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Federal Reserve Board of Governors finalizes revisions to Large Financial Institution (LFI) supervisory rating system

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Center *for* **Regulatory Strategy** **US**

Federal Reserve finalizes changes to how supervisors assess a financial institution as "well managed"

On November 6, 2025, the Federal Reserve Board of Governors (FRB) issued a notice of final rulemaking to revise its Large Financial Institution (LFI) rating system and the ratings system for depository institution holding companies significantly engaged in insurance activities (collectively, "LFI Frameworks").[1]

The rule revises the LFI Frameworks such that a firm with at least two Broadly Meets Expectations or Conditionally Meets Expectations component ratings and no more than one Deficient-1 component rating would now be classified as "well managed."

LFI Frameworks Background

The LFI Framework, which applies to (i) bank holding companies (BHCs) with total consolidated assets of $100 billion or more and (ii) US intermediate holding companies (IHCs) of foreign banking organizations (FBOs) with total consolidated assets of $50 billion or more, was adopted by the FRB in 2018.[2]

Modeled on the BHC/IHC supervisory rating system, in 2022, the FRB adopted its Insurance Supervisory Framework, which applies to depository institution holding companies significantly engaged in insurance activities, called supervised insurance organizations.[3]

Under the LFI Frameworks, a firm is evaluated on three components: (1) Capital Planning and Positions; (2) Liquidity Risk Management and Positions; and (3) Governance and Controls.[4]

Each component is rated based on a four-point non-numeric scale (in descending order):

- Broadly Meets Expectations,
- Conditionally Meets Expectations,
- Deficient-1, and
- Deficient-2

Under the previous LFI Frameworks, a firm that received a rating of Deficient-1 or Deficient-2 in *any* component rating was deemed not "well managed" and, therefore, faced limitations on certain acquisitions and new activities.

Additionally, the LFI Frameworks established a presumption that the FRB would impose an enforcement action on any firm that is not "well managed."

Key facts

- As of Q3 2025, 17 (47%) of 36 LFI holding companies were rated not "well managed" under the LFI Framework
- The final rule is expected to decrease the share of holding companies that are not rated "well managed" under the LFI Framework to 10 (28%)[5] for institutions that are over $100 billion.
- However, while a firm may be rated "well managed" under the LFI Framework, the firm's "well managed" status under the BHC Act would still be conditioned on the subsidiary depository institution ratings (e.g., CAMELS, CUSO, ROCA)[6] – as such the overall impact is expected to be much smaller with 3 firms becoming "well managed" under the BHC Act
- Of the 4 firms subject to the Insurance Supervisory Framework, 1 of these firms is expected to become "well managed" under the final rule

Highlights of the final rule

Changing what it means to be "well managed." The final rule amends the LFI Frameworks by considering a firm with no more than one Deficient-1 rating to be "well managed." The FRB noted in the notice that experience shows a firm with a single component rating of Deficient-1 (while maintaining a rating of Broadly Meets Expectations or Conditionally Meets Expectations in its other two components), would generally have sufficient financial and operational strength and resilience to maintain safe and sound operations.

Removing presumption of enforcement actions in certain circumstances. The final rule also removes the presumption in the LFI Frameworks that the FRB will bring an enforcement action on firms with one or more Deficient-1 ratings. Instead, firms with one or more Deficient-1 ratings may be subject to a formal or informal enforcement action by the FRB depending on the particular facts and circumstances of the firm. However, the presumption of FRB enforcement actions will remain for those firms with one or more Defiecient-2 component ratings.

Final rule does not affect how components are rated. The final rule does not change the criteria for determining if a firm's component rating is Broadly Meets Expectations, Conditionally Meets Expectations, Deficient-1, or Deficient-2 under the LFI Frameworks.

LFI component ratings unchanged

Broadly Meets Expectations	Conditionally Meets Expectations	Deficient-1	Deficient-2
A firm's practices and capabilities broadly meet supervisory expectations, and the firm possesses sufficient financial and operational strength and resilience to maintain safe-and-sound operations through a range of conditions. The firm may be subject to identified supervisory issues requiring corrective action. These issues are unlikely to present a threat to the firm's ability to maintain safe-and-sound operations through a range of conditions.	Certain material financial or operational weaknesses in a firm's practices or capabilities may place the firm's prospects for remaining safe and sound through a range of conditions at risk if not resolved in a timely manner during the normal course of business. The Federal Reserve does not intend for a firm to be assigned a "Conditionally Meets Expectations" rating for a prolonged period. Failure to resolve the issues in a timely manner would most likely result in the firm's downgrade to a "Deficient" rating.	Financial or operational deficiencies in a firm's practices or capabilities put the firm's prospects for remaining safe and sound through a range of conditions at significant risk. The firm is unable to remediate these deficiencies in the normal course of business, and remediation would typically require the firm to make a material change to its business model or financial profile, or its practices or capabilities.	Financial or operational deficiencies in a firm's practices or capabilities present a threat to the firm's safety and soundness, or have already put the firm in an unsafe and unsound condition. A firm with a "Deficient-2" rating is required to *immediately* implement comprehensive corrective measures, and demonstrate the sufficiency of contingency planning in the event of further deterioration.

FRB, "SR 19-3 / CA 19-2: Large Financial Institution (LFI) Rating System," February 26, 2019.

