OFFICE OF INSPECTOR GENERAL

Evaluation Report 2016-SR-B-014

Opportunities Exist to Increase Employees' Willingness to Share Their Views About Large Financial Institution Supervision Activities

November 14, 2016

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

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Abbreviations

Board	Board of Governors of the Federal Reserve System
BS&R	Division of Banking Supervision and Regulation
CCAR	Comprehensive Capital Analysis and Review
CLAR	Comprehensive Liquidity Assessment and Review
FRB Atlanta	Federal Reserve Bank of Atlanta
FRB Boston	Federal Reserve Bank of Boston
FRB Cleveland	Federal Reserve Bank of Cleveland
FRB Minneapolis	Federal Reserve Bank of Minneapolis
FRB New York	Federal Reserve Bank of New York
FRB Richmond	Federal Reserve Bank of Richmond
FRB San Francisco	Federal Reserve Bank of San Francisco
LBO	large banking organization
LBO MG	LBO Management Group
LISCC	Large Institution Supervision Coordinating Committee
LISCC OC	LISCC Operating Committee
OIG	Office of Inspector General
SRP	Supervisory Assessment of Recovery and Resolution Preparedness
SSO	Senior Supervisory Officer
System	Federal Reserve System

Executive Summary:

Opportunities Exist to Increase Employees' Willingness to Share Their Views About Large Financial Institution Supervision Activities

2016-SR-B-014 **November 14, 2016**

Purpose and Approach

We initiated our evaluation in response to a written request from the Director of the Board of Governors of the Federal Reserve System's (Board) Division of Banking Supervision and Regulation and the Board's General Counsel. The request suggested that we

- assess the methods for Federal Reserve System (System) decisionmakers[1] to obtain material information necessary to ensure that decisions and conclusions resulting from supervisory activities at Large Institution Supervision Coordinating Committee (LISCC) firms and large banking organizations (LBOs) are appropriate, supported by the record, and consistent with applicable policies[2]

- determine whether there are adequate channels for System decisionmakers to be aware of supervision employees' divergent views about material issues regarding LISCC firms and LBOs

For our first objective, we assessed key aspects of the supervisory decisionmaking process that are common to the LISCC and LBO portfolios by focusing on the annual supervisory plan and the annual rating and assessment processes.[3] For our second objective, our team focused on assessing the cultural aspects of the supervision process, including the supervision team dynamics at various Reserve Banks and employee comfort levels in sharing their views. To achieve our objectives, we conducted a survey of more than 700 employees at the 10 Reserve Banks that supervise LISCC firms and LBOs, interviewed more than 240 Board and Reserve Bank employees, and reviewed relevant academic research.[4]

Background

The Board plays a major role in supervising and regulating the U.S. financial system. The Board's supervisory responsibilities include the supervision of LISCC firms and LBOs. The LISCC and the LISCC Operating

1. For the purposes of our evaluation, the term *System decisionmakers* refers to System officials at the Board and Federal Reserve Banks who have decisionmaking authority for the supervision of large financial institutions.

2. The LISCC is a Systemwide committee that coordinates the System's supervision of domestic bank holding companies and foreign banking organizations that pose elevated risk to U.S. financial stability and other nonbank financial institutions designated as systemically important by the Financial Stability Oversight Council. In general, the System considers banking organizations with more than $50 billion in total assets that are not LISCC firms to be large banking organizations, or LBOs.

3. The LISCC and LBO portfolios have other supervisory decisionmaking processes that were not the focus of this evaluation.

4. Our team issued its survey to employees at the Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Minneapolis, New York, Philadelphia, Richmond, and San Francisco.

Committee establish supervisory priorities for LISCC firms.[5] Under delegated authority from the Board, the Reserve Banks conduct supervisory activities, including executing the supervisory priorities. The Reserve Banks assign dedicated teams of examiners, which may include risk specialists, to supervise LISCC firms and LBOs on a continuous basis under the Board's oversight. The members of those teams are responsible for identifying, discussing, and escalating potential issues to decisionmakers at the Reserve Banks and the Board. In their request letter, senior Board officials highlighted the importance of this escalation process by stating that "[supervisory] decision-makers must have access to complete information and to the informed views of members of the examination team in order to reach appropriate decisions and supervisory conclusions regarding the examination of large banking organizations." We agree and acknowledge the importance of an effective information flow to decisionmakers.

Leadership and Management Approaches Influence Reserve Bank Employees' Comfort Level Sharing Views

While 71.8 percent of large financial institution supervision employees responded favorably to a question on our survey inquiring whether it is safe to speak at their Reserve Bank,[6] other questions that focused on employee comfort level sharing views with Reserve Bank management and System decisionmakers yielded less favorable results.

Among the 10 Reserve Banks included in the scope of our evaluation—those that supervise LISCC firms and LBOs—we noted that significant variability exists in employees' comfort levels sharing views. Our survey results and interviews revealed that differences in leadership and management approaches among supervisory leaders at the Reserve Banks contribute to this variability. We identified five root causes for employees' reticence to speak: (1) the need for management to solicit employee views more frequently; (2) the need for improved relationships between Reserve Bank employees and System decisionmakers; (3) the fear of retaliation during the performance management process; (4) the futility perception—the belief that no action would be taken; and (5) the expectation that employees must have complete confidence in their viewpoint before speaking. Addressing these root causes of employees' reticence to share their views will likely improve the flow of information to decisionmakers.

Reserve Bank Leaders Use Several Techniques to Encourage Employees to Share Views but Do Not Have a Forum to Share Best Practices

During our evaluation, we identified several leadership behaviors and processes currently employed by Reserve Bank leadership that appear particularly effective in helping to convince Reserve Bank supervision employees that it is both safe and worthwhile to share their views. In general, those activities have not been shared or widely implemented among the Reserve Banks. We believe that establishing a forum to share and perpetuate best practices among the Reserve Banks will likely increase supervision employees' willingness to share their views.

Hiring, Developing, and Retaining Effective Managers Is a Challenge

We noted that hiring, developing, and retaining effective managers is a challenge for all the Reserve Banks that supervise large financial institutions; this challenge is particularly acute for the Federal Reserve Bank of New York (FRB New York) for several reasons, including the geographic concentration of LISCC firms in New York, the multiple layers of financial institution supervision hierarchy at FRB New York, and the fluid composition of its supervisory teams. These challenges and the potential effect of leaders who do not foster positive team dynamics magnify the importance of FRB New York's talent acquisition and development efforts for the

5. The LBO Management Group is an advisory body that guides supervision of LBOs, but it does not establish supervisory priorities like the LISCC Operating Committee.

6. We distributed the survey to 1,029 employees and officers responsible for supervising large financial institutions at the 10 Reserve Banks that have at least one LISCC firm or LBO in their jurisdiction. Of those 1,029 recipients, 737 (approximately 72 percent) completed the survey.

System's supervision program. Although we focused on the factors that make these challenges more acute for FRB New York, we believe that all Reserve Banks will likely benefit from considering the appropriate balance between leadership, management, and team-building skills and technical proficiency when filling supervisory leadership positions.

Employees Need a Channel to Report Divergent Views to System Decisionmakers

Generally, we found that employees and System decisionmakers feel that decisionmakers receive the necessary information to reach appropriate decisions and supervisory conclusions regarding the examination of LISCC firms and LBOs. However, we found that there is no formal mechanism for reporting a divergent view to decisionmakers and that there is a lack of clarity about whether decisionmakers would like to be informed of close calls during the annual rating and assessment process, such as ratings decisions when a case for multiple outcomes exists. Highlighting close calls and instances in which there was disagreement among team members will allow decisionmakers to focus attention on these issues and determine whether they warrant further consideration and debate.

Recommendations

Our report contains recommendations designed to increase employees' willingness to share their views and to improve the flow of information to decisionmakers regarding the supervision of large financial institutions. Some of the recommendations focus on topics related to leadership, management, and the performance management process. The Director of the Board's Division of Banking Supervision and Regulation and the relevant heads of supervision at the Reserve Banks do not have exclusive authority for these human resources topics. Therefore, we encourage those leaders to coordinate with the appropriate Board and Reserve Bank divisions to address these recommendations.

In the response to our draft report, the Director of the Board's Division of Banking Supervision and Regulation agreed with all of the report's recommendations and highlighted instances in which progress has been made to address specific recommendations. We will follow up to ensure that the recommendations are fully addressed.

Summary of Recommendations, OIG Report 2016-SR-B-014

Recommendation number	Page	Recommendation	Responsible office
1	28	Encourage the Division of Banking Supervision and Regulation and the Reserve Banks to enhance efforts to address the reasons that employees involved in large financial institution supervision choose not to share their views by a. reinforcing the importance of Board and Reserve Bank decisionmakers and leaders actively soliciting views from employees, explaining the rationale for their decisions to employees, and underscoring the importance of employees sharing their views. b. developing an approach to monitor the Federal Reserve System's progress toward addressing cultural elements that affect employees' willingness to share their views. c. assessing the current dynamics on large financial institution supervisory teams. For those teams that evidence employees' reticence to share their views, develop plans to improve team dynamics.	Division of Banking Supervision and Regulation
2	28	Encourage the Division of Banking Supervision and Regulation and the Reserve Banks to work with their human resources departments to a. ensure that performance and incentive compensation criteria for officers and team leaders responsible for large financial institution supervision encourage leadership behaviors and competencies that foster employee willingness to share views. b. hold Reserve Bank team leaders accountable to their team by requiring the rating official to gather input from all or a sampling of employees who work for the relevant leader as part of the performance management process. c. reinforce the importance of Division of Banking Supervision and Regulation and Reserve Bank leaders providing specific, ongoing, and actionable feedback to their employees during performance discussions. d. establish specific, readily accessible behavioral performance criteria for promotions by grade level or position group. e. explain to employees the individual development opportunities they need to address to achieve promotion. f. evaluate informal and formal awards and recognition programs and implement necessary improvements to (i) recognize employees who share their views constructively and effectively and (ii) reward employees, managers, and officers when they demonstrate behaviors and traits that lead to open communication, improved organizational health and culture, and increased willingness of employees to share their views.	Division of Banking Supervision and Regulation

