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**Federal Reserve Board's Supervisory Guidance
on Board of Directors' Effectiveness**

Call to Action – Governance Edition

March 2021

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An overview of the journey . . .

US regulators have reiterated the requirements and expectations for banks to demonstrate effective and sustainable governance structures since the financial crisis in 2008 through **new regulations, changes to rating systems, and additional issuances of supervisory guidance.**

Despite enhancement efforts, regulatory feedback continues to indicate that **banks have not done enough to evaluate the effectiveness of their governance structures and the impact these structures have** on the bank's operations, regulatory standing, operationalization of risk management framework, and promotion of culture across the firm.

On February 26, 2021, the Federal Reserve Board (FRB) released [Supervisory Guidance on Board of Directors' Effectiveness \(SR 21-3\)](#) which gives guidance regarding supervisory expectations for effective boards of directors (boards) of Large Financial Institutions (LFIs).

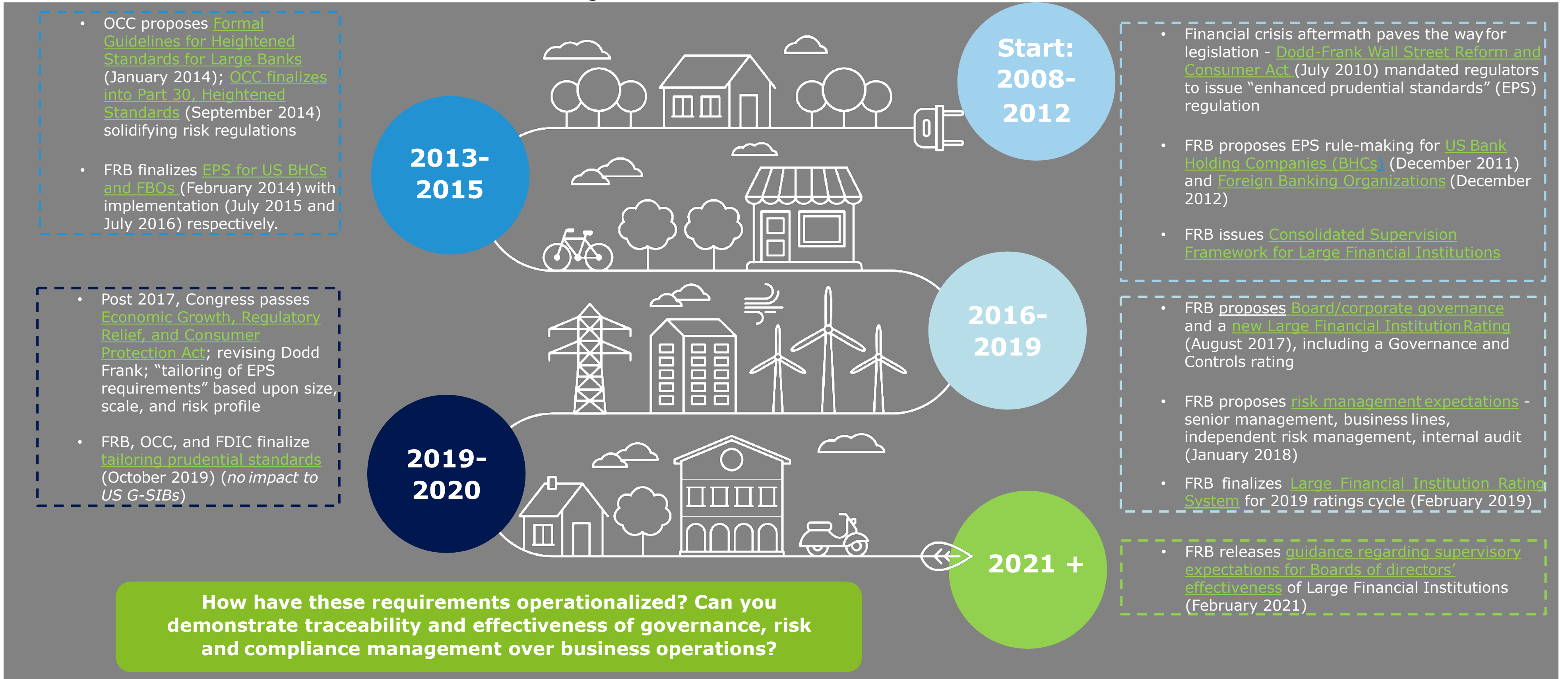
This is a milestone for the FRB in its multi-year, post-financial crisis review of the processes and practices of BHCs' boards, targeting the largest BHCs over three-year period since issuing the proposal. The FRB has also **revised or redacted some prior SR letters (SR 21-4)** to reflect this new focus on the role of board and delineation of role of management.

Key points

- This is not the first guidance the FRB has released related to governance, risk, and compliance management but **represents one of the last "legs of the stool" for supporting the Governance and Controls ratings for LFIs.**
- **Boards' roles have been elevated, not diminished** as the FRB removed certain expectations that are not core to a board's responsibilities.
 - FRB enumerated specific attributes for an effective board and will be charging examiners with rating the board's effectiveness in meeting these attributes.
 - Each board should proactively review its self-assessment process to ensure it aligns with the five "Board Effectiveness" (BE) attributes.
 - All of this suggests that, as boards are unshackled from unnecessary oversight burdens, they should shift their attention to core matters. While no less challenging, the role of a board member remains key to provide governance and oversight.
- The guidance encourages boards to be **active, intrusive, and probing in its review and challenge of senior management**, and emphasizes the board's role in advancing management accountability. Board will need to be **outcomes-based, understanding surprises and applying lessons learned.**
- **For the first time**, guidance articulates **the types of policies that would generally be expected to be approved by the board.**
- With both supervisory guidance letters issued, there **are two orders of impact** - board effectiveness guidance (SR 21-3) and changes to underlying guidance on special topics (SR 21-4) (e.g., third party risk, compliance, etc.).
- Boards are expected to drive robust inquiry for **"material or persistent deficiencies in risk management or control practices, whether in policy or in practice."**

Regulatory guidance & trajectory

US regulators' expectations for **governance, risk and compliance management** have been clear since before 2008 and included in key regulations such as **Reg YY, OCC Heightened Standards, etc.** Regulators now expect these requirements to be **business as usual processes** and **effective** for consideration to be **"safe and sound"** and **"well-managed."**



Call to action – Key attributes of “Board Effectiveness”

It is time for an industry call to action to for boards and senior management to ensure 1) corporate governance structures align with enhanced expectations and 2) board and senior management expectations are implemented and operational.

