

Financial Institution Supervision

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Disclaimer

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Agenda

- Federal Reserve Role & Responsibility
- Bank Supervision
- Mission
- Process
 - Types of Supervisory Activities
- Products
- Looking Forward

Federal Reserve

The Federal Reserve Act of 1913 established the Federal Reserve System as the central banking authority of the United States. Under the Federal Reserve Act and amendments, the Federal Reserve System:

- Conducts America's monetary policy.
- Maintains the stability of America's financial system
- Supervises and regulates banks and protects consumers' credit rights.
- Provides financial services to the U.S. Government, the public, financial institutions, and foreign financial institutions.

The Federal Reserve makes loans to commercial banks and is authorized to issue the Federal Reserve notes that make up America's entire supply of paper money.

Bank Supervision

Mission

- Assure a Safe & Sound Banking Industry
 - Conduct analysis of systemically important institutions internal risk management practices and other forward looking risk measures.
- Provide for the orderly functioning of the Payment System
- Balance Supervision & Regulation while maintaining well-functioning markets

Through the risk focused supervisory process, work with financial institutions to strengthen their capital and liquidity positions, improve their risk management processes and generally improve the condition of their balance sheets. Further, ensure that sound operational risk management practices in governance, accounting, audit, technology and business resiliency are fully implemented and adhered to in our most systemically critical institutions.

Process

Risk Focused Assessment

- Market Indicators
- Depth/breath of senior management oversight
 - Board and Senior Management Oversight
 - Compliance Infrastructure
 - Corporate Governance
- Ability to monitor and manage daily operations
 - Responsibility / Accountability
- Integrated Corporate Risk Management
- Overall quality of MIS
- Systems Integrity & Capacity

Process

Continuous Monitoring

Regular ongoing assessment of key risks and/or business lines covering Credit, Operational, Market, Liquidity, Compliance, Legal and Reputational Risks both within the business lines and across the institution.

- Leveraging elements of the existing control infrastructure
 - Internal / External Audit
 - Internal Credit Review
 - Compliance & Quality Assurance Reviews
 - Ongoing Surveillance
 - Management Committees
 - Real time access to Information Systems & Reports
- Coordinate with other Supervisory entities, both foreign & domestic, to gain perspectives and a robust understanding of the overall risk environment.

Monitoring observations feed to continuous updating to our supervisory plan.

Examination Types

- Discovery – relatively high level, confirmation of facts, and should issues arise, noting these in feedback
- Targeted – full testing with a granular look into the products, processes, and internal controls. Feedback in the form of correspondence outlining observations and actions. Actions can be in the form of recommendations, suggestions, or Matters Requiring Attention. A formal response is required from Management with a commitment for action.
- Horizontal – findings amongst a group of peer level institutions shared as best practices and common issues or themes. Focus is on a business or market rather than any specific institution.
- Annual Risk Assessment – overall assessment of the risks facing the institution, both inherent and emerging, and the effectiveness of the strategies to mitigate risks with an emphasis on management's ability in identifying, monitoring and managing those risks.
- Supervisory Plan – forward looking schedule of supervisory activities. Incorporates results of current examination cycle, knowledge gaps, emerging issues and systemic supervisory objectives.

Enforcement

- MOU (Memorandum of Understanding) – an issue must be addressed, a plan implemented and regular follow-up will take place until fully resolved
- C&D (Cease & Desist Order) – what it sounds like – requires immediate action to correct deficiencies
- Other options
 - Loss of streamlined application processing
 - Limits on merger / acquisition activities
 - Loss of Delegated authority for expansion
 - Monetary Penalty
 - Referral to Department of Justice

Looking Forward

- Increased interaction in the Broker Dealer arena
 - Payment & Settlement
 - Operational controls
 - Overall risk-management focus and processes
 - Senior Management & Board Oversight
- Securities Lending
 - Collateral management
 - Changes in liquidity management
 - Use of separate accounts versus commingled accounts
 - Effect of dislocation on ongoing operations
 - Potential for Legal / Reputational risk
- Counter Party Credit
 - Risk Aggregation
- Stress Testing
 - Capital / Liquidity