www.federalreserve.gov/paymentsystems/fedfunds_data.htm.
[17] 2015 total combined revenue for the Reserve Banks’ Fedwire Funds service and National Settlement Service received by the Reserve Banks for processing transactions. Available at https://www.federalregister.gov/documents/2016/10/28/2016-26068/federal-reserve-bank-services, Table 10.
[18] Data provided for the BIS Red Book release of the final 2015 figures anticipated year-end 2016, http://www.bis.org/list/cpmi/tid_57/index.htm.
[19] Data excludes private-sector on-us wire payments (processed by only one depository institution.); for 2015 that volume was estimated to be 65.0, expressed in millions (BIS Red Book release of the final 2015 figures anticipated year-end 2016).
[20] Available at https://www.federalreserve.gov/paymentsystems/natl_ann.htm. Additional annual data, as well as quarterly data, are available at https://www.federalreserve.gov/paymentsystems/natl_data.htm.
[21] There is no direct private-sector equivalent to the Reserve Banks’ National Settlement Service. The National Settlement Service allows participants in private-sector clearing arrangements to exchange and settle transactions on a multilateral basis through designated master accounts held at the Reserve Banks.

Public/Private Competition in connection with Payment and Settlement System (Monetary Control Act)[1]								
	Federal				Private			
	Retail		Wholesale		Retail		Wholesale	
Service	2015 Volume (millions)	2015 Revenue (millions)	2015 Volume (millions)	2015 Revenue (millions)	2015 Volume (millions)	2015 Revenue (millions)	2015 Volume (millions)	2015 Revenue (millions)
Fedwire Funds and Securities Services[22]	Not applicable[5]		17.5[23]	$27.1[24]	Not applicable[25]		Not applicable[25]	

[22] Includes only the Reserve Banks' Fedwire Securities service and does not include data from the Reserve Banks' wire transfer service, Fedwire Funds. Data for Fedwire Funds are reported under "Wire transfers."
[23] Data for Fedwire Funds are reported under "Wire transfers." These data are for the Fedwire Securities Service only. Preliminary BIS Red Book release of 2015 figures, Table 25, http://www.bis.org/cpmi/publ/d152.pdf (preliminary data may change subject to the BIS Red Book release of the final 2015 figures, which is anticipated year-end 2016). Additional annual data, as well as quarterly data, are available at https://www.federalreserve.gov/paymentsystems/fedsecs_data.htm.
[24] Data for Fedwire Funds are reported under "Wire transfers." 2015 total revenue received by the Reserve Banks for processing transactions as part of the Fedwire Securities Service only. Available at https://www.federalregister.gov/documents/2016/10/28/2016-26068/federal-reserve-bank-services, Table 11.
[25] There is no direct private-sector equivalent to the Fedwire Securities Service. The Fedwire Securities Service processes US Treasury and agency securities as well as many securities issued by government sponsored enterprises and certain international organizations.

December 15, 2016

Federal Reserve Transition
Addendum to Table of Regulations

Regulations Added to Table

- Incentive Compensation: second and revised NPR published on June 10, 2016, with comment period ending July 22, 2016 (81 Fed. Reg. 37670).
- Enhanced Cyber Risk Management Standards: ANPR published on October 26, 2016, with public comment to end January 17, 2017 (81 Fed. Reg. 74315).
- Application of RFI/C(D) Rating System to Savings and Loan Holding Companies: notice and request for comment published on December 9, 2016, with public comment to end on February 13, 2017.

Not Included Under Guidance, Interpretations or Publications

- Orders, interpretations, and other determinations to specific firms and persons.
- Supervision and Regulation ("SR"), and Consumer Affairs ("CA") Letters related to supervisory topics rather than compliance with or interpretation of the Board's regulations. Copies of all SR and CA letters are attached.

Not Included Under "Fed Consideration of Regulatory Revision"

- In a speech given on October 21, 2016, titled "Pedagogy and Scholarship in a Post-Crisis World," Governor Tarullo suggested that the Board would seek comment on a proposal regarding minimum margining requirements on securities financing transactions at some time in the future.

Other Points of Clarification (Noted by an Asterisk in Table)

- Review of impact of Choice Act based on discussion draft dated September 12, 2016.
- Proposals and final rules that affected more than one regulation were noted in the row for each affected regulation.
- Regulation Q does not apply to all bank holding companies and savings and loan holding companies, such as those with total assets less than $1 billion.
- The Qualified Financial Contract ("QFC") Rule that would govern triggering of early cancellation provisions on derivatives under ISDA agreements was not published jointly, but the OCC and FDIC are expected to publish similar rules. The proposal would affect Regulations Q, WW, and YY and was

published May 11, 2016, with comment period ending August 5, 2016. See 81 Fed. Reg. 29169.

- Regulation KK (Swaps Margin and Swaps Push-Out) contains two subparts: Subpart A sets forth margin and capital requirements for covered swap entities under §§731 and 764 of the Dodd-Frank Act, and Subpart B concerns requests by insured depository institutions for a transition period to conform their swaps activities to the requirements of §716 of the Dodd-Frank Act.
    - Congress has since amended the Dodd-Frank Act to limit the scope of the Swaps Push-Out requirements under §716 of the Dodd-Frank Act. Subpart B, which relates only to transition periods for the Swaps Push-Out requirements, remains in effect.
- The CFPB has rulemaking authority for most federal consumer financial laws, including Regulation Z (The Truth in Lending Act), Regulation E (The Electronic Fund Transfer Act), Regulation B (Equal Credit Opportunity Act) and Regulation C (The Home Mortgage Disclosure Act). The CFPB has exclusive authority to enforce these laws for institutions with assets over $10 billion and has joint authority with the Board for enforcement for Board-supervised institutions with assets less than $10 billion. The Federal Reserve retains supervisory responsibility for certain consumer laws, such as the Fair Housing Act, Servicemembers Civil Relief Act and Federal Trade Commission Act for all state member banks regardless of asset size. The Board's rulemaking authority for federal consumer financial laws, as defined in the Dodd-Frank Act, is generally limited to certain motor vehicle dealers.
    - Regulation X (Real Estate Settlement Procedures Act), as it appears under the topic of mortgage lending, was issued and enforced by the Department of Housing and Urban Development until its transfer to the CFPB.