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

DIVISION OF BANKING
SUPERVISION AND REGULATION

**SR 16-4**

**March 3, 2016**

**Revised, February 17, 2021**

**Revision History:** In February 2021, this guidance was revised to apply to domestic bank holding companies and savings and loan holding companies (including insurance and commercial savings and loan holding companies) with total consolidated assets of less than $100 billion and bank holding companies with total consolidated assets of less than $50 billion that are owned or controlled by a foreign banking organization. In addition, the guidance was revised to clarify that Reserve Banks generally conduct abbreviated off-site reviews of small, noncomplex holding companies with total consolidated assets of up to $3 billion, rather than $1 billion.

**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 $100 Billion**

**Applicability:** This letter applies to the supervision of all domestic bank holding companies and savings and loan holding companies with total consolidated assets of less than $100 billion, and bank holding companies with total consolidated assets of less than $50 billion that are owned or controlled by a foreign banking organization.

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[1]) in the supervision of bank holding companies (BHCs) and savings and loan holding companies (SLHCs).[2] The letter presents separate tailored supervisory approaches for

[1] 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.

[2] 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.

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 $100 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.[3] BHC and SLHC supervision 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 $100 billion.[4]

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.[5] 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.

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[3] 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).

[4] 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.

[5] 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.

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.

**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,[6] 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, 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 IDIs examination reports are not current;[7]
    - 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.

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[6] 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.

[7] 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.

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.[8]

**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 $3 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.[9]

Michael S. Gibson
Director

[8] 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).

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

**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”