This Call to Action extends beyond the three lines model to this key question: **Is the Governance & Oversight model working effectively?**

Arguably, **most banks would say it is.** However, **key components may be missing or not operating as intended**, which could lead to governance, risk management, and internal control challenges. Banks need to pause and self-evaluate their ability to govern and manage themselves horizontally and vertically across businesses, legal entities, products and jurisdictions. The issuance of the FRB’s board effectiveness guidance is an impetus to take another look.

FIVE KEY ATTRIBUTES OF BOARD EFFECTIVENESS



Set clear, aligned, and consistent direction regarding the firm’s strategy and risk appetite

Boards should ensure there is alignment between the firm’s strategy and risk appetite which enables the firm to maintain sufficient financial strength and operational resilience.



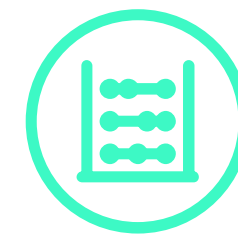
Direct senior management regarding the board’s information needs

Boards should be clear with senior management about their information needs including concerns for volume, structure, content and quality of information they require.



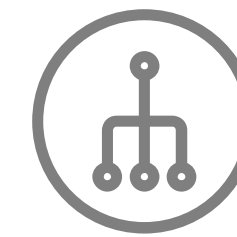
Oversee and hold senior management accountable

Boards should oversee the performance of the senior management and hold them accountable for the implementation of the firm’s strategy.



Support the independence and stature of independent risk management and internal audit

Boards should enable the independence of the risk management and internal audit functions by providing unrestricted access and adequate budget and resources to carry out activities.



Maintain a capable board composition and governance structure

Board composition and governance structure (including board and management committees, reporting lines, etc.) aligned to the firm’s asset size, complexity, operations, and risk profile.

What's next for the board?

Going forward, the board could consider these key questions as part of its self-assessment process:



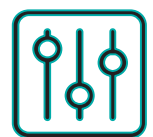
Accountability and Ownership

- Is the board doing enough to **enforce accountability and a culture of transparency and integrity**?
- Is the board setting **clear, aligned, and consistent direction** regarding the firm's strategy and risk appetite? **How is strategy linkage to risk tolerances and financial planning reinforced?**
- **Is the board focused on reviewing significant policies** (e.g., Strategy, Risk Management Framework, Capital plan, Resolution Plan)?
- Is **senior management sufficiently incentivized** with appropriate linkage of outcomes to performance management and incentive compensation?
- Is the board confident that it has **transparency and traceability to compliance with laws and regulations**?



Data and Reporting

- Is the board receiving the **information** needed to **effectively exercise our oversight responsibilities** on a timely and effective basis? Is the board **describing information needs to the senior management** appropriately?
- Is the board engaging in **ad hoc discussion outside regular meetings** to seek information?
- Is the board **challenging information it receives** to ensure that it aligns and supports the firm's strategy and risk appetite?
- **Is the board setting aside adequate time** for candid discussion and debate?



Risk Management and Independence

- **Is the board reinforcing, supporting, and enabling the independence of the risk management and internal audit functions?**
- Does management have a **robust process around escalation** and are the right things making their way to the board for resolution?
- **Are regulatory change processes highlighting emerging risks?**
- Are **risks being self-identified and are internal audit, regulatory, supervisory, and other corrective actions being resolved** to fundamentally address the root cause of the issues noted? How is **management holding itself accountable**? How does the board track failures across the three lines and hold senior management accountable?
- How does the board provide review and challenge if the **three lines model designed and implemented appropriately**?

Immediate Actions to Consider

- ✓ **Review reporting packages** received, and **self-assess any gaps in information** by looking at agenda, reporting packages, and timelines and quality of information
- ✓ **Ensure reporting is comprehensive** and covers the entire risk management framework from multiple dimensions. Ensure board receives an '**independent, objective view**' of day-to-day operations
- ✓ Set up appropriate **process around regulatory remediation and corrective actions** ensuring proposed actions accountability, management accountability, how actions address regulatory requirements etc.
- ✓ **Review trends of issues, complaints and risk reporting** and ensuring management has a **robust process around escalation**
- ✓ Ensure the **risk appetite and limits reporting is meaningful**
- ✓ Focus on **risk linkage across performance management and compensation structures**
- ✓ **Self-assess the organization regularly against Reg YY, OCC Heightened Standards** and further evolving regulatory expectations
- ✓ **Review by-laws and other governing documents regarding powers of independent directors**, including the ability to retain third parties, meet without the executive chair (if applicable), and other items consistent with the SR letter

What's next for senior management?

Going forward, senior management could ask these key questions as part of its self-assessment process:



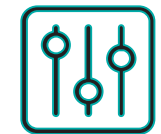
Accountability and Ownership

- Is the organization 'too big and too complex' to manage? If so, what **actions can be taken to simplify infrastructure, legal entities, products?**
- How well does the **organizational structure and culture foster transparency, escalation, accountability, and effective challenge?**



Data and Reporting

- What **reporting and MIS** does senior management receive?
- Does the **governance structure** enable meeting the various demands of regulators in multiple jurisdictions?