Recommendation number	Page	Recommendation	Responsible office
3	29	Ensure that Federal Reserve System decisionmakers develop a. plans to communicate and evidence their receptiveness to input and feedback, including divergent views, and articulate the rationale for decisions regarding the supervision of large financial institutions, including decisions to take no action. b. a framework that clarifies the roles and responsibilities of decisionmakers and supervision employees during the Large Institution Supervision Coordinating Committee and large banking organization supervisory decisionmaking processes. c. plans to improve communication, information sharing, and trust between Board officials and employees and the Reserve Bank supervisory teams.	Division of Banking Supervision and Regulation
4	29	Encourage the Reserve Banks with responsibility for large financial institution supervision to analyze whether the team's current floor plans, physical space configuration, and collaboration tools foster positive team dynamics, collaboration, and the sharing of information.	Division of Banking Supervision and Regulation
5	35	Establish a forum for the Division of Banking Supervision and Regulation and the Reserve Banks to identify and exchange best practices that can increase employees' willingness to share views, identify the practices that merit Federal Reserve System–wide adoption, and ensure the Federal Reserve System–wide adoption of those agreed-upon practices.	Division of Banking Supervision and Regulation
6	35	Encourage the Reserve Banks to work with their human resources departments to establish consistent onboarding practices for large financial institution supervision employees that are tailored to new employees' needs and backgrounds, include a team-specific knowledge transfer process, and incorporate formal mentoring to help new employees integrate into the Reserve Banks' supervision activities.	Division of Banking Supervision and Regulation
7	35	Encourage the Reserve Banks to have officers responsible for supervision and managers on large financial institution supervision teams consider measures to foster more frequent interaction among supervision employees outside the chain of command, to build trust within teams and across the supervision program more broadly.	Division of Banking Supervision and Regulation
8	35	Evaluate whether Federal Reserve System management and leadership development programs reinforce the importance of the leadership behaviors and processes outlined in Findings 1 and 2. Encourage the developers of the programs to modify the content based on the results of that evaluation, if necessary. Ensure that Reserve Bank and Board leaders in the supervision program participate in those updated programs, as necessary.	Division of Banking Supervision and Regulation

Recommendation number	Page	Recommendation	Responsible office
9	39	Encourage the Reserve Banks to work with their human resources departments to a. consider the appropriate balance between leadership, management, and team-building skills and technical supervision skills as key competencies when filling supervisory leadership positions. b. develop methods to better identify when managers are inhibiting employees' willingness to share views or are exhibiting behaviors that limit open communication and detract from positive team dynamics. c. define the circumstances, if any, in which managers who detract from team dynamics or inhibit employees' willingness to share views should be reassigned or counseled.	Division of Banking Supervision and Regulation
10	43	Define the situations in which Federal Reserve System committees and other relevant Federal Reserve System decisionmakers should be made aware of close calls on material supervisory issues and debates that arise during the annual assessment and rating process, and provide an opportunity for individuals who disagree with their Reserve Bank's proposed decisions, findings, or ratings to share their divergent view with the appropriate decisionmaking or advisory body.	Division of Banking Supervision and Regulation
11	43	Encourage the Reserve Banks to a. increase employees' awareness of internal channels for reporting concerns. b. ensure that an independent process is available to facilitate the resolution of employee concerns that cannot be resolved without discussing confidential supervisory information.	Division of Banking Supervision and Regulation

OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

November 14, 2016

MEMORANDUM

TO: Michael S. Gibson
Director, Division of Banking Supervision and Regulation
Board of Governors of the Federal Reserve System

Scott G. Alvarez
General Counsel, Legal Division
Board of Governors of the Federal Reserve System

FROM: Melissa Heist Melissa Heist
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2016-SR-B-014: *Opportunities Exist to Increase Employees' Willingness to Share Their Views About Large Financial Institution Supervision Activities*

The Office of Inspector General has completed its report on the subject evaluation. We conducted this evaluation in response to your request that we (1) assess the methods for Federal Reserve System decisionmakers to obtain material information necessary to ensure that decisions and conclusions resulting from supervisory activities at Large Institution Supervision Coordinating Committee firms and large banking organizations are appropriate, supported by the record, and consistent with applicable policies and (2) determine whether there are adequate channels for Federal Reserve System decisionmakers to be aware of supervision employees' divergent views about material issues regarding Large Institution Supervision Coordinating Committee firms and large banking organizations.

We provided you with a draft of our report for review and comment. In your response, you outline actions that have been or will be taken to address our recommendations. We have included your response as appendix F to our report.

We appreciate the cooperation that we received from each of the Federal Reserve Banks and the Division of Banking Supervision and Regulation. Please contact me if you would like to discuss this report or any related issues.

cc: Donald V. Hammond
Maryann Hunter
Tim Clark
Jack Jennings
Michael Johnson
Jim Nolan
Catharine Lemieux

Stephen Jenkins
Robert L. Triplett III
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Preface

As part of this Office of Inspector General (OIG) evaluation, we reviewed an organizational behavior study and a series of *Harvard Business Review* articles that explores why employees choose not to share their views in the workplace.[7] Those materials reveal that an employee appears to conduct a two-step internal assessment when considering whether to share a view:

1. The employee assesses potential repercussions associated with sharing a view.
2. If no repercussions appear likely, the employee conducts a cost-benefit analysis to consider whether it is worthwhile to share the view.

In the cost-benefit analysis, an employee considers, among other things, the likelihood that management will be receptive to the viewpoint and take action to address the issue. The perception of futility—the belief that no action will be taken—is a common cause for not speaking up. Thus, insofar as possible, we generally refrain from referring to an environment that makes employees comfortable sharing their views as *safe to speak*, because the term does not connote in a complete sense why employees may choose to remain silent.[8] Focusing on the first step of the sharing analysis may inadvertently minimize the importance of the second step of the analysis; therefore, our evaluation focused on both elements of an employee's internal assessment.

With respect to steps 1 and 2 above, one article we reviewed suggests that employees perceive that the potential repercussions of sharing their views are certain and immediate, while the potential organizational gains associated with sharing are uncertain.[9] Overcoming this potential obstacle is the essence of the challenge of encouraging employees to speak up. Another key point found in the research that may help to further explain employees' reticence to share views is employees' self-preservation tendency.[10] In general, employees who perceive that they have marketable skills and employment options beyond their current position are less likely to censor themselves. One of the *Harvard Business Review* articles concludes as follows:

> Encouraging speech, therefore, isn't simply a matter of removing obvious barriers, such as a volatile leader or the threat of a summary dismissal (though that would help). Nor is it a matter of putting formal systems in place, like hotlines and suggestion boxes. Making employees feel safe enough to contribute fully requires deep cultural change that alters how they understand the likely

7. A list of these publications can be found in appendix A.

8. The study and some of the articles we reviewed use the phrase *safe to speak*. Also, the Board uses that term as part of its ongoing efforts to address these issues. We use that phrase sparingly in our report—primarily when referring to the academic literature we reviewed or the Board's initiatives.

9. James R. Detert and Amy C. Edmondson, "Why Employees Are Afraid to Speak," *Harvard Business Review* 85, no. 5 (May 2007): 23–25. *Business Source Elite*, EBSCOhost (accessed December 18, 2015).

10. Ibid.

> costs (personal and immediate) versus benefits (organizational and future) of speaking up. To reduce the costs, leaders must explicitly invite and acknowledge others' ideas (this does not mean that they must always implement them). Executives also must actively challenge the myths and assumptions that reinforce silence.[11]

In conducting our evaluation, we sought to determine whether the principles and concepts outlined in the academic research we reviewed applied to Board of Governors of the Federal Reserve System (Board) and Federal Reserve Bank employees tasked with executing the Federal Reserve System's (System) supervision program. In assessing the results of our evaluation, we (1) concluded that many of the principles from the study and the research articles apply to the System's supervisory activities and (2) agreed with the authors' collective conclusion that using a controls-based solution that focuses on implementing formal systems and processes to encourage employees to share views will not sufficiently address this challenge. As a result, our findings and recommendations related to cultural changes are the centerpiece of our report.

11. Ibid.

Introduction

Objectives

We initiated this evaluation in response to a written request from the Director of the Board's Division of Banking Supervision and Regulation (BS&R) and the Board's General Counsel. The request suggested that we

- assess the methods for System decisionmakers to obtain material information necessary to ensure that decisions and conclusions resulting from supervisory activities at Large Institution Supervision Coordinating Committee (LISCC) firms and large banking organizations (LBOs) are appropriate, supported by the record, and consistent with applicable policies

- determine whether there are adequate channels for System decisionmakers to be aware of supervision employees' divergent views about material issues regarding LISCC firms and LBOs

We adopted these suggestions as the two objectives for our review.

For our first objective, we focused on the supervisory planning process and annual assessment and rating process for LISCC firms and LBOs as key supervisory decisions common to both portfolios. Supervisory plans detail anticipated supervisory activities for each firm during a specified period and include horizontal priorities, target examinations, and other supervisory activities. As a result of the annual assessment and rating process, the supervised institution receives an assessment of the firm's performance according to a standard rating system.[12] We selected our approach as a way to identify broad themes common to these two portfolios. We vetted and discussed with senior leaders in BS&R our intended approach to assess these key supervisory processes and decisions common to both portfolios. Our approach did not focus on the national programs key to the LISCC program—the Comprehensive Capital Analysis and Review (CCAR), the Comprehensive Liquidity Assessment and Review (CLAR), and the Supervisory Assessment of Recovery and Resolution Preparedness (SRP). For our second objective, we assessed cultural issues and team dynamics that affect employees' comfort level in sharing their views. For more information on our scope and methodology, see appendix A.

12. Under the Bank Holding Company Rating System, the Board and the Reserve Banks rate bank holding companies, including financial holding companies, using the *RFI/C(D)* rating system, in which *R* stands for risk management, *F* stands for financial condition, and *I* stands for the potential impact of the parent company and nondepository subsidiaries. The *C* rating is the composite rating based on an evaluation of the firm's managerial and financial condition and an assessment of future potential risk to its subsidiary depository institution or institutions. The *D* rating generally mirrors the primary regulator's assessment of the subsidiary depository institution or institutions.

Background

The Board plays a major role in supervising and regulating the U.S. financial system. Specifically, the Board supervises systemically important financial institutions, including large bank holding companies, the U.S. operations of certain foreign banking organizations, and nonbank financial companies that are designated by the Financial Stability Oversight Council for Board supervision.

The Director of BS&R chairs the LISCC. LISCC members include senior officers representing various functions at the Board and the heads of the supervision departments from the four Reserve Banks with responsibility for LISCC firms. The LISCC provides an interdisciplinary and cross-firm perspective that advises on the strategic direction of and priorities for LISCC portfolio supervision and the intended response to supervisory issues raised by the LISCC Operating Committee (LISCC OC).[13]

The LISCC OC, in consultation with the LISCC, is responsible for setting priorities for and overseeing the execution of the LISCC supervisory program. Members of the LISCC OC include senior Board officers and officers from the Reserve Banks. It is chaired by a senior Board officer who reports to the Director of BS&R. The LISCC OC provides direction to the LISCC firm supervisory teams and directly oversees various subgroups, such as the LISCC OC Vetting Committee and the Risk Secretariat. The LISCC OC oversees the committees charged with executing CCAR, CLAR, and SRP.[14] The LISCC OC also discusses firm-specific supervisory plans and annual assessments and ratings prepared by the responsible Reserve Banks and approves the assessments and ratings to be issued to supervised institutions.[15]

In general, the System considers bank holding companies with more than $50 billion in total assets that are not LISCC firms to be *large banking organizations*.[16] The System's LBO Management Group (LBO MG) seeks to promote consistent and effective implementation of supervisory policies and assessments, provide peer comparisons of key performance indicators and risk management practices, identify emerging issues, and share sound industry practices across the portfolio of LBOs to enhance the quality and responsiveness of LBO supervision. The LBO MG comprises Board employees and representatives from each Reserve Bank with supervisory authority for an institution in the LBO portfolio.[17] Discussions held by the LBO MG

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13. The LISCC portfolio includes the largest and most complex domestic bank holding companies and foreign banking organizations that pose an elevated risk to U.S. financial stability, as well as other nonbank financial institutions designated as systemically important by the Financial Stability Oversight Council. LISCC firms pose the greatest systemic risk to the U.S. economy.

