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Federal Reserve Proposes New Supervisory Rating System for Large Financial Institutions

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The Board of Governors of the Federal Reserve System (Federal Reserve) has proposed a **new rating system** for large financial institutions (LFIs). This proposal is intended to more closely align the Federal Reserve's supervisory rating system with its supervisory program for LFIs.

LFIs are (i) bank holding companies and non-insurance, non-commercial savings and loan holding companies with $50 billion or more in total consolidated assets and (ii) U.S. intermediate holding companies of foreign banking organizations established under Regulation YY. Holding companies supervised by the Federal Reserve that are not LFIs would remain subject to the current RFI/C(D) rating system.

The proposed new system would be rolled out, and LFIs informed of their ratings, in 2018. Comments are due 60 days after the proposal is published in the Federal Register.

The key features of the proposed LFI rating system are:

- LFIs would be rated on three components:
    - **Capital planning and positions** – this would assess (1) the effectiveness of a firm's capital governance and planning processes and (2) the sufficiency of a firm's capital positions to comply with applicable regulatory requirements. For CCAR firms, the results of the firm's CCAR process would be a material part of this component.

- **Liquidity risk management and positions** – this would assess (1) the effectiveness of a firm's liquidity governance and risk management processes and (2) the sufficiency of a firm's liquidity positions to comply with applicable regulatory requirements;
- **Governance and controls** – this would evaluate the effectiveness of:
  i. a firm's board of directors and its committees, based for BHCs and SLHCs with $50 billion or more in total consolidated assets on board effectiveness guidance concurrently proposed by the Federal Reserve in its **corporate governance proposal** (please click **here** for our blog post on this proposed guidance),
  ii. the management of a firm's core business lines and independent risk management and controls, based on proposed guidance summarized by the Federal Reserve in this proposal and to be issued separately for comment in the near future, and
  iii. recovery planning – this would apply only to domestic LISCC firms, which currently are the eight U.S. G-SIBs.
- For each component, institutions would be rated as "Satisfactory", "Satisfactory Watch", "Deficient-1" or "Deficient-2." An LFI would need to be rated as Satisfactory or Satisfactory Watch on all three components to be considered "well managed."
- Unlike other supervisory rating systems, the new LFI rating system would not assign a standalone composite rating.
- The Federal Reserve also indicated that it may propose to revise the LFI rating system in the future to add a component for the sufficiency of resolution planning efforts by LISCC firms and perhaps other select LFIs.

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