Institution Potential impact

More holding companies expected to be classified as "well managed" under the final rule. As of the third quarter of 2025, there were 36 firms subject to the LFI Framework, of which 17 (47%) were classified as not "well managed." This is a decline from 23 (64%) being classified as not "well managed" in the fourth quarter of 2024. The FRB estimates that the final rule would reduce the number of holding companies that are not "well managed" under the LFI Framework to 10 (28%). However, while a holding company may be rated "well managed" under the LFI Framework, the firm's "well managed" status under the BHC Act would still be conditioned on the subsidiary depository institution ratings (e.g., CAMELS, CUSO, ROCA), as applicable. The FRB estimates that only 3 of the 7 firms whose holding companies would become "well managed" under the final rule would also become "well managed" under the BHC Act, as of the third quarter of 2025 (i.e., 14 (39%) of the 36 firms would continue to remain not "well managed.").

An additional supervised insurance organization is expected to be classified as "well managed." As of the third quarter of 2025, there were an additional four firms subject to the Insurance Supervisory Framework, of which, one would be expected to see a change in their "well-managed" status under the final rule.

Firms may experience reduced compliance costs. The FRB notes that firms that become "well managed" as a result of the final rule may experience reduced compliance costs and associated resource demands on management. This, in turn, could enable institutions to invest more resources in core business operations and develop new products, services, or technologies.

Newly classified "well managed" firms may experience higher growth. The FRB estimates, based on data between Q1 2020 and Q3 2025, the loss of "well managed" status was associated with slower growth in assets and loans. In the year after a ratings downgrade that results in a firm becoming not "well managed," growth in total assets dropped by more than two-thirds. The analysis indicates that the FRB's final rule has the potential to promote growth at these firms that become "well managed" which may, in turn, bolster overall economic growth.

Considerations for financial institutions

Assess final rule's impact on the individual firm-level.[7] Firms should undertake an assessment of how the changes to the LFI Frameworks may affect their specific institution and whether the final rule would result in a reclassification to "well managed." For firms that currently have a single Deficient-1 component, the new framework could mean a significant shift in their regulatory standing, potentially unlocking a range of business opportunities that were previously out of reach. Even for institutions that do not immediately qualify for a change in status, management should recognize that the requirements for achieving a "well managed" designation are now more accessible. As a result, leadership should consider what adjustments, or targeted actions could bring them within reach a "well managed" classification.

Consider strategic plans for new activities and acquisitions. Institutions should revisit their strategic plans for growth, expansion, and innovation in light of the potential for reclassification as "well managed." Firms that are not deemed "well managed" face restrictions on their ability to pursue acquisitions, investments, and new business activities. If the final rule results in a reclassification, these firms may find themselves newly eligible to engage in a broader array of transactions and initiatives without the need for prior regulatory approval. This change presents an opportunity for management teams to proactively identify and prioritize new ventures, product launches, or market entries that align with the institution's long-term objectives and risk appetite.

Avoid complacency risk and continue to prioritize remediation. While the final rule may reduce the immediate regulatory consequences associated with a single Deficient-1 component rating, it does not eliminate supervisory expectations for timely and effective remediation. Management should remain vigilant in addressing the underlying issues that led to the deficiency (where currently there are MRAs/MRIAs), as failure to do so could result in further downgrades to Deficient-2, which carry more severe regulatory and reputational consequences. Maintaining a strong culture of risk management and continuous improvement is essential to sustaining the benefits of a "well managed" classification and ensuring long-term organizational resilience.

Endnotes

1. Federal Reserve Board of Governors (FRB), "Federal Reserve Board finalizes changes to its supervisory rating framework for large bank holding companies," press release, November 6, 2025.
2. FRB, "Large Financial Institution Rating System; Regulations K and LL," *Federal Register*, November 21, 2018.
3. FRB, "Framework for the Supervision of Insurance Organizations," *Federal Register*, October 4, 2022.
4. Under the Insurance Supervisory Framework, the components are called (1) Capital Management; (2) Liquidity Management; and (3) Governance and Controls.
5. The FRB calculated the number of not "well managed" firms for both the baseline and the revisions to the LFI Framework contained in the final notice under two metrics: (1) : not "well managed" firms under the BHC Act (based on LFI rating, or bank CAMELS rating, or equivalent for FBOs); and (2) not "well managed" holding companies under the LFI Framework. Under the revised LFI Framework, 14 out of 36 firms would be not "well managed" under Metric 1 and 10 out of 36 firms would be classified as not "well managed" under Metric 2 considering the LFI ratings only.
6. CAMELS is a supervisory rating system that stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity and asset liability management, and Sensitivity to market risk. CUSO stands for Combined US Operations. ROCA is a supervisory rating system that standards for Risk management, Operational controls, Compliance, and Asset quality. *See* FRB, "Supervision Manuals," last updated December 20, 2024.
7. Firms should also consider the interplay with the FRB final rule and the proposal to define an "unsafe or unsound practice" from the Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC). FDIC, OCC, "Unsafe or Unsound Practices, Matters Requiring Attention," *Federal Register*, October 30, 2025.

Contact us

Irena Gecas-McCarthy
FSI Director, Deloitte Center for Regulatory Strategy, US
Principal
Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Jennifer Burns
Managing Director
Deloitte & Touche LLP
jennburns@deloitte.com

Shaun Nabil
Managing Director
Deloitte & Touche LLP
snabil@deloitte.com

David Wright
Independent Senior Advisor to
Deloitte & Touche LLP
davidmwright@deloitteretired.com

Patrick Loncar
Independent Senior Advisor to
Deloitte & Touche LLP
ploncar@deloitte.com

Richard Naylor
Independent Senior Advisor to
Deloitte & Touche LLP
rnaylor@deloitte.com

Josh Flyer
Senior Manager
Deloitte & Touche LLP
ploncar@deloitte.com

Aaron Salerno
Manager
Deloitte Services LP
asalerno@deloitte.com

Kyle Cooke
Manager
Deloitte Services LP
kycooke@deloitte.com