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Federal Reserve Proposes New Guidance on Corporate Governance

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The Federal Reserve has proposed changes to its guidance on corporate governance for banking organizations, which refocus its supervisory expectations more clearly on a board's core responsibilities. The proposal distinguishes more clearly the roles and responsibilities of boards and senior management, eliminates redundant and outdated SR letters and guidance, and more closely aligns corporate governance expectations with the Federal Reserve's supervisory framework. Comments are due 60 days after publication of the proposal in the Federal Register.

The proposal has three parts:

1. ***Proposed guidance on effective boards of directors (Proposed BE Guidance).***
    - The Proposed BE Guidance would apply to all BHCs and SLHCs with total consolidated assets of $50 billion or more and to non-bank SIFIs, but not (yet) to FBO IHCs.
    - The Proposed BE Guidance identifies the five key attributes for an effective board as: (a) directing a firm's strategy and risk tolerance, (b) managing information flow from senior management and board discussions, (c) holding senior management accountable, (d) supporting the stature and independence of the risk management and internal audit functions and (e) maintaining a capable board composition and governance structure.
    - The Proposed BE Guidance would be used by the Federal Reserve as one of the components in its new **LFI rating system**, which it proposed in

tandem with this proposed corporate governance guidance. Please click **here** for our blog post on this new LFI rating system.

2. ***Rescission or revision of twenty-seven existing SR letters and guidance*** applicable to all BHCs and SLHCs to eliminate redundant or outdated supervisory expectations for boards and to ensure they are better aligned with the Federal Reserve's supervisory framework.

3. ***Clarification of the Federal Reserve's expectations for communicating supervisory findings to a firm's board and senior management.***
   - The guidance would apply to all Federal Reserve-supervised institutions, which include all BHCs, SLHCs, state member banks, U.S. branches and agencies of FBOs and nonbank SIFIs.
   - The guidance confirms that most MRIAs and MRAs would be directed to senior management for corrective action and would be directed to boards only when a board needs to address its corporate governance responsibilities or when senior management fails to take appropriate action.
   - The proposal is the first of two envisioned by the Federal Reserve. A future proposal is expected to address the many checklist-type requirements that have proliferated in regulations and interagency guidance since the financial crisis.

We will shortly publish a more detailed memo on this proposed guidance, as well as a detailed memo on the proposed new LFI rating system.