Risk Management and Independence

- Is there an **effective risk management structure?** And how is this explained board and the board Risk Committee?
- How are **regulations and risks are being effectively managed in the first line?** Does **senior management take accountability for risks and controls?** Is first line **empowered to self-identify** and report risks?
- What **types of issues, risks and business matters** arise that may bring surprises? Are these **communicated** timely? Are **root causes of issues** further explored with lessons learned documented and consequences/accountability impacted as a result of issues?
- Are **effective controls in place** and do they mitigate risk appropriately? Is there transparency and balance between **preventive and smart detective controls and manual and manual and automated controls?**
- Is the bank investing appropriately in **rationalizing, re-engineering and automating** processes and controls to optimize effectiveness?
- Is there **appropriate coordination** between business and operations and technology/control functions?
- What **resources and investments** do the **Risk, Compliance and Internal Audit functions** need to effectively implement and sustain a **three lines model** and to **meet regulatory requirements** and expectations for the organization? Are the Risk, Compliance and Internal Audit functions **being provided unrestricted access and truly independent?**

Immediate Actions to Consider

- ✓ Ensure that senior management has a **documented business /operating model**. Determine **proactivity of business** in identifying issues relative to new and modified products. Ensure the business **understands the regulatory requirements** facing them
- ✓ **Document roles, responsibilities and accountabilities with appropriate monitoring process developed** against the roles. **Develop clear escalation protocols** through the business
- ✓ **Manage and monitor metrics and thresholds** to alert business management if there are issues
- ✓ Ensure businesses have a **risk and control function** that assists in operationalizing impact of controls in business processes. Ensure they have an effective risk management structure and appropriate processes and resources for strategy implementation, plans, and budgets for each business line and risk management or control function.
- ✓ Ensure **controls are rationalized** across 1st and 2nd lines and investments are being made to **re-engineer and automate** as appropriate. **Document end to end processes and controls. Evaluate and test controls** on a frequent enough basis to highlight issues

The endgame – LFI Governance and Controls rating

Given the systemic risks posed by LFIs and changes to the FRB’s supervisory expectations and oversight of LFIs, as outlined in SR 12-17, the FRB adopted a new rating system to be more effective for these institutions. Below is a summary of the FRB’s finalized new LFI rating system, as well as regulations and guidance that will directly impact an institution’s rating in each category.

| Component | Capital Planning and Positions | Liquidity Risk Management and Positions | Governance and Controls |
|-------------------------------|---|--|--|
| <p>Rating criteria</p> | <ul style="list-style-type: none"> • Capital Planning: The extent to which a firm maintains sound capital planning practices through effective governance and oversight; effective risk management and controls; maintenance of updated capital policies and contingency plans for addressing potential shortfalls; and incorporation of appropriately stressful conditions into capital planning and projections of capital positions • Capital Positions: The extent to which a firm’s capital is sufficient to comply with regulatory requirements, and to support its ability to meet its obligations to depositors, creditors, and other counterparties and continue to serve as a financial intermediary through a range of conditions. | <ul style="list-style-type: none"> • Liquidity Risk Management: The extent to which a firm maintains sound liquidity risk management practices through effective governance and oversight; effective risk management and controls; maintenance of updated liquidity policies and contingency plans for addressing potential shortfalls; and incorporation of appropriately stressful conditions into liquidity planning and projections of liquidity positions • Liquidity Positions: The extent to which a firm’s liquidity is sufficient to comply with regulatory requirements, and to support its ability to meet current and prospective obligations to depositors, creditors and other counterparties through a range of conditions. | <p>a) Effectiveness of the board of directors: The extent to which the board exhibits attributes that are consistent with those of effective boards in carrying out its core roles and responsibilities, including: (i) setting a clear, aligned, and consistent direction regarding the firm’s strategy and risk appetite; (ii) directing senior management regarding the board’s information; (iii) overseeing and holding senior management accountable, (iv) supporting the independence and stature of independent risk management and internal audit; and (v) maintaining a capable board composition and governance structure</p> <p><i>(Guidance finalized February 2021; FBOs IHCs are technically excluded with pending additional proposal for FBO boards)</i></p> <p>b) Management of business lines and independent risk management and controls (pending separate proposal issued January 2018)</p> <p>c) Recovery planning (only for US LISCC firms): The extent to which recovery planning processes effectively identify options that provide a reasonable chance of a firm being able to remedy financial weakness and restore market confidence without extraordinary official sector support.</p> |

Five Key Attributes of Board Effectiveness

Set clear, aligned, and consistent direction regarding the firm's strategy and risk appetite



Summary

- This attribute delineates the **board's role in strategy-setting and risk appetite, ensuring alignment with long-term perspective and capacity of the firm's risk management framework** by defining the strategy and risk tolerance together.
- A clear risk appetite has sufficient detail for a firm's risk management function to **set firm-wide risk limits and specifies the level and type of risk the board is willing to assume and capable of managing.**
- An aligned strategy and risk appetite helps a firm **"maintain sufficient financial and operational strength and resilience for safety and soundness and to promote compliance with laws and regulations."** Alignment occurs when the strategy and risk appetite are developed, reviewed, and approved consistent with one another, but not necessarily simultaneously.
- This helps senior management **pursue opportunities in-line with the firm's risk appetite and capacity.**
- This attribute further directs **boards to focus their reviews on significant policies, programs, and plans** (e.g., capital plan, recovery and resolution plans, audit plan, enterprise-wide risk management policies, liquidity risk management policies, compliance risk management program, and performance management and compensation programs)



Impact

- Evaluate **new product and new business policies and processes** to ensure that impacts on the firm's strategy and related risk appetite, as well as the staffing and capabilities of the firm's risk infrastructure, are addressed and documented as part of that process
- Review **deliberate strategy linkage to risk appetite and financial planning** and challenge for resources, IT, and infrastructure spend across organic growth
- Create a **comprehensive inventory of firm policies, programs, and plans** and determine, consistent with the guidance, those that require review in full, review in summary form, or are the responsibility of management—all in the context of the strategic plan and risk appetite
 - Ensure procedures are in place, with **management accountability and board-level reporting and periodic review**, to ensure that this inventory is maintained on a current basis
- Consider that the **FRB could withhold approval for mergers, acquisitions, or other new business opportunities** when there are gaps in the firm's risk management capacity to support the opportunity

Questions the board should consider

- Does the board's strategy include a **long-term perspective on risks and rewards** that is consistent with its risk management framework?
- Does the board's **risk appetite include enough detail to enable the CRO to set risk limits?**
- Is the board's **strategy commensurate with its ability to identify and manage risk?**
- If the board decides to pursue **a new line of business or geography**, does it analyze the additional risks and determine that it has the **risk management capacity** needed?
- Has the board identified the **"significant" policies** it needs to review and approve? When the board approves these policies, does it explicitly consider whether they are consistent with its strategy, risk appetite and risk management capacity?
- Even though the board's **strategy and risk appetite are approved separately**, is it clear when the board approves them and that they are consistent and aligned?