14. Those committees are the CCAR Executive Committee, the CLAR Steering Committee, and the SRP Steering Committee.

15. Under the LISCC charter, the LISCC OC seeks consensus, but the LISCC OC Chair is the ultimate decisionmaker.

16. The LBO portfolio includes domestic bank and savings and loan holding companies with consolidated assets of $50 billion or more and U.S. bank holding companies with total assets of $50 billion or more that are owned by foreign banking organizations and that are not included in the LISCC portfolio.

17. During much of our fieldwork, the LBO MG operated separately from the Foreign Banking Organizations Management Group. Effective January 1, 2016, the LBO MG and the Foreign Banking Organizations Management Group merged to form the Large and Foreign Banking Organizations Management Group. We use the term *LBO MG* throughout our report, however, because that was the body in existence during the bulk of our fieldwork.

provide peer perspectives to inform the relevant Reserve Bank's supervision decisions related to products, ratings, and assessments. A Reserve Bank senior supervision officer and a BS&R officer co-chair this group. The LBO MG is an advisory body that does not approve supervisory plans or the annual assessment but reviews those materials and provides feedback.[18]

Although the Board has the authority and responsibility for supervising these institutions, the Reserve Banks conduct supervisory activities under delegated authority from the Board. The Reserve Banks assign a team of examination employees, known as a dedicated supervisory team, to each LISCC firm and LBO. Supervision activities at these firms occur on a continuous basis, in contrast to the point-in-time supervisory activities that occur at smaller institutions.

The composition of the dedicated supervisory teams differs slightly across the Federal Reserve Districts. For example, Federal Reserve Bank of New York (FRB New York) teams are led by a Senior Supervisory Officer (SSO) and have embedded risk specialists assigned to firms who work alongside the examination team. These risk specialists have a dual reporting relationship to their supervisory team leadership as well as to the leadership of the FRB New York risk supervision function. Other Districts' teams are led by a Central Point of Contact and have risk specialists who participate in the supervision of firms but do not have a dual reporting relationship. BS&R also has Board analysts who are assigned to LISCC firms and LBOs and act as liaisons between the Reserve Bank supervisory teams and the Board. These analysts maintain communication with the supervisory team and stay apprised of supervisory developments at the firms.[19]

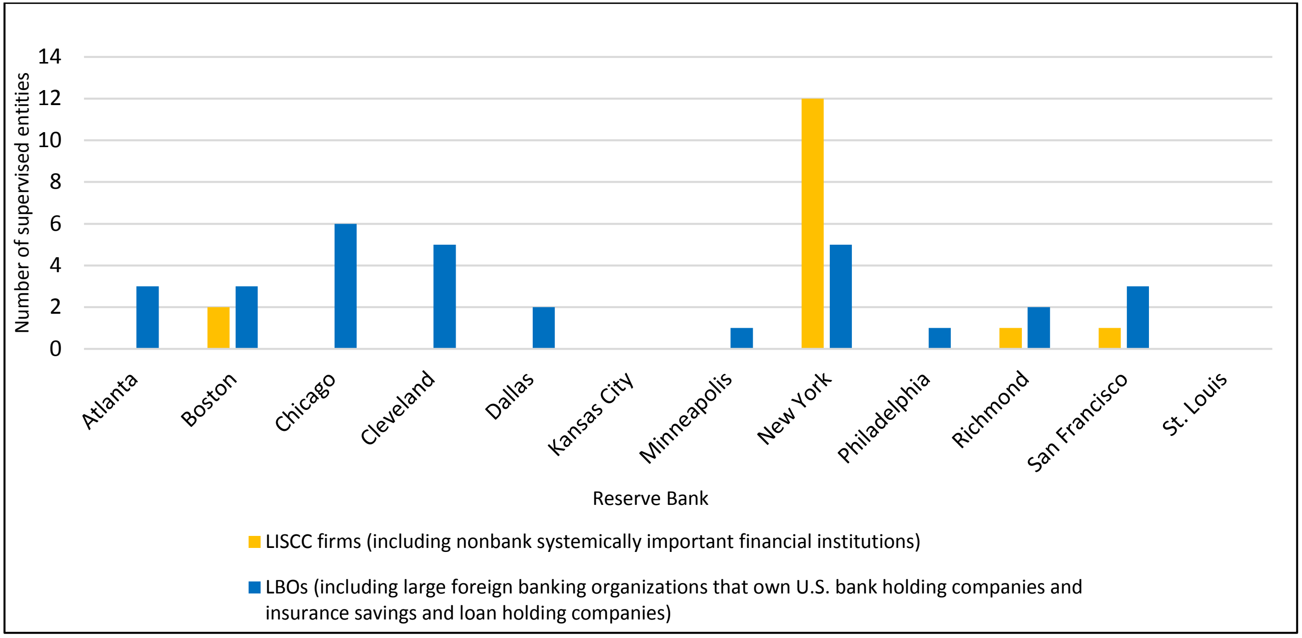
In general, the Reserve Banks are responsible for supervising LISCC and LBO firms with headquarters in their Districts. Figure 1 illustrates the geographic concentration of LISCC firms as of December 31, 2015: FRB New York supervised 12 of the 16 LISCC firms,[20] while the Federal Reserve Bank of Boston (FRB Boston) supervised 2 LISCC firms and the Federal Reserve Bank of Richmond (FRB Richmond) and the Federal Reserve Bank of San Francisco (FRB San Francisco) each had responsibility for one LISCC firm. By contrast, figure 1 also shows that the financial institutions in the Board's LBO portfolio are more geographically dispersed across 10 of the 12 Federal Reserve Districts.

18. Board officers who are also involved in the review process may approve plans and assessments.

19. During our fieldwork, we learned that the roles of the Board analysts responsible for the LISCC portfolio had evolved. The new model for LISCC Board analysts involves a more topic-based approach rather than the prior firm-specific model.

20. A March 2016 federal district court order rescinded MetLife's designation by the Financial Stability Oversight Council as a systemically important financial institution. The U.S. Department of Justice, on behalf of the Financial Stability Oversight Council, has appealed the district court's decision. In June 2016, the Financial Stability Oversight Council voted to rescind the designation of GE Capital as a systemically important financial institution. Figure 1 reflects the number of LISCC firms during our fieldwork. As of June 2016, FRB New York supervised 10 of the 14 LISCC firms.

Figure 1: Distribution of Reserve Bank Oversight of LISCC and LBO MG Firms as of December 31, 2015



Source: OIG analysis of Board and Reserve Bank documents.

Note: As of December 31, 2015, there were seven foreign banking organizations supervised by FRB New York that were not included in the LBO MG but did have more than $50 billion in U.S. assets. Those firms were included in our survey population. Those seven firms are not reflected in the figure above.

Scope and Methodology

In considering the most efficient and effective approach to conducting this evaluation, we concluded that visiting four Reserve Banks—Cleveland, New York, Richmond, and San Francisco—would reflect the regional and geographic dispersion of the LISCC and LBO portfolios. In terms of our individual Reserve Bank selections, we used the following criteria:

- We selected FRB New York because it supervises more than 70 percent of the LISCC firms and also has responsibility for several LBO firms.
- We selected FRB Richmond and FRB San Francisco because each supervises one LISCC firm and multiple LBOs.[21]
- We selected the Federal Reserve Bank of Cleveland (FRB Cleveland) because it supervises multiple large and small LBOs.

We selected a nonrandom sample of one of two LBOs supervised by FRB Richmond, one of three LBOs supervised by FRB San Francisco, one of five LBOs supervised by FRB New York, and two of five LBOs supervised by FRB Cleveland. Additionally, we selected one foreign banking organization supervised by FRB New York. We also selected a nonrandom sample of LISCC firms: three supervised by FRB New York, one supervised by FRB Richmond, and one

21. We chose not to visit FRB Boston to avoid creating a Northeast concentration in our sample.

supervised by FRB San Francisco. We interviewed a nonrandom sample of employees and officers assigned to the teams supervising those firms at any time since January 2012. Among other factors, we considered the following attributes when selecting interviewees: (1) tenure at the Reserve Bank, (2) job title, (3) commissioned or noncommissioned examiner status, and (4) current or noncurrent examiner status on the examination team. We also interviewed Board employees responsible for overseeing the supervision of LISCC firms and LBOs, ranging from senior officials to Board analysts.

In addition to our interviews with Board and Reserve Bank employees, we worked with a vendor to develop a survey tool and distributed that tool to all Reserve Bank employees involved in supervising LISCC and LBO firms. This survey, primarily consisting of customized questions, provided these employees with an opportunity to comment on their comfort level in sharing their views as part of the System's supervisory activities and their rationale for their willingness, or unwillingness, to share.[22] A complete list of the survey questions, as well as the survey directions and definitions, is included in appendix B.

The survey was sent to 1,029 employees and officers responsible for the supervision of LISCC firms and LBOs, and 737 of the 1,029 recipients (approximately 72 percent) completed the survey. The survey response rates for individual Reserve Banks are included in appendix C. Based on the overwhelmingly positive survey responses from Federal Reserve Bank of Minneapolis (FRB Minneapolis) employees, we decided to conduct phone interviews of a sample of FRB Minneapolis examiners and officers responsible for supervising the sole LBO in that District to better understand those results.

Academic research, our survey data, our reviews of relevant documents, and our interview results were the pillars of our fieldwork and the key data points for our evaluation. When considering the results of our evaluation, we assessed the degree of alignment among these data points.

During our evaluation, we met with (1) a BS&R team conducting a similar internal review focused on the LISCC and (2) the leaders of a Boardwide safe-to-speak initiative. We noted considerable similarities between the themes and observations described in the report associated with the Boardwide initiative and our work. Therefore, although our evaluation report focuses on the System's supervisory activities, many of our findings are not unique to BS&R or the Reserve Banks and should be viewed in the broader context of the Boardwide initiative.

For more information on our scope and methodology, see appendix A.

22. In designing our evaluation and the survey tool, we concluded that a survey primarily consisting of customized questions focused on the topic of sharing views, as opposed to selecting exclusively from the vendor's list of questions previously used to conduct engagement surveys for other entities, would likely yield more useful data. This decision, however, limited the benchmarking information available to us.

Finding 1: Leadership and Management Approaches Influence Reserve Bank Employees' Comfort Level Sharing Views

We learned from the results of our survey, our interviews, and our site visits that employees at the 10 Reserve Banks have varying comfort levels in sharing their views.[23] We also noted differing comfort levels sharing views among supervision teams at the same Reserve Bank. We generally attribute these varying comfort levels to differences in the leadership and management approaches of senior supervision officers and the individuals in leadership positions on the supervisory teams. We noted that some Reserve Banks and supervision teams have adopted approaches that have contributed to creating an environment that encourages supervision employees to share their views. We identified five root causes of employees' reticence to speak:

1. the need for management to solicit employee views more frequently
2. the need for improved relationships between Reserve Bank employees and System decisionmakers
3. the fear of retaliation during the performance management process
4. the perception that no action would be taken
5. the expectation that employees must have complete confidence in their viewpoint before speaking

Addressing those root causes will likely improve the flow of information to decisionmakers.

