Federal Reserve Bank of Boston

Serving Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont

Regional and Community Supervision

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Regional and Specialty Supervision

Risk Focused Supervision

- Customized Approach
  - Supervisory focus on areas of greatest risk to institutions
- Efficient Process
  - Increased emphasis on planning and off-site surveillance
  - Leverage internal risk control functions
  - Increased coordination with other regulatory authorities
  - Focus on assessing management processes with targeted transaction testing
- Net Result
  - Higher quality supervisory reviews
  - Streamlined reports with quick delivery to company

Off-site Monitoring

- Identify issues and trends affecting First District institutions
- Identify significant changes in the risk profile of individual institutions
- Support examination process in gathering and analyzing data
- Peer group analysis and the identification of outliers

On-site Supervisory Process

- Leverage off-site monitoring activities
- Tailor the scope of review to focus on high risk areas
- Match the skill sets of examiners assigned to the risk profile of the institution
- Emphasis on strong communication throughout the examination (No surprises)

Key Areas of Supervisory Review

- Corporate structure and governance
- Risk management processes
- Enterprise-wide risk exposures
- Compliance with laws and regulations
- Financial Condition
  - Capital adequacy
  - Asset Quality
  - Earnings
  - Funding and liquidity
- Information technology
- Strategic planning

Integrated Supervisory Process

- Process that assesses and considers the effects of <u>all</u> risks of an organization.
- Effects of all disciplines (safety and soundness, consumer compliance, fiduciary and information technology) are relevant and considered when assigning the overall financial and risk management ratings.
- Increases efficiency and reduces regulatory burden.
- Logistical and scheduling considerations require flexibility.

Ongoing Supervision/Outreach

- A Reserve Bank representative is assigned to each institution and serves as the primary point of contact with regard to supervisory and regulatory matters
- Examiners' "assistance visits"
- Reserve Bank sponsored conferences/events
- Participation in local/national banking conferences as subject matter experts in a number of emerging issues

Gramm-Leach-Bliley Act (GLBA)

- Enacted November 12, 1999
- Eliminates depression-era restrictions separating investment banking from commercial banking
- Permits financial holding companies (FHCs)
- Expands powers for banks
- Privacy provisions
- Appoints Federal Reserve as umbrella supervisor -- focus on a consolidated, group-wide analysis to ensure that the FHC is operated in a sound manner so that its financial condition does not threaten the viability of affiliated depository institutions.

FHC Qualifications

- To qualify as an FHC, a BHC must:
  - file a declaration with the Federal Reserve
  - maintain all depository institution (DI) subsidiaries well-capitalized and well-managed
  - maintain at least a satisfactory CRA rating for each insured DI subsidiary

FHCs Overview

- Permissible activities for FHCs include:
  - securities underwriting and dealing
  - serving as an insurance agent and insurance underwriter
  - acting as a futures commission merchant
  - engaging in merchant banking
  - participating in other activities financial in nature or incidental to financial activities or complementary to financial activities

FHCs Overview (Continued)

- Nationally, 667 domestic BHCs and 46 FBOs have formed FHCs (as of 12/31/01)
- Of the domestic FHCs
  - 462 have assets < $500 million
  - 62 have assets >$500 million and < $1 billion
  - 91 have assets >$1 billion and < $15 billion
  - 52 have assets > $15 billion
- Most FHCs have not significantly changed their activities or risk profiles

Questions?