Summary

- This attribute calls for **greater board engagement** in conducting its activities with the FRB viewing effective boards to be those that:
 - Describe information needs to senior management
 - Address any concerns regarding the volume, structure, content, or quality of the information
 - Improve processes for the preparation of such information
 - Help set the board's agenda with adequate time for discussions, enabling sound, well-informed decisions to be made
- **An effective board directs senior management** to provide information that is sufficient in scope, detailed, and analyzed to enable sound, well-informed decision-making and potential risks consideration
- Effective boards also **seek information outside of regular meetings** by requesting special sessions or training and by reaching out beyond the CEO and their direct reports to senior staff and senior supervisors

Impact

- Document **board's review and consideration of the information received**, including challenges to the information provided, enhancements, etc.
- Ensure a robust **board training program** is in place and adequately documented, including an annual calendar as well as ad hoc training sessions requested throughout the year
- Implement a system to **"log" (document) board member outreach to management and staff** beyond the CEO and the CEO's direct reports
- Board may need additional support given responsibilities through a specific "office of the board" working directly for the board
- Be mindful of the **adequacy of the time allocated for the discussion of a given topic** — if not satisfied with the amount of time allowed for review of materials in advance of a meeting, or the time allocated for discussion at a meeting, challenge the agenda
- Establishes a new **pull-push paradigm** where the board "pulls" the information it needs to assess the risks versus Management "pushing" the information it believes the board needs

Questions the board should consider

- Are the **board and committee chairs** actively involved in setting agendas and establishing the time needed to discuss agenda topics?
- Is the **information given to the board timely and well organized?**
- Have the directors evaluated the information they are getting and **given specific feedback to management** in terms of what works well and what doesn't?
 - Specifically, the guidance says that boards should **direct management to address any concerns** regarding the volume, structure, content or quality of the information it receives.
- Is the board getting the **training it needs** to stay on top of important topics?

Oversee and hold senior management accountable



Summary

- The board's effectiveness in holding management accountable will be **evaluated through its degree of engagement and effective challenge of management, including how it measures performance and sets compensation**
- An effective **board has independent directors who are sufficiently empowered**
- An effective board engages in **oversight of senior management by discussing and challenging senior management's assessments and recommendations** to ensure they are in-line with the firm's strategy and risk appetite
- An effective board also engages in robust inquiry of:
 - drivers, indicators, and trends related to current and emerging risks
 - adherence to the board-approved strategy and risk appetite by relevant lines of business; and
 - material or persistent deficiencies in risk management or control practices, whether in policy or in practice
- This attribute calls for **implementation of performance management and compensation programs** that enable appropriate and consistent risk taking by senior management in achieving business strategies and objective

Impact

- Be mindful of the **issue and discussion** during meetings and adequacy of the time allocated but also what additional follow-up meetings and material may be needed to support a given topic
 - If not satisfied with the amount of time allowed for review of materials in advance of a meeting, or the time allocated for discussion at a meeting, challenge the agenda
- If the bank has an **executive board chair**, review governance/constitutional documents to ensure they meet FRB expectations for the presence and powers of a lead independent director
- Re-review the **performance objectives of the firm's compensation plans** and information to support annual performance and compensation process to ensure alignment with SR 21-3 expectations; evaluate engagement with Human Resources Chief Compliance Officer, Chief Risk Officer, and Internal Audit for input and review
- Elevates the board's responsibility and accountability to maintain its effective credible challenge and **ensure there is MIS/reporting**, and evaluate need for a **Compensation Committee** with a specific mandate to execute responsibilities with time, detail and coverage

Questions the board should consider

- Is the board allowing **enough time at meetings to cover important topics?**
- Where appropriate, is the board **supplementing formal board meetings with meetings and discussion** with management?
- Do the directors constructively **challenge management on critical topics** or where there are **gaps or potential weaknesses?**
- Does the **performance management system encourage behaviors** and business practices that are consistent with our **strategy, risk management goals and safety and soundness?** How do we know that?
- Is each **component of the CEO's and senior executives' total compensation informed by the individual's performance** against performance objectives?
- Is the **board overseeing the CEO succession plan** and has the board determined that the plan is adequate for the size and complexity of the organization?

Support the independence and stature of independent risk management and internal audit



Summary

- This attribute focuses on the Chief Risk Officer (CRO) and Chief Audit Executive (CAE), clarifying the FRB's expectation that the board **reinforce, support, and enable the independence of the risk management and internal audit functions**
- The guidance reinforces that **risk and audit committees of the board are expected to communicate directly with the respective CRO/CAE and provide these independent functions unrestricted** access, ensuring they have adequate budget and other necessary resources
- An effective board **reviews the risk management framework** relative to firm's structure, risk profile, complexity, activities, and size and effects changes that align with the firm's strategy and risk appetite.
- The board also **acts in overseeing remediating and resolving material and persistent deficiencies** recommended by internal and external auditors and supervisory findings



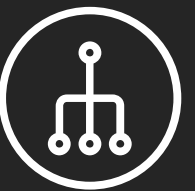
Impact

- **Deputize the CRO and CAE to operate with as the board's eyes and ears** with expectations of "in camera" sessions and unfettered access to the board and committees
- Support evaluations of resources, IT infrastructure, and key policy frameworks related to risk management, compliance and audit plans to help **evaluate sufficiency of resources and posture to fulfill their independent mission**
- **Ensure that risk and audit committees are focused on the timeliness of remediation of supervisory findings**, and are holding management accountable for failures to remediate
- Ensure compensation committees have appropriate level of detail and balance performance and risk objectives

Questions the board should consider

- Has the board asked the **CRO and CAE whether they feel independent and empowered?**
- Do they have examples of what independence and empowerment means to them? Do the **committee chairs ensure the CRO and CAE have unfettered access to the risk and audit committees**, respectively?
- Do the **audit committee and risk committee chairs reach out to the chief audit executive and the chief risk officer**, respectively, to foster open and candid lines of communication?
 - Do the respective committee chairs believe these **executives would be comfortable giving unvarnished feedback**, or if not, how are they constrained?
- Are the **responsible committees reviewing staffing and budget** for the audit and risk functions?
- Is the **audit committee reviewing the status of actions to remediate identified issues** and does it take action if issues are not being appropriately addressed?