Aggregated Reserve Bank Survey Results Were Mixed

Our survey tool included 38 Likert-scale questions, 3 pick-list questions with predetermined response options, and multiple opportunities for respondents to provide a supplemental narrative response.[24] In designing our survey, we segmented our questions according to the different hierarchy levels for the System's supervisory activities by including questions that inquired about employees' comfort level sharing views with their supervisory teams, Reserve Bank management, and System decisionmakers.

In aggregating the results for all survey respondents at the 10 Reserve Banks, we noted that 71.8 percent of respondents provided a positive response when asked whether it was safe to speak at their Reserve Bank.[25] These results exceeded the survey vendor's 60 percent "benchmark global norm across all industries" for favorable responses to a similar Likert-scale question, "It is safe to speak up and constructively challenge things around here." BS&R's favorable responses

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23. The Federal Reserve Banks of Kansas City and St. Louis do not supervise any LISCC firms or LBOs. See figure 1.

24. Likert-scale survey questions ask respondents to choose from five responses (*strongly agree*, *agree*, *neutral*, *disagree*, *strongly disagree*). In almost all cases, *agree* and *strongly agree* responses were grouped together and reported as favorable, or positive, responses. Pick-list questions provide respondents with an opportunity to select a response from among a list of possible answers.

25. Respondents indicated they *agreed* or *strongly agreed* that it was safe to speak at their Reserve Bank.

for that question in the Board's 2014 and 2016 engagement surveys—which also were conducted by our survey vendor—were lower than the vendor's global norm.[26] Further, despite the positive aggregate Reserve Bank results as compared with the global norm, we noted that thematically similar pick-list questions, which focused on employee comfort levels sharing views with Reserve Bank management and System decisionmakers, had less favorable aggregate results. Slightly more than half—54.1 percent—of our Reserve Bank survey respondents felt comfortable sharing views with management at their respective Reserve Banks, and 43.1 percent of survey respondents felt comfortable sharing views with System decisionmakers. We delved deeper into the survey data, our interview results, and the academic research to better understand these potential discrepancies in the aggregate results.

Employees' Willingness to Share Views Varies by Reserve Bank and Among Employees at the Same Reserve Bank

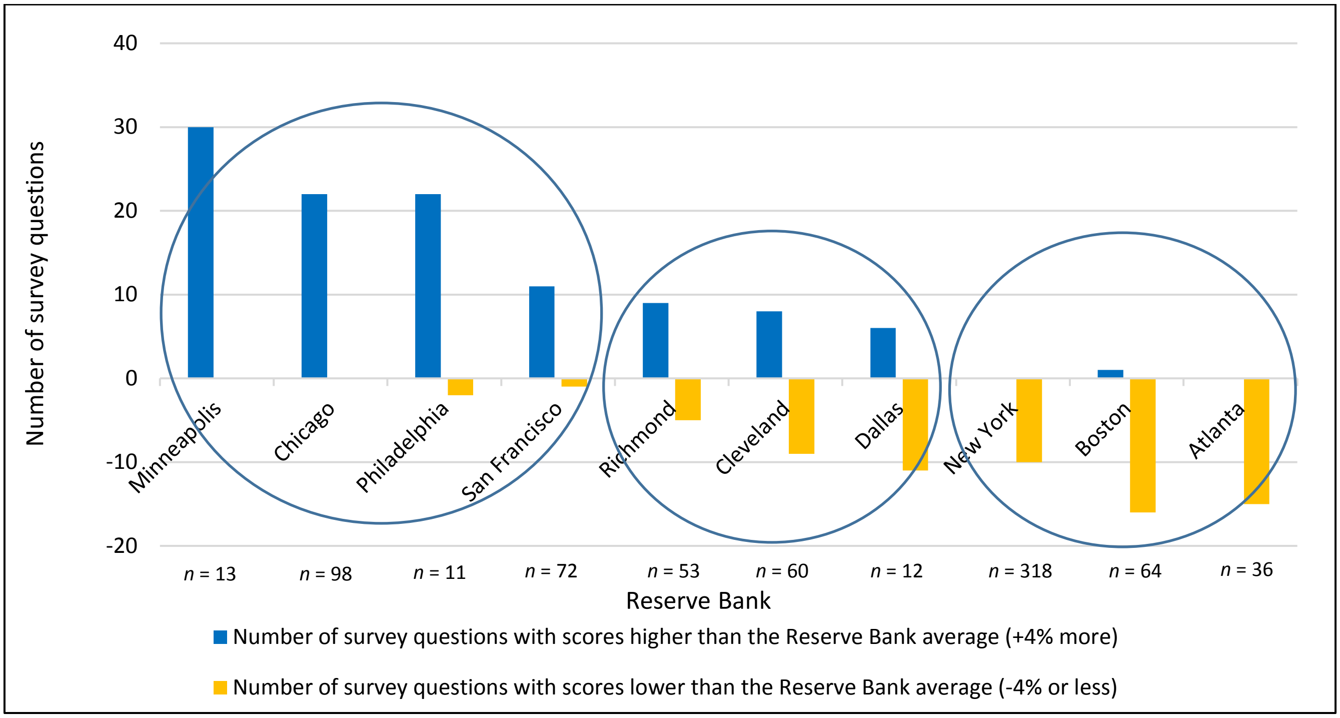
Our analysis of the detailed survey results revealed significant variability by Reserve Bank. Figure 2 reflects the Reserve Bank totals for questions with positive and negative variances according to the vendor's measure of significance, which is plus or minus 4 percent from the System averages.[27] As shown in this figure, our survey results revealed three separate clusters of Reserve Banks:

- those with predominantly above-average survey results—Minneapolis, Chicago, Philadelphia, and San Francisco (the first cluster of Reserve Banks)
- those with a blend of above-and below-average results—Richmond, Cleveland, and Dallas (the second cluster of Reserve Banks)
- those with predominantly below-average results—New York, Boston, and Atlanta (the third cluster of Reserve Banks)

26. The Board's aggregate favorable responses to the same question in both engagement surveys also lagged the vendor's global norm. We acknowledge that this aggregate of survey data for BS&R includes survey results for the entire division and is not limited to BS&R employees working on LISCC and LBO matters.

27. When comparing the averages of a Reserve Bank's responses for each survey question to the average of all responses to that question, the survey vendor highlighted differences greater than 4 percent. When the Reserve Bank's response was more than 4 percent higher than the average of all responses, our survey vendor highlighted those questions as areas to investigate further. When a Reserve Bank's responses were more than 4 percent below the average of all responses, our survey vendor highlighted that question as an area for the Reserve Bank to improve. The survey vendor generated the System average for each question based on a simple average of favorable responses from all survey respondents.

Figure 2: Number of Reserve Bank Survey Question Responses With Scores That Were 4 Percent Above or Below the Average for All Reserve Bank Large Financial Institution Supervision Respondents[a]



Source: OIG analysis of OIG survey results.

Note: This comparison of the Reserve Banks' survey results is based on 31 of 38 Likert-scale questions from the survey. We excluded 6 questions because those questions did not contain a *not applicable* response option, even though that response would likely have been most appropriate for many respondents. We also excluded one question that may have been prone to misinterpretation. See appendix C for the response rate for each Reserve Bank.

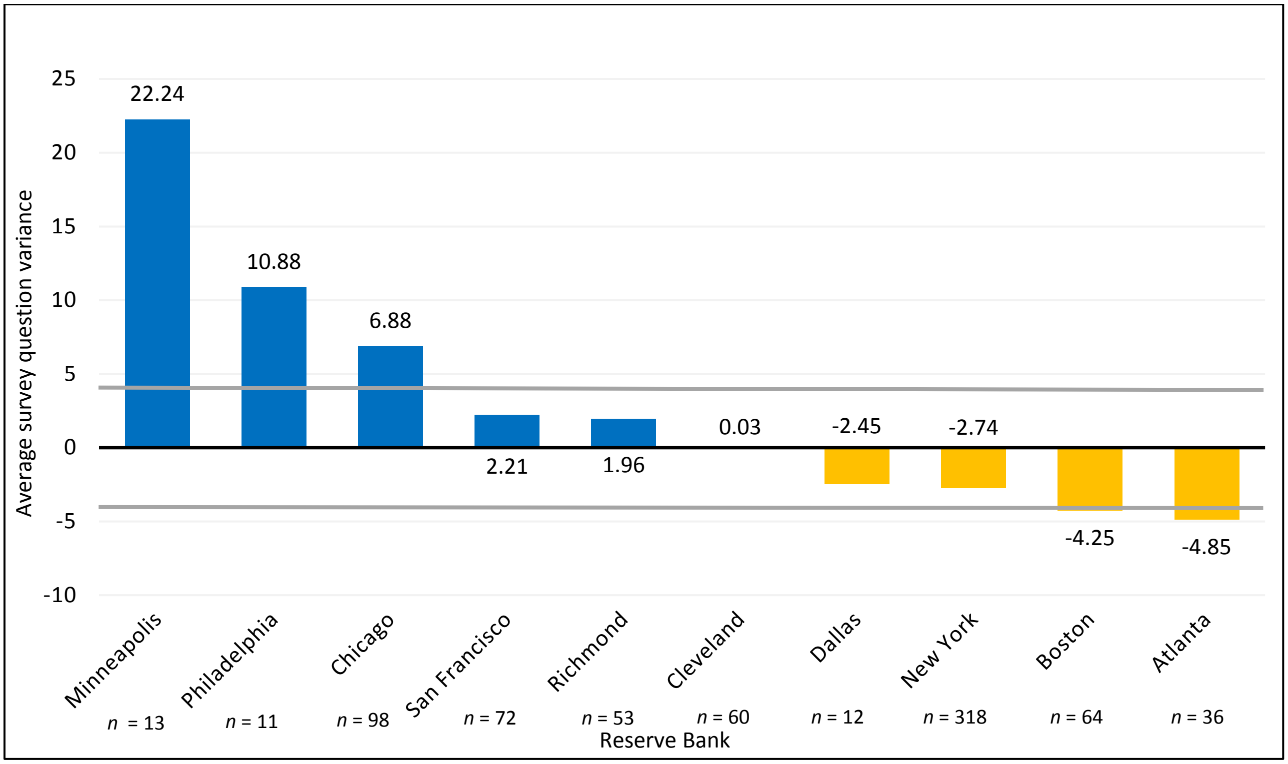
n number of survey respondents from the associated Reserve Bank.

[a]The survey was only sent to Reserve Bank employees who supervise large financial institutions.