Maintain a capable board composition and governance structure



Summary

- This attribute emphasizes the importance for **firms to have appropriate board composition and governance structure aligned to its asset size, complexity, scope of operations, risk profile, and evolving changes**
- An effective board **establishes committees and defines management-to-committee reporting lines** capable of overseeing and addressing any issues
- An effective board also has the capacity to **engage third-party advisors and consultants**, when appropriate, in order to supplement the board's knowledge, expertise, and experience, and to support the board in making sound, well-informed decisions
- **Board vacancies should be filled through a process driven by the board itself**, and not management

Impact

- **Place the onus on the board to assess and maintain the adequacy and effectiveness of its own corporate governance** including through its own resources
- **Align skills and expertise to business profile and strategy as well as emerging trends** – IT/digital innovation, digital assets, climate risk – seek outside expertise as warranted
- **Engage in active and intrusive debate on remediation of persistent issues through a centralized board Committee**
- Ensure that the board, and not management or another stakeholder, drive the process to identify and select new board members
- Ensure that membership and potential candidates include diverse members
- Review the adequacy of the board's management and staffing support in order to fulfill the board's mandate and meet FRB expectations - **fill identified gaps with dedicated, qualified, and accountable personnel**
- Exercise prerogative to engage third party advisors and consultants to **supplement the board's own knowledge, expertise and experience**
- Ensure **a robust self-assessment process is in place** and adapt and evolve in response to that process

Questions the board should consider

- Does the board have the **appropriate mix of skills and experience** to oversee the organization?
 - Considering the firm's strategy and considering succession needs, does the board have a **plan to ensure the board continues to evolve to meet not just current needs, but future needs?**
- Is the **committee structure appropriate** given the size and complexity of our organization and our strategic plans?
- Does the board have **succession plans for committee membership and committee chairs?** Is the composition reflective of diversity goals, skillsets, etc.?
- Where could the **board benefit from third party expertise?**
- Is the **board evaluation process effective?**
- How is the board **addressing improvement opportunities?**

Appendix - Summary of key impacts to Federal Reserve SR Letters (SR 21-4)

Results of Supervisory Letter Review – Content Revised (1/6)

Detailed comments
for those SR letters
marked in **RED**

In addition to SR 21-3, **SR 21-4** was also issued. As part of SR 21-4, FRB completed its analysis of 27 SR Letters to distinguish the roles and responsibilities for boards of directors that have been made inactive, revised, or retained. **Items in Red reflect topics that are current regulatory priorities for Large Financial Institutions.**

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|---|--|--------------------------|---|--|
| SR 13-19 / CA 13-21 | Guidance on Managing Outsourcing Risk | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11. | All financial institutions supervised by the FRB. |
| Deep Dive Comparison on Changes/Additions | | | | |
| <ul style="list-style-type: none"> • Senior management is also responsible for providing the institution’s board with sufficient information about outsourcing arrangements so that the board can understand the risks posed by these arrangements • [Modified shift to senior management] Board was expected to “establish and approve” policies re. outsourcing. • [Modified shift to senior management] Board was expected with senior management to determine whether proposed limitations on liability are reasonable when compared to the risks to the institution if a service provider fails to perform. | | | | |
| SR 11-15 | Disposal of Problem Assets through Exchanges | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | Activities based. All state member banks, bank holding companies, and their nonbank subsidiaries, and savings and loan holding companies that engage in asset exchange transactions. |
| SR 11-14 | Supervisory Expectations for Risk Management of Agricultural Credit Risk | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | Activities based. All financial institutions supervised by the FRB with significant exposure to agriculture-related credit risk. |

1.

- “**Content revised**” means that the expectations relating to the board contained in the letter have been revised to better align with either the final board effectiveness guidance included in this Federal Register notice or SR letter 16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion.” The letters are otherwise unchanged.
- “**Retain without change**” means that the supervisory expectations for board described in the letter are consistent with the final board effectiveness guidance and SR letter 16-11.
- “**Made inactive**” means the supervisory letter, in its entirety, was no longer relevant to the FRB's current supervision because it contained guidance that was outdated, unnecessary, or redundant. Relevant elements of supervisory letters which are made inactive may be retained in the Commercial Bank Examination Manual (CBEM) or the Bank Holding Company Supervision Manual.

2. See SR 21-3/CA letter 21-1, “Supervisory Guidance on Board of Directors' Effectiveness” for more information regarding how the FRB will use the guidance to inform its supervision of firm practices.

Source: <https://www.federalreserve.gov/supervisionreg/srletters/SR2104a1.pdf>

Results of Supervisory Letter Review – Content Revised (2/6)

Detailed comments
for those SR letters
marked in **RED**

In addition to SR 21-3, **SR 21-4** was also issued. As part of SR 21-4, FRB completed its analysis of 27 SR Letters to distinguish the roles and responsibilities for boards that have been made inactive, revised, or retained. **Items in Red reflect topics that are current regulatory priorities for Large Financial Institutions.**