Figure 3 builds on the data provided in figure 2 by illustrating the average variance between each Reserve Bank's survey responses and the System averages across all survey respondents for the 31 Likert-scale survey questions.[28] Figure 3 reinforces how positive the results were for three of the four Reserve Banks in the first cluster and also shows that FRB Boston's and the Federal Reserve Bank of Atlanta's (FRB Atlanta) average variance exceeded the measure of significance by less than 1 percentage point. Through the survey and our interviews, we sought to determine whether leaders from Reserve Banks in the first cluster exhibited any specific behaviors or used any approaches that make employees feel comfortable sharing views.

28. We considered *agree* and *strongly agree* responses as favorable responses in compiling figures 2 and 3.

Figure 3: Average Variance Between Reserve Bank Large Financial Institution Supervision Employee Survey Responses and the Average for All Responses[a]



Source: OIG analysis of OIG survey results.

Note: Our survey vendor considers questions above or below the average by 4 percent to be significant. The two gray lines represent these measures of significance.

n number of survey respondents from the associated Reserve Bank.

[a]Our survey was only sent to Reserve Bank employees who supervise large financial institutions.

Below we describe leadership approaches employed at two Reserve Banks, Minneapolis and San Francisco, that appear to be successful in encouraging employees to speak up.[29]

Frequent Interactions and Team Size Contribute to FRB Minneapolis's Favorable Survey Results

Our interviews revealed that FRB Minneapolis supervisory employees have a high degree of trust in their senior leaders, in part because of the relationships that have developed over lengthy tenures at the Reserve Bank and because the team's physical space is in close proximity to those leaders, which facilitates frequent interactions. Interviewees also indicated that FRB Minneapolis leaders communicate with employees in an open and transparent manner and explain the rationale for decisions when management disagrees with a team member's potential findings.

29. We focused on these two Reserve Banks because FRB Minneapolis had the most favorable survey results and FRB San Francisco was the only first-cluster Reserve Bank that we visited.

FRB Minneapolis employees also acknowledged team size as a factor affecting their willingness to share. These employees were assigned to a relatively small team. During our interviews with other Reserve Bank employees, we learned that communication among team members becomes increasingly challenging as teams become larger and more hierarchical. For example, one LISCC team in our sample grew from 8 members in 2007 to about 30 in 2015. Although this team had been holding regular team meetings, as the team grew, such meetings became unmanageable. Practices that may encourage employees on smaller teams to share their views may become less effective as team size increases and more managers are added. A structure with numerous managers and leaders has a greater need for each of those managers to operate in a consistent manner to engender positive team dynamics and a willingness to share.

Senior Leadership Behaviors Contribute to FRB San Francisco's Favorable Results

FRB San Francisco has also implemented some successful strategies to encourage employees to share their views. In assessing our interview and survey results for FRB San Francisco, we noted an apparent correlation between the head of supervision's conscious efforts to develop relationships with employees through frequent interaction and the Reserve Bank's positive scores on our survey tool. During our interviews, some FRB San Francisco employees mentioned that the head of supervision uses various measures to encourage employees to share their views, including holding breakfast meetings with new employees, praising employees who raise divergent views in emails to FRB San Francisco supervision employees, and visiting supervisory team employees in Reserve Bank branch locations to build relationships and foster open communication.

FRB San Francisco's survey results appear to illustrate the value of these efforts. Ninety percent of FRB San Francisco's employees who are responsible for supervising LISCC firms and LBOs (72 of 80 employees) responded to our survey, which was the highest response rate of the four Reserve Banks that supervise one or more LISCC firms. Further, FRB San Francisco respondents exceeded the System average by more than 4 percent on six key survey questions relating to communication and the sharing of thoughts and opinions; two of those questions exceeded the System average by at least 10 percent (table 1). The survey results for these six questions for all Reserve Banks in our survey are available in appendix D.

Table 1: Selected Survey Responses for FRB San Francisco Compared to the Reserve Bank Average

Survey question	FRB San Francisco (percent)	Reserve Bank average (percent)	Difference (percent)
It is safe to speak up at the Federal Reserve Bank.	76.4	71.8	4.6
I feel comfortable raising my thoughts and opinions, including constructive criticisms, in the presence of Federal Reserve Bank management.	69.4	62.1	7.3
When making supervision decisions, Federal Reserve Bank management is open to a variety of opinions and employee input.	70.8	64.7	6.1
Federal Reserve Bank management encourages employees to share their thoughts and opinions, including constructive criticisms, regarding supervision matters.	80.6	76.0	4.6
Federal Reserve Bank management communicates the rationale for supervision decisions to staff.	70.8	58.5	12.3
Federal Reserve Bank management communicates honestly.	69.4	59.4	10.0

Source: OIG analysis of OIG survey results.

We interpreted these positive responses as evidence that senior FRB San Francisco leaders establish the tone for their organization and that the conscious efforts of individual senior leaders can make a difference in developing an inclusive culture that fosters the sharing of views. One of the *Harvard Business Review* articles we reviewed supports the notion that leadership initiative may have an effect on employees' comfort in sharing views and suggests that leaders "initiate more one-on-one, casual conversations so that your people have more ways to express their views. An open door policy is important . . . but stop waiting for people to come to you—go out and ask them yourself."[30]

Employees' Willingness to Share Views Varies by Supervision Team Within a Reserve Bank

Our survey results also revealed that employee comfort levels in sharing views differed by team at all Reserve Banks with more than one LISCC or LBO examination team. We interpreted these results as further evidence that individual leadership approaches contribute significantly to employees' willingness to share. Our evaluation results demonstrate that certain teams have particularly effective team dynamics and certain team leaders have succeeded in fostering an environment that encourages the sharing of views, while other teams at the same Reserve Bank have been less successful. We attribute this variability to differences in leadership and management approaches among the senior leaders and managers of those specific supervision teams. As an example, during our visit to FRB New York, interviewees from two supervisory teams described distinctly different work environments.

30. Rebecca Knight, "How to Get Your Employees to Speak Up," *Harvard Business Review*, October 2014, https://hbr.org/2014/10/how-to-get-your-employees-to-speak-up?cm_sp=Article-_-Links-_-Top%20of%20Page%20Recirculation# (accessed January 11, 2016).

FRB New York Team 1

One of the New York–based supervision teams exhibited productive team dynamics and created and fostered an open environment that encourages the sharing of views. Interviewees described some reasons why this team is successful in creating an open environment; we summarize these reasons below.

- **One-team approach.** We noted that employees generally praised the team's leaders for the positive team dynamics and communication. Employees on this team attributed the openness of communication to the team's one-team philosophy and the senior leaders' approach to running the team. Certain supervisory teams at FRB New York include core team members who report solely to team leadership, as well as embedded risk specialists who have a dual reporting relationship to team leadership and leadership of the risk group. We learned that this particular team's management has made a conscious effort to break down organizational silos by encouraging and expecting the sharing of information between and among core team members and the risk specialists. This one-team approach differed from other FRB New York teams that evidenced more of a divide between dedicated team members and risk specialists. One senior-level interviewee who has participated on many different FRB New York supervision teams noted that the one-team approach has fostered a level of collaboration and cohesion that was not common on other FRB New York teams.

- **Open-concept office space.** Members of this team also attributed the team's success in developing productive team dynamics to its physical space and open-concept, trading floor–style design. This particular team participated in a pilot program at FRB New York that sought to improve the communication on supervisory teams by designing a supervisory team workspace that placed employees and managers in close proximity. Further, interviewees indicated that the open-concept floor plan helps to keep all team members aware of recent developments and makes managers more accessible. Another interviewee said that the floor plan allowed individuals on the team to learn more about each other and build trust.[31] We reviewed recent research that acknowledges that both proponents and opponents of open-concept floor plans make valid points in support of their position.[32] Nevertheless, we believe that in the context of large-team collaboration, the open-concept floor plan appears to be a contributing factor to Team 1's positive dynamics. The positive feedback that we received from these team members supports the notion that open-concept floor plans offer potential benefits for large-team collaboration.

- **Inclusive culture fostered by leadership.** We also attributed this team's success to the conscious efforts made by the team leaders to develop and foster an inclusive culture. We believe that frequent, in-person interactions and ready access to senior leaders help to make connections and build the trust necessary to make employees feel comfortable

31. We noted that FRB New York conducted an extensive study of the costs and benefits of open-concept floor plans prior to making the decision to renovate its work space. FRB New York reviewed more than 50 studies on open-concept floor plans that were written from 1970 to 2013. FRB New York employees who sat in the renovated space generally rated their work experience more positively than their peers who did not sit in the open space.

32. Maura Thomas, "4 Organizational Mistakes That Plague Modern Knowledge Workers," *Harvard Business Review*, May 2016, https://hbr.org/2016/05/4-organizational-mistakes-that-plague-modern-knowledge-workers (accessed May 31, 2016).

sharing their views. Further, interviewees noted that the team's managers allowed employees to offer their opinions on supervisory matters before offering their own perspectives. Interviewees told us this behavior helped employees to feel comfortable sharing their views.

FRB New York Team 2

Some interviewees from another FRB New York supervision team stated that they were reticent about sharing views, and they were critical of team dynamics. We noted a distinct difference in the themes discussed during these interviews compared with the 10 other teams that we met with during our four Reserve Bank site visits. This interview feedback aligned with the survey results, as this team had the lowest average survey scores of the 32 supervisory teams Systemwide that had enough respondents for team-specific data to be compiled.[33] For example, 50 percent of respondents from this team indicated that they feel safe to speak, versus 67 percent for FRB New York overall. Additionally, the survey responses indicated that approximately 17 percent of respondents from this team felt that Reserve Bank management highly valued their thoughts and opinions, versus about 51 percent for FRB New York overall. We note that about 55 percent of the employees on this team responded to our survey, compared to an 80-percent response rate for Team 1.

As a result of the survey feedback, we decided to meet with as many current and former members of this team as possible to better understand the results. Some members of this team requested representation by outside counsel. Because we needed to speak to these supervisory team members to understand the unique dynamics of this team, we proceeded with those interviews.[34] Of the 18 current and former Team 2 employees we interviewed, 4 exercised the option to be represented by attorneys during the interviews.

During our interviews of Team 2 employees and managers, we heard three recurring themes that may help to explain the team's below-average survey results: fear of retaliation, restricted access to the firm, and leaders prioritizing relationship building with the firm.

- **Fear of retaliation.** More than one-fourth of the team members we interviewed indicated that they will not, or did not, share their views because they fear, or feared, retaliation by team management.[35]

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33. According to our survey vendor, at least six team members must respond to protect individuals' anonymity. Team 2 had the lowest average survey scores for the 31 questions used to compile figure 2. Six survey recipients from Team 2 responded to our survey.

34. For more information, see appendix A.

35. In presenting the team member commentary from these interviews, we include dedicated team members or embedded risk specialists assigned to the team from January 1, 2012, through when we conducted our interviews. We do not include our interviews with the team's senior leaders in calculating the number of interviews with current and former team members. We interviewed four current and former senior leaders on this team.