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|--|--|--------------------------|--|---|
| SR 08-8 / CA 08-11 | Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles | Content revised | Expectations related to the responsibilities of boards were revised to be consistent SR 21-3 | Applies to banking organizations with \$50 billion or more in total consolidated and have multiple legal entities. Extended to appropriate savings and loan holding companies per SR letter 14-9. The board may make changes to the letter's applicability in the future. |
| <p><u>Deep Dive Comparison on Changes/Additions</u></p> <ul style="list-style-type: none"> • Primary responsibility for complying still rests with day-to-day business /support activities; reinforces board and senior management have different, but complementary roles in ensuring a sound/effective firmwide compliance risk management program • Simplifies board responsibility to promoting the stature and independence of the compliance function (“The board should promote the stature and independence of the corporate compliance function within the organization”) • Reinforces board should direct senior management on the board’s own information needs related to compliance risk • Reinforces board responsibility to hold senior management accountable for effective compliance risk management /timely resolution of issues • Modifies additional responsibilities of the board and reinforces senior management’s responsibilities and shifts these to senior management: • [Modified – shifted to senior management] Board should ensure that senior management is fully capable, qualified, and properly motivated to manage the compliance risks arising from the organization’s business activities in a manner that is consistent with the board’s expectations. • [Modified – shifted to senior management] Board should ensure that its views about the importance of compliance are understood and communicated by senior management across, and at all levels of, the organization through ongoing training and other means. • [Modified – shifted to senior management, under board oversight] Board should ensure that senior management has established appropriate incentives to integrate compliance objectives into the management goals and compensation structure across the organization, and that appropriate disciplinary actions and other measures are taken when serious compliance failures are identified. | | | | |

Source: <https://www.federalreserve.gov/supervisionreg/srletters/SR2104a1.pdf>

Results of Supervisory Letter Review – Content Revised (3/6)

Detailed comments
for those SR letters
marked in **RED**

Below table lists the Supervisory Letters in which guidance on the roles and responsibilities for boards of holding companies have been made inactive, revised, or retained

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|---|---|--------------------------|--|--|
| SR 00-9 | Supervisory Guidance on Equity Investment and Merchant Banking Activities | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | Activities based. Applies to equity investment activities of bank holding companies, state member banks, and their subsidiaries and affiliates- regardless of the statutory or regulatory authority under which investments are made. Extended to savings and loan holding companies per SR letter 14-9. |
| Deep Dive Comparison on Changes/Additions <ul style="list-style-type: none"> Deficiencies in any of the areas covered in the attached guidance should be brought to the attention of senior management or, if necessary, the Board of Directors to ensure that appropriate corrective action is taken in a timely and effective manner | | | | |
| SR 99-7 | Supervisory Guidance Regarding the Investment of Fiduciary Assets in Mutual Funds and Potential Conflicts of Interest | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | Activities based. Domestic and foreign banking organizations with asset and wealth management activities supervised by the FRB. |
| SR 98-25 | Sound Credit Risk Management and the Use of Internal Credit Risk Ratings at Large Banking Organizations | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | The letter notes that the guidance applies to "large and complex banking organizations." Extended to savings and loan holding companies per SR letter 14-9. |
| Deep Dive Comparison on Changes/Additions <ul style="list-style-type: none"> Revised for references to senior management and adjusted references to boards Select examples include: <ul style="list-style-type: none"> Examiners should discuss these issues, including plans to enhance existing credit rating systems, with management and should incorporate comments on the adequacy of risk rating systems and the credit quality of the pass portfolio in examination reports, noting deficiencies where appropriate. Such comparability allows management to treat loans in high-risk grades as a potential concentration of credit risk and to manage them accordingly. It also allows management and supervisors to monitor the overall degree of risk, and changes in the risk makeup, of the portfolio. Such consistency further permits risk grades to become a reliable input into portfolio credit risk models. | | | | |

Source: <https://www.federalreserve.gov/supervisionreg/srletters/SR2104a1.pdf>

Results of Supervisory Letter Review – Content Revised (4/6)

Detailed comments
for those SR letters
marked in **RED**

Below table lists the Supervisory Letters in which guidance on the roles and responsibilities for boards of holding companies have been made inactive, revised, or retained

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|--|---|--------------------------|---|---|
| SR 98-9 | Assessment of Information Technology in the Risk-Focused Frameworks for the Supervision of Community Banks and Large Complex Banking Organizations | Content revised | Expectations related to the responsibilities boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | State member banks, bank holding companies, and foreign banking organizations. Extended to saving and loan holding companies as per SR letter 14-9. |
| Deep Dive Comparison on Changes/Additions <ul style="list-style-type: none"> • Board to oversee and senior management to effectively manage the risks associated with information technology • [Modified for examiners to review senior management's role] Determine whether senior management is adequately identifying, measuring, monitoring, and controlling the significant risks associated with information technology for the overall organization and its major business activities. | | | | |

Source: <https://www.federalreserve.gov/supervisionreg/srletters/SR2104a1.pdf>

Results of Supervisory Letter Review – Content Revised (5/6)

Detailed comments for those SR letters marked in **RED**

Below table lists the Supervisory Letters in which guidance on the roles and responsibilities for boards of holding companies have been made inactive, revised, or retained

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|---|--|--------------------------|--|--|
| SR 97-3 | Conversion of Common Trust Funds to Mutual Funds | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | Activities based. State member banks and bank holding companies. Extended to savings and loan holding companies per SR letter 14-9. |
| SR 96-10 | Risk-Focused Fiduciary Examinations | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | Activities based. Institutions supervised by the FRB that conduct asset and wealth management activities. Extended to savings and loan holding companies per SR letter 14-9. |
| SR 95-51 | Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies | Content revised | Expectations related to the responsibilities of boards in this letter were revised to be consistent with SR21-3. | SR letter 95-51 applies to state member banks and bank holding companies with consolidated assets of \$100 billion or more. ² The FRB is reviewing the existing guidance applicable to firms with total consolidated assets between \$50 billion and \$100 billion. |
| <p><u>Deep Dive Comparison on Changes/Additions</u></p> <ul style="list-style-type: none"> Boards have ultimate responsibility for the level of risk taken by their institutions. Accordingly, they should approve the overall business strategies and significant policies of their organizations, including those related to managing and taking risks, and should also ensure that senior management is fully capable of managing the activities that their institutions conduct. While all boards are responsible for understanding the nature of the risks significant to their organizations and overseeing and holding senior management accountable for maintaining an effective risk management framework, the level of technical knowledge required of directors may vary depending on the particular circumstances at the institution. Directors of large banking organizations that conduct a broad range of technically complex activities, for example, cannot be expected to understand the full details of their institutions' activities or the precise ways risks are measured and controlled. They should, however, have a clear understanding of the types of risks to which their institutions are exposed and senior management should provide reports to the board that identify and summarize the size, complexity, and significance of the risks in terms that are meaningful to them. In fulfilling this responsibility, directors should take steps to develop an appropriate understanding of the risks their institutions face, possibly through briefings from auditors and experts external to the organization. Using this knowledge and information, directors should provide clear guidance regarding the level of exposures acceptable to their institutions and have the responsibility to ensure that senior management implements the procedures and controls necessary to comply with adopted policies. Directors of institutions that conduct more traditional and less complicated business activities may require significantly less knowledge of complex financial transactions or capital markets. They may, however, be more involved in the day-to-day activities and decision-making of their institutions than are their counterparts at larger organizations and should have a level of knowledge commensurate with the nature of their involvement | | | | |

Source: <https://www.federalreserve.gov/supervisionreg/srletters/SR2104a1.pdf>

Results of Supervisory Letter Review – Content Revised (6/6)

Detailed comments
for those SR letters
marked in **RED**

Below table lists the Supervisory Letters in which guidance on the roles and responsibilities for boards of holding companies have been made inactive, revised, or retained

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|------------------|-------------------------------|--------------------------|--|---|
| SR 94-53 | Investment Adviser Activities | Content revised | Expectations related to the responsibilities of boards in this letter revised to be consistent with SR21-3 and SR letter 16-11 | Activities based. Bank holding companies, state member banks, and state-licensed U.S. branches and agencies of foreign banks that provide investment advisory services to mutual funds or trust department common investment funds. |

1. "Content revised" means that the expectations relating to boards contained in the letter have been revised to better align with either the final Board effectiveness guidance included in this Federal Register notice or SR letter 16-11, "Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion." The letters are otherwise unchanged. "Retain without change" means that the supervisory expectations for boards described in the letter are consistent with the final board effectiveness guidance and SR letter 16-11. "Made inactive" means the supervisory letter, in its entirety, was no longer relevant to the FRB's current supervision because it contained guidance that was outdated, unnecessary, or redundant. Relevant elements of supervisory letters which are made inactive may be retained in the Commercial Bank Examination Manual (CBEM) or the Bank Holding Company Supervision Manual.

2. See SR 21-3/CA letter 21-1, "Supervisory Guidance on Board of Directors' Effectiveness" for more information regarding how the FRB will use the guidance to inform its supervision of firm practices.

Source: <https://www.federalreserve.gov/supervisionreg/srletters/SR2104a1.pdf>

Results of Supervisory Letter Review – Retained without Change

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|--|---|------------------------------|---|---|
| SR 16-17 | Supervisory Expectations for Risk Management of Reserve-Based Energy Lending Risk | Retained; no Revision | <ul style="list-style-type: none"> Risk limits for reserve-based energy lending that are consistent with the risk appetite should be approved by the board | Activities based. 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. |
| SR 14-8 | Consolidated Recovery Planning for Certain Large Domestic Bank Holdings Companies | Retained; no Revision | <ul style="list-style-type: none"> Board is responsible for oversight of the firm - including oversight of the firm's recovery planning process. Board, or a designated committee thereof, should focus this oversight on the firm's ability to effectively identify and implement recovery options and oversee management's remediation of weaknesses identified in the firm's processes | This guidance applies to eight domestic bank holding companies that may pose elevated risk to U.S. financial stability – considered Category 1 or the US LISCC firms which are GSIBs. |
| SR 13-13 | Supervisory Considerations for the Communication of Supervisory Findings | Retained; no Revision | <ul style="list-style-type: none"> SR Letter 13-13 provides that Matters Requiring Immediate Attention (MRIAs) and Matters Requiring Attention (MRAs) should generally be directed to the board, with the board in turn directing management to take corrective action, providing management with appropriate oversight and approving management actions as necessary. | <ul style="list-style-type: none"> This letter applies to all FRB-supervised banking organizations. |
| <p><u>2017 Proposal</u></p> <ul style="list-style-type: none"> When FRB proposed the board effectiveness guidance, there was an additional proposal for new guidance governing the communication of supervisory findings, which would have replaced the guidance currently found in SR Letter 13-13. The proposal would have directed supervisory communication to senior management, rather than to the board. As proposed, supervisory staff would direct MRIAs and MRAs to the board itself, or an executive-level board committee, only when either: <ul style="list-style-type: none"> The supervisory finding relates to significant weaknesses in the board's governance structure or practices; or Senior management has failed to take appropriate remedial action with respect to a supervisory finding that was originally addressed to senior management. SR Letter 13-13 has, for now, been retained without change. FRB identified that it "continues to consider ways to improve the clarity and consistency of supervisory communications, including public feedback, related to SR Letter 13-13." | | | | |