- **Restricted access to the firm.** Team members explained that leaders restricted their access to the supervised firm's management. Many of the relevant interviewees noted that these restrictions had a negative effect on their morale and affected their ability to perform their job duties. One leader on this team presented a possible explanation for this perception. The team leader described a meeting with the supervised firm's management in which an employee's inadequate preparation resulted in the firm having to explain more than should have been necessary. In this situation, it was not clear whether the supervisor provided the employee with feedback about effective meeting preparation or explained this situation as a lesson learned for the team's benefit.

- **Prioritizing relationship building with the firm.** Two team members indicated that discovering weaknesses at the firm would interfere with senior leaders' relationship-building efforts with firm management. One team leader explained why a team member might have this perception. The team leader explained that it can be challenging to transition industry hires to their new role as regulators because those employees may initially raise issues of marginal significance and not understand how to present potential issues to firm management. As those employees become more experienced, they learn how and when to raise issues to the firm.

Although we could not definitively conclude on the accuracy of the team member or team leader perceptions, explaining the rationale for why decisions are made might help to prevent employees from developing their own narrative for why leaders decided to take, or not take, a certain action.

Five Root Causes for Employee Reticence to Share Views

Through the results of our survey, our interviews, our site visits, and our review of the academic research, we identified the following root causes for employees' reticence to speak up:

1. the need for management to solicit employee views more frequently
2. the need for improved relationships between Reserve Bank employees and System decisionmakers
3. the fear of retaliation during the performance management process
4. the perception that no action would be taken
5. the expectation that employees must have complete confidence in their viewpoint before speaking

The following sections describe the root causes we identified in more detail and our thoughts for addressing those issues.

The Need for Management to Solicit Employee Views More Frequently and the Need for Improved Relationships Between Reserve Bank Employees and System Decisionmakers

As a part of our survey, we asked respondents a pick-list question that allowed them to identify which items among eight alternatives would most increase their willingness to share thoughts and opinions, including constructive criticisms. Survey respondents from the six Reserve Banks in the second and third clusters all identified *leaders actively seeking thoughts and opinions* as one of the top two alternatives (table 2). Respondents from five of the six Reserve Banks in these clusters identified *better relationship with System decisionmakers* as one of the top two improvement opportunities.

Table 2: Top Responses to What Would Most Improve Employees' Willingness to Share Thoughts and Opinions at Certain Reserve Banks[a]

Top staff responses	Reserve Bank (only listed if the associated response was one of the top two most selected for this question)	Response percentage (out of 100)
Leaders actively seeking thoughts and opinions	Boston	39.1
	Atlanta	38.9
	Cleveland	23.3
	Richmond	22.6
	New York	21.4
	Dallas	16.7
A better relationship with System decisionmakers	Richmond	28.3
	New York	25.2
	Boston	20.3
	Atlanta	16.7
	Dallas	16.7
Clearer expectations from Reserve Bank management regarding the importance of sharing opinions	Dallas	25.0
	Cleveland	20.0

Source: OIG analysis of OIG survey results.

[a]Our survey was only sent to Reserve Bank employees who supervise large financial institutions.

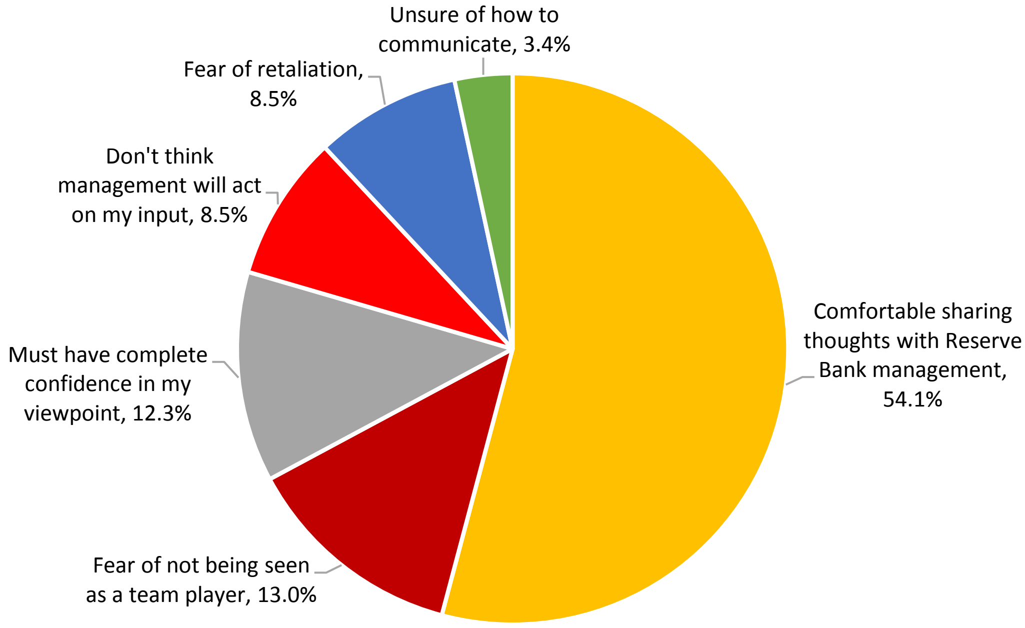
Additional deliberate efforts to interact with employees in an inquisitive manner and build relationships with employees throughout the chain of command may help to increase their willingness to share. We learned that Reserve Bank employees need more opportunities to interact with Board employees to develop relationships and increase their comfort with openly sharing views. For example, some Board analysts interact with supervision teams more often and more directly than others. The Board analysts we interviewed approached their roles differently. Some traveled to meet with the supervision team on a regular basis, and some regularly participated on supervision activities with the team. Others had less frequent in-person interaction with the team. Some Reserve Bank team members told us that their interaction with Board analysts consisted of the Board analysts participating on phone calls with team leaders and providing input to the team on behalf of the Board during the planning process, the annual assessment and rating, and the consideration of enforcement actions. More frequent interaction between supervision teams and Board analysts and the leaders of the Board's supervision activities may help to develop better relationships and build trust, especially for Board analysts assigned to LBOs.[36]

The Fear of Retaliation During the Performance Management Process

Our survey results and interviews indicated that employees' perceptions about the performance management and promotion processes also contribute to employees' reticence to share views. In analyzing the results in figure 4, we associated the fear of retaliation and the fear of not being seen as a team player as variations of similar responses with differing degrees of severity. Aggregating the System average for these two response options resulted in 21.6 percent—or more than 150 respondents—who connected their unwillingness to share their views to the performance management process.

36. During our evaluation, we learned that the role of the Board analyst for LISCC firms had evolved. Board analysts for LISCC firms now focus on a function or risk area, whereas they previously focused on a single institution. Board analysts for LBOs continue to focus on a single institution.

Figure 4: Aggregate Responses on Large Financial Institution Supervision Employees' Willingness to Share Views With Reserve Bank Management



Source: OIG analysis of OIG survey results.

Note: Percentages do not total 100 due to rounding.

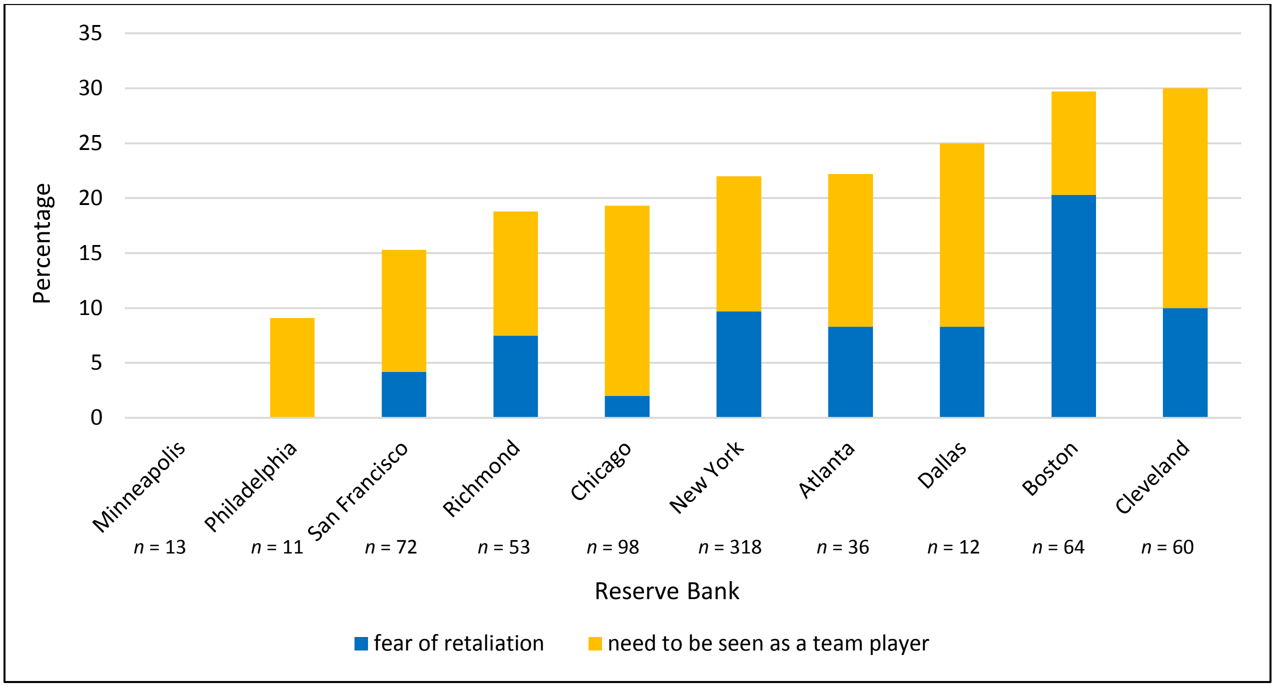
Many interviewees and survey respondents at various Reserve Banks indicated that they do not challenge the views of management because they believe doing so will negatively affect their performance ratings and advancement prospects. Many survey respondents at various Reserve Banks also observed that those who agree with management are more likely to be promoted. The language used by such respondents in these narrative comments evidenced how deeply rooted the lack of trust is between certain employees and their management.

We also found that some employees perceived that certain leaders and managers used the performance review process to stifle employees' viewpoints. Interviewees explained that they received vague feedback on their performance appraisal that focused on broad and amorphous concepts, such as "collaboration" and "being a team player." When such feedback is not supported by specific examples, it can reinforce the notion that employees must agree with management to further their careers. In this respect, specific and actionable feedback on an individual's performance, as well as transparency surrounding the criteria for advancement, might help to increase employees' willingness to share.

There is also a perception among some employees that Reserve Bank and System leaders have long memories and that providing a divergent view can cast an individual in a negative light that is difficult to overcome. Significant effort will be required to change the perception that speaking up is a career-limiting move. Recognizing and rewarding employees who speak up may send clear signals to employees about the behaviors that leaders appreciate, as well as help to dispel organizational myths.

Figure 5 illustrates the percentage of respondents, by Reserve Bank, who noted a fear of retaliation or not being seen as a team player as the biggest obstacle to sharing views. We sought to understand FRB Boston's results further by examining the open-ended narrative responses provided by employees. For FRB Cleveland, we reviewed our interview results and the open-ended narrative responses to shed light on the results.

Figure 5: Percentage of Survey Respondents Who Selected Obstacles to Sharing With Reserve Bank Management That Were Linked to Performance Management or Career Progression[a]



Source: OIG analysis of OIG survey results.

n number of survey respondents from the associated Reserve Bank.

[a]Our survey was only sent to Reserve Bank employees who supervise large financial institutions.

FRB Boston had the highest percentage of respondents who fear retaliation from Reserve Bank management. Many of the narrative comments from FRB Boston's survey respondents questioned the sincerity of management's efforts to seek alternative views. For example, the narrative comments indicated that management solicits staff's views as a formality but may make decisions before soliciting input. We think that this theme evidences a lack of trust between employees and Reserve Bank management, which may help to explain FRB Boston's position in the third Reserve Bank cluster in figure 2.

The Reserve Banks in the third cluster, including FRB Boston, generally had the highest percentage of employees with four or fewer years of experience, which may contribute to this lack of trust. Through our interviews at other Reserve Banks, we learned that teams with people who had worked together longer generally felt more comfortable sharing views, given the trust developed over time. Accordingly, Reserve Banks with new staff or fluid supervision teams need to make concerted efforts to develop the trust necessary to foster open communication.

The narrative responses to the survey also helped to explain the high percentage of FRB Cleveland respondents who noted the need to be seen as a team player. In response to the open-ended survey question concerning additional obstacles to sharing views with Reserve Bank management, 8 of 27 FRB Cleveland respondents mentioned, among other variations on similar themes, career repercussions, fear of retaliation, or going along to get along.

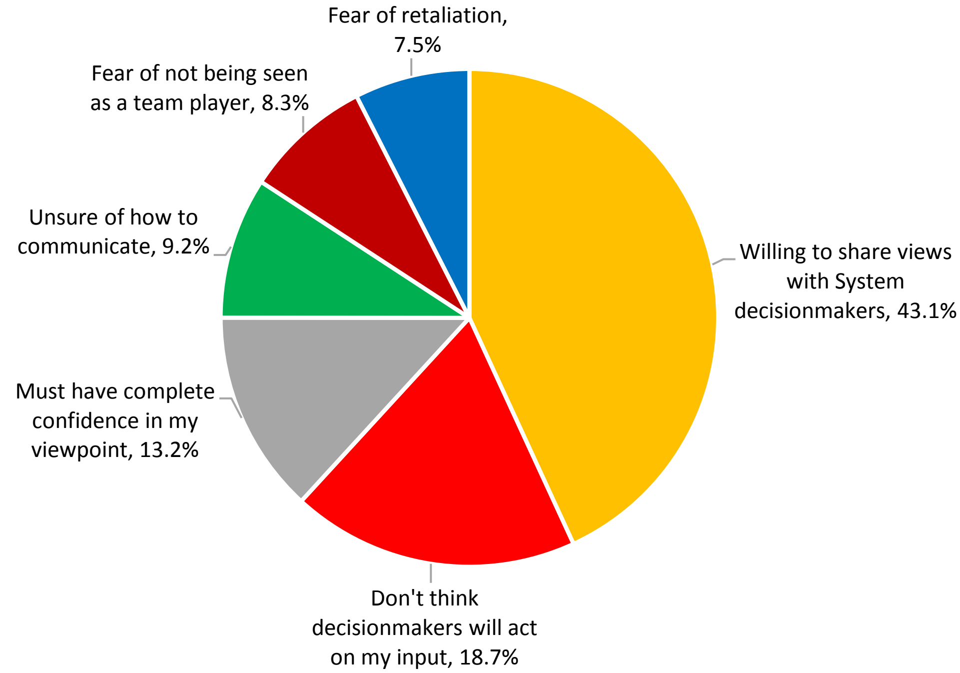
Fear of Retaliation or the Need to Be Seen as a Team Player May Affect the Escalation of Issues to Decisionmakers

Although it is difficult to quantify the possible effect of the need to be seen as a team player, there is a risk that the fear of retaliation or the need to be seen as a team player could affect the flow of information to decisionmakers. Interviewees described two instances in which an examiner received clear guidance from team leaders about the need to detect findings on specific examinations. During the planning process for one of these examinations, an examiner indicated that the examination coordinator specified the degree of severity for the findings that an examination team needed to detect. In that instance, the examiner noted that the guidance from the coordinator may have had some merit, but the examiner was surprised to receive this directive before performing the examination work. If the recipient of such a directive feels the pressure to be perceived as a team player or fears retaliation from someone who can influence his or her performance rating, it may affect that employee’s willingness to escalate his or her view about the situation to higher-level decisionmakers. The potential for such occurrences highlights the need for additional escalation channels to the LISCC OC and to the LBO MG, as described in Finding 4 below.

The Perception That No Action Would Be Taken

We identified the futility perception, particularly with respect to sharing views with System decisionmakers, as an additional root cause of employee reticence. Figure 6 highlights that 18.7 percent of survey respondents did not share their views because of the futility perception—they did not think that System decisionmakers would act on their input.

Figure 6: Large Financial Institution Supervision Employees' Willingness to Share Views With Federal Reserve System Decisionmakers



Source: OIG analysis of OIG survey results.

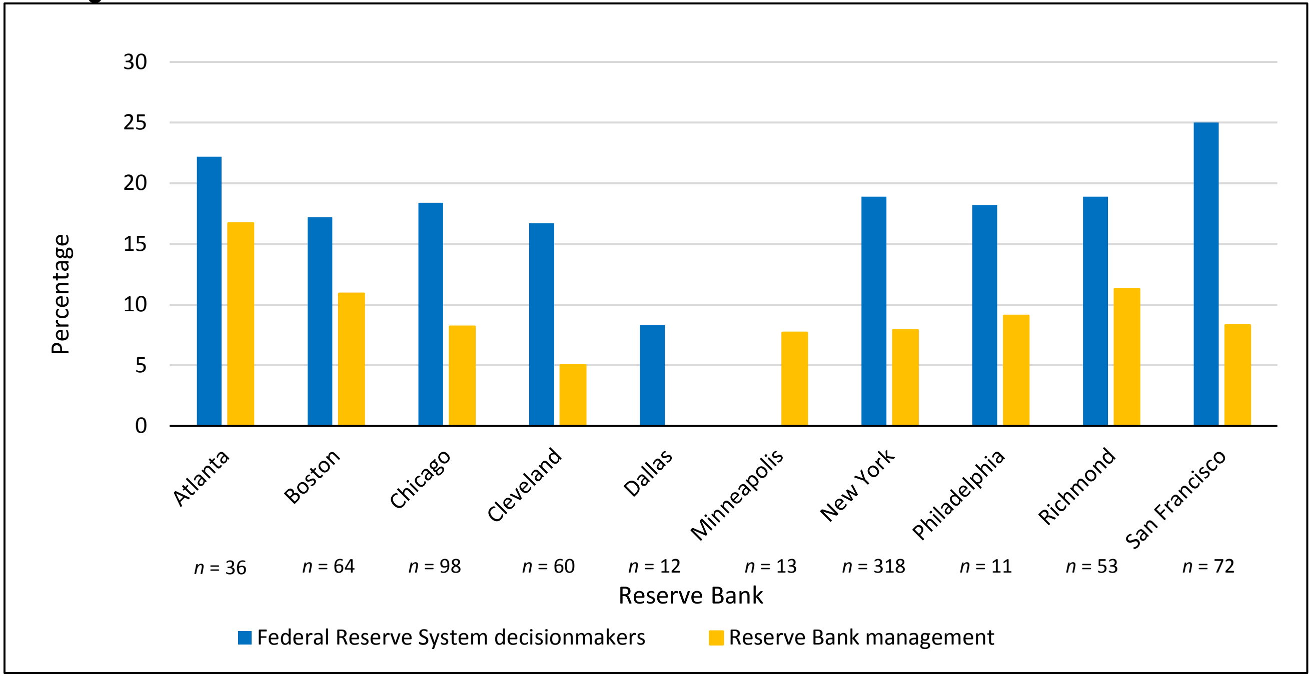
As might be expected, we determined that employees' comfort level and willingness to share decreases as they interact with higher levels of the organization. Reserve Bank employees felt least comfortable sharing their views with the LISCC OC and LBO MG. In contrast, most employees felt comfortable sharing their views with their immediate supervisor. According to our survey results,

- 84.1 percent of employees indicated that they are comfortable expressing their thoughts and opinions, including constructive criticisms, in conversations with their manager
- 54.1 percent of employees felt comfortable sharing their thoughts and opinions with Reserve Bank management
- 43.1 percent of employees felt comfortable sharing their thoughts and opinions with System decisionmakers[37]

As figure 7 illustrates, this futility perception is more prominent at the System decisionmaker level for all but one Reserve Bank. We noted that the FRB San Francisco and FRB Atlanta survey responses exceeded 20 percent for the futility perception with System decisionmakers.

37. Our survey did not include a pick-list question for comfort level in sharing views with the employee's manager, so we chose to make a blended comparison. The first bullet in the list is a Likert-scale question, and the second and third bullets are pick-list questions.

Figure 7: **Percentage of Respondents by Reserve Bank Who Selected a Lack of Action on Their Input From Reserve Bank Management and System Decisionmakers as the Biggest Obstacle to Sharing Views[a]**



Source: OIG analysis of OIG survey results.

n number of survey respondents from the associated Reserve Bank.

[a]Our survey was only sent to Reserve Bank employees who supervise large financial institutions.

Our interviews and the open-ended responses to our survey revealed that some FRB San Francisco employees perceive a culture of deference to senior officers and System decisionmakers. FRB Atlanta survey respondents also raised concerns about management at their Reserve Bank, not just System decisionmakers. In their open-ended responses to our survey, some FRB Atlanta respondents indicated that Reserve Bank management does not value employees' opinions and makes decisions either in advance of receiving employee input or regardless of the input.

Improved Transparency Around Decisionmaking May Increase Supervision Employees' Willingness to Share

We found that supervision employees were more reticent to share views with the LISCC OC than the LBO MG and that a perceived lack of transparency around the LISCC OC's decisionmaking likely exacerbates this reticence. We compiled the survey results for a series of questions related to sharing views with System decisionmakers for members of LISCC firm teams and compared those to the results of LBO team members (table 3).[38] The results reveal that Reserve Bank supervision employees assigned to LBO teams felt more comfortable sharing their views with

38. This analysis only includes responses from LISCC firm and LBO team members assigned to teams that had at least six respondents to our survey.

members of the LBO MG than their LISCC firm team counterparts did sharing with the LISCC OC. On two key questions related to considering staff opinions and establishing clear expectations for staff to share their thoughts and opinions, including constructive criticisms, LBO team member favorable responses exceeded LISCC firm team members' favorable responses by more than 20 percentage points. In addition, in response to a question seeking to determine whether team members discuss the range of options with System decisionmakers when there is a close call on a supervision matter, LBO team member favorable responses exceeded LISCC firm team member favorable responses by nearly 10 percentage points.

Table 3: Comparison of Responses to Selected Survey Questions by Portfolio

Survey question	LISCC firm team member average (percent)	LBO team member average (percent)
I feel comfortable challenging Federal Reserve System decision makers with my thoughts and opinions, including constructive criticisms.	46.5	51.2
There are adequate channels for supervision staff to share their thoughts and opinions, including constructive criticisms, with Federal Reserve System decision makers.	38.7	52.7
Where there is a close call on a supervision matter, we discuss the range of options with Federal Reserve System decision makers.	59.9	69.8
The LISCC OC establishes clear expectations for participants to share their thoughts and opinions, including constructive criticisms, regarding supervisory matters.	39.4	n.a.[a]
The LBOMG establishes clear expectations for participants to share their thoughts and opinions, including constructive criticisms, regarding supervisory matters.	n.a.[b]	66.5
The LISCC OC adequately considers supervisory staff's thoughts and opinions, including constructive criticisms, regarding supervisory matters.	35.7	n.a.[a]
The LBOMG adequately considers supervisory staff's thoughts and opinions, including constructive criticisms, regarding supervisory matters.	n.a.[b]	59.3
I am comfortable sharing my thoughts and opinions, including constructive criticisms, with the LISCC OC.	50.7	n.a.[a]
I am comfortable sharing my thoughts and opinions, including constructive criticisms, with the LBOMG.	n.a.[b]	66.0
Total number of respondents by portfolio team type	142	205

Source: OIG analysis of OIG survey results.

Note: This table includes responses from 142 LISCC firm team respondents and 205 LBO team respondents, for a total of 347. This is less than the total number of survey respondents (737) because it does not include Reserve Bank officers who are not assigned to specific teams, risk specialists who are not embedded on a specific team, team members assigned to dedicated teams that had less than 6 survey respondents, and risk specialists assigned to the FRB New York risk teams. Some survey respondents were assigned to LBO teams with fewer than 6 respondents and thus are not reflected in this table. Also, FRB New York combined the employees assigned to 9 foreign banking organizations into one category, although 2 of those firms participate in the LBO MG. Responses from employees assigned to those 2 firms are not reflected in this table.

n.a. not applicable.

[a]The LBO team member average column is not applicable for the questions related to the LISCC OC because LBO team members do not interact with the LISCC OC.

[b]The LISCC firm team member average column is not applicable for the questions related to the LBO MG because LISCC team members do not interact with the LBO MG.

These results appear consistent with the fact that the LISCC OC is a decisionmaking body and the LBO MG is not, as well as the LISCC OC's transition to a more centralized approach to supervision planning by establishing priorities for Reserve Bank supervisory activities. We heard that Reserve Bank supervision employees share a frustration about the diminished autonomy afforded to the onsite supervisory team because of this transition. Additionally, a senior official described confusion about who has the final decisionmaking authority for the supervision of LISCC firms, and another interviewee explained that LISCC team members are not sure who has the authority to make decisions for LISCC firms and how concerns for LISCC firms should be escalated.

Given the concerns about the lack of transparency surrounding decisionmaking processes, the System will likely benefit from defining roles and responsibilities for decisions related to key aspects of supervisory decisionmaking. This framework could be tailored to specific processes and supervisory activities and would provide employees with a clear sense of how and when they should be offering input, and what they should expect from leaders in terms of explaining the rationale for the eventual decision. A peer federal financial regulator developed a similar decisionmaking framework that outlines how decisions are made during various steps in the supervisory process.

The Expectation That Employees Must Have Complete Confidence in Their Viewpoint Before Speaking

Figures 4 and 6 reveal our fifth root cause—how confidence in one's viewpoint affects willingness to share. In figure 4, 12.3 percent of respondents noted that they feel they must have complete confidence in a viewpoint before sharing it with Reserve Bank management, and figure 6 shows a similar response of 13.2 percent for System decisionmakers.

Our interviews helped to shed some light on this root cause of employee reticence. Specifically, those conversations, in addition to survey results, revealed that at certain Reserve Banks, managers appear to set the bar high for their willingness to engage with employees to discuss possible issues. Manager interviewees emphasized the importance of employees doing their homework before expressing a view. Supervisory team member interviewees described their awareness of this expectation, and the survey results reveal employees' reluctance to share until that preparation standard has been met.

Our survey and interview results reveal a challenge in this environment—a manager's conscious or unconscious willingness to listen to an employee appears to relate to the adequacy of the employee's preparation. Although we recognize the importance of effective preparation, this standard may prolong the period between the identification of a potential issue and the escalation of that issue to the appropriate decisionmaker. The academic literature we reviewed suggests that the length of time between identification and escalation of an issue can be a telling measure of an organization's effectiveness.[39]

During an interview conducted as part of a prior evaluation, a former supervision official highlighted the risk associated with employees remaining reticent and delaying escalation until

39. Knight, "How to Get Your Employees to Speak Up," p. 2.

they gathered all the necessary information to support a particular viewpoint. This former official emphasized the need for supervision employees to follow their instincts and trust their judgment.

One senior manager indicated that some employees put forth too many views that are not well thought out and that junior employees may not have sufficient experience to develop a view. In one *Harvard Business Review* article we reviewed, a behavioral science expert notes that lack of receptiveness to input from junior employees may be a natural inclination:

> Where we see ourselves on the social ladder sets the default for how much attention we pay [to others]. This should be a warning to top executives, who need to respond to fast-moving competitive situations by tapping the full range of ideas and talents within an organization. Without a deliberate shift in attention, their natural inclination may be to ignore ideas from the lower ranks.[40]

In our opinion, Reserve Bank management and System decisionmakers should be aware of this natural inclination and calibrate their behavior to reflect openness and a willingness to hear employees' views, even those that are not fully developed. We acknowledge that the timing and appropriateness of sharing a view is highly contextual and that the expectations for sharing views in supervisory team meetings are likely different from those for sharing views in meetings with senior officials. Nevertheless, we think that openly discussing ideas within the supervisory team when the ideas are still conceptual might help to determine which of these ideas are worth pursuing. Such an approach would also allow team leaders to provide feedback on ideas while they are still conceptual.

Some Managers Are Not Consistently Modeling a Willingness to Challenge Up

Another factor that may contribute to the futility perception is that some employees look to their managers for cues about whether, and how, to share their thoughts and opinions. One interviewee indicated that some senior managers in the interviewee's reporting line do not appear comfortable challenging up the chain of command and modeling candor. A survey respondent at another Reserve Bank noted a lack of comfort discussing views with a specific senior official at the Reserve Bank and that even senior managers seem uncomfortable disagreeing openly with that official. Our research suggests that employees in hierarchical organizations may be keenly aware of the degree to which their intermediate manager is willing to challenge the senior leader and may take their cues from the intermediate manager. One article suggests to leaders that "[you] lose moral credibility with your team if you're not taking risks with your boss. . . . Your willingness to run issues up the food chain will make employees more apt to come to you in the first place."[41]

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40. Daniel Goleman, "The Focused Leader," *Harvard Business Review* 91, no. 12 (December 2013): 50–60. *Business Source Elite*, EBSCOhost (accessed March 31, 2016).

41. Knight, "How to Get Your Employees to Speak Up," p. 3.

Summary

Our results suggest that increasing employees' comfort level in sharing their views is a multifaceted challenge. Despite this apparent complexity, our review of academic research and our survey and interview results highlight the prominent role that leadership and management approaches play in influencing employees' comfort level sharing views. We noted a series of improvement opportunities for Board, Reserve Bank, and supervision team leaders. Addressing these improvement opportunities will likely increase employees' willingness to share their views and improve the flow of information to decisionmakers.

Recommendations

We recommend that the Director of BS&R

1. Encourage BS&R and the Reserve Banks to enhance efforts to address the reasons that employees involved in large financial institution supervision choose not to share their views by

    a. reinforcing the importance of Board and Reserve Bank decisionmakers and leaders actively soliciting views from employees, explaining the rationale for their decisions to employees, and underscoring the importance of employees sharing their views.

    b. developing an approach to monitor the System's progress toward addressing cultural elements that affect employees' willingness to share their views.

    c. assessing the current dynamics on large financial institution supervisory teams. For those teams that evidence employees' reticence to share their views, develop plans to improve team dynamics.

2. Encourage BS&R and the Reserve Banks to work with their human resources departments to

    a. ensure that performance and incentive compensation criteria for officers and team leaders responsible for large financial institution supervision encourage leadership behaviors and competencies that foster employee willingness to share views.

    b. hold Reserve Bank team leaders accountable to their team by requiring the rating official to gather input from all or a sampling of employees who work for the relevant leader as part of the performance management process.

    c. reinforce the importance of BS&R and Reserve Bank leaders providing specific, ongoing, and actionable feedback to their employees during performance discussions.

d. establish specific, readily accessible behavioral performance criteria for promotions by grade level or position group.

e. explain to employees the individual development opportunities they need to address to achieve promotion.

f. evaluate informal and formal awards and recognition programs and implement necessary improvements to (i) recognize employees who share their views constructively and effectively and (ii) reward employees, managers, and officers when they demonstrate behaviors and traits that lead to open communication, improved organizational health and culture, and increased willingness of employees to share their views.

3. Ensure that System decisionmakers develop

    a. plans to communicate and evidence their receptiveness to input and feedback, including divergent views, and articulate the rationale for decisions regarding the supervision of large financial institutions, including decisions to take no action.

    b. a framework that clarifies the roles and responsibilities of decisionmakers and supervision employees during the LISCC and LBO supervisory decisionmaking processes.

    c. plans to improve communication, information sharing, and trust between Board officials and employees and the Reserve Bank supervisory teams.

4. Encourage the Reserve Banks with responsibility for large financial institution supervision to analyze whether the team's current floor plans, physical space configuration, and collaboration tools foster positive team dynamics, collaboration, and the sharing of information.

Management's Response

In the response to our draft report, the Director of BS&R notes agreement with all of the report's recommendations and highlights instances in which progress has been made to address specific recommendations. For recommendations 1 and 4, he explains that the System is implementing changes to foster more effective team dynamics, including collaboration and the sharing of information and divergent views. He outlines initiatives to foster positive team dynamics identified in the report, including integrating multiple views into decisionmaking processes and outputs, conducting a full census employee survey to measure whether employees feel empowered to share their views, transforming workspaces into more collaborative layouts, implementing a variety of opportunities for staff at all levels to ask questions or raise concerns to Reserve Bank Supervision senior officers, and recognizing and incorporating the benefits of diversity of thought and perspective into developing supervisory judgments.

For recommendation 2, the Director explains that many Reserve Banks are updating performance assessment processes and some of these updates include adding more frequent performance and development discussions to promote ongoing feedback, implementing development plans for employees to ensure they understand the growth opportunities available to them and the actions needed to succeed, and developing a 360-degree feedback process. For recommendation 3, the Director indicates that there are initiatives underway to improve communication and feedback practices among examiners, senior management, and other decisionmakers. The Director also indicates that the System is considering a range of enhancements to facilitate the sharing of feedback throughout the supervisory process. Examples of