Source: <https://www.federalreserve.gov/supervisionreg/srletters/SR2104a1.pdf>

Results of Supervisory Letter Review – Retained without Change

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|--|--|------------------------------|---|---|
| SR 12-17 | Consolidated Supervision Framework for Large Financial Institutions | Retained; no Revision | <ul style="list-style-type: none"> This SR Letter, serves as a Fed Manifesto, serving as the foundation for FRB Supervision for the LFIs. This SR Letter was not modified; bringing some inconsistencies to the overall principles outlined in the board effectiveness guidance. | This guidance does not apply to community banking organizations, defined as institutions supervised by the FRB with total consolidated assets of \$10billion or less. |
| <p>As currently stated, In order for a firm to be sustainable under a broad range of economic, operational, legal or other stresses, its board (or equivalent for the U.S. operations of FBOs) should provide effective corporate governance with the support of senior management. The board is expected to <i>establish and maintain</i> the firm’s culture, incentives, structure, and processes that promote its compliance with laws, regulations, and supervisory guidance. Each firm’s board and committees, with support from senior management, should:</p> <p>a. <i>Maintain</i> a clearly articulated corporate strategy and institutional risk appetite. The board should set direction and oversight for revenue and profit generation, risk management and control functions, and other areas essential to sustaining the consolidated organization.</p> <p>b. <i>Ensure</i> that the firm’s senior management has the expertise and level of involvement required to manage the firm’s core business lines, critical operations, banking offices, and other material entities. These areas should receive sufficient operational support to remain in a safe and sound condition under a broad range of stressed conditions.</p> <p>c. <i>Maintain</i> a corporate culture that emphasizes the importance of compliance with laws and regulations and consumer protection, as well as the avoidance of conflicts of interest and the management of reputational and legal risks.</p> <p>d. <i>Ensure</i> the organization’s internal audit, corporate compliance, and risk management and internal control functions are effective and independent, with demonstrated influence over business-line decision making that is not marginalized by a focus on short-term revenue generation over longer-term sustainability.</p> <p>e. Assign senior managers with the responsibility for ensuring that investments across business lines and operations align with corporate strategies, and that compensation arrangements and other incentives are consistent with the corporate culture and institutional risk appetite.</p> <p>f. <i>Ensure</i> that management information systems (MIS) support the responsibilities of the board to oversee the firm’s core business lines, critical operations, and other core areas of supervisory focus.</p> | | | | |
| SR09-4 | Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions and Stock Purchases at BHCs | Retained; no Revision | <ul style="list-style-type: none"> Revised most recently in July 2020, this guidance includes factors boards should consider when deciding whether, and in what amounts, to pay dividends or repurchase stock. | Scaled to size of institution supervised by the FRB |
| SR08-9 | Consolidated Supervision of Bank Holding Companies and the Combined US Operations of Foreign Banking Organizations | Retained; no Revision | <ul style="list-style-type: none"> Describes the FRB’s risk-based approach to supervision and instructs supervisory staff on how to approach supervision. Attachments to this SR letter include a number of supervisory expectations for boards of banking organizations of different types and sizes. Like SR 12-17, SR 08-9 references the word “ensure” bringing inconsistencies to the overall principles outlined in the board effectiveness guidance | Applies to institutions supervised by the FRB based upon risk profile. |

Results of Supervisory Letter Review – Inactive SR Letters

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|------------------|--|--------------------------|---|---|
| SR 01-13 | Supervisory Guidance Relating to a Change to Permissible Securities Activities of State Member Banks | Made inactive | Outdated announcement. Refer to the Commercial Bank Examination Manual for information on securities activities. Expectations related to the responsibilities of boards will be revised in the Commercial Bank Examination Manual consistent with the board effectiveness guidance and SR letter 16-11. | Activities based. State member banks meeting certain criteria as described in the Gramm-Leach-Bliley Act. |
| SR 01-8 | Supervisory Guidance on Complex Wholesale Borrowings | Made inactive | Outdated guidance. Refer to the Trading and Capital Markets Activities Manual sections on Liquidity Risk and Interest-Rate Risk Management; SR letter 10-6, "Interagency Policy Statement on Funding and Liquidity Risk Management," and Regulation YY, as relevant. | Not applicable. |
| SR 98-18 | Lending Standards for Commercial Loans | Made inactive | Outdated guidance. | Activities based. |
| SR 97-25 | Risk-Focused Framework for the Supervision of Community Banks | Made inactive | Outdated guidance. Refer to the Commercial Bank Examination Manual for information on the supervisory framework of community banks. | SR letter 97-25 applies to community banks. |
| SR 97-24 | Risk-Focused Framework for Supervision of Large Complex Institutions | Made inactive | Outdated guidance. Refer to the Bank Holding Company Supervision Manual for information on the supervisory framework of banks and holding companies in the regional and large and foreign banking supervision portfolios. | SR letter 97-24 applies to large complex institutions are defined as those that generally have a functional management structure; abroad array of products, services, and activities; operations that span multiple supervisory jurisdictions; and consolidated assets of \$1 billion or more. These institutions may be domestic or foreign in origin and include U.S. bank holding companies (together with their nonbank and foreign subsidiaries), state member banks, Edge Act and agreement corporations, and branches and agencies of foreign banks. |

Results of Supervisory Letter Review – Inactive SR Letters

| SR/CA letter No. | Title | Disposition ¹ | Comment | Institution Applicability |
|------------------|---|--------------------------|---|--|
| SR 97-21 | Risk Management and Capital Adequacy of Exposures Arising from Secondary Market Credit Activities | Made inactive | The letter will be made inactive, and the expectations related to the responsibilities of boards will be revised in the Bank Holding Company Supervision Manual to be consistent with the board effectiveness guidance and SR letter 16-11. | Activities based. Institutions supervised by the FRB that conduct secondary market credit activities. Extended to savings and loan holding companies per SR letter 14-9. |
| SR 93-69 | Examining Risk Management and Internal Controls for Trading Activities of Banking Organizations | Made inactive | Outdated guidance. | SR letter 93-69 specifically targets trading, market making, and customer accommodation activities in cash and derivative instruments at State member banks, branches and agencies of foreign banks, and Edge corporations. |
| SR 90-22 | Policy Statement on the Use of "Points" in Settling Foreign Exchange Contracts | Made inactive | Outdated guidance. | SR letter 90-22 is applicable to U.S. commercial bank, Edge or Agreement corporation, and branch, agency and commercial lending company associated with a foreign bank, subject to U.S. federal bank regulatory agencies' supervisory jurisdiction that deals in foreign exchange. |
| SR 90-16 | Implementation of Examination Guidelines for the Review of Asset Securitization Activities | Made inactive | Outdated guidance. | Activities based. |
| SR 97-21 | Risk Management and Capital Adequacy of Exposures Arising from Secondary Market Credit Activities | Made inactive | The letter will be made inactive, and the expectations related to the responsibilities of boards will be revised in the Bank Holding Company Supervision Manual to be consistent with the board effectiveness guidance and SR letter 16-11. | Activities based. Institutions supervised by the FRB that conduct secondary market credit activities. Extended to savings and loan holding companies per SR letter 14-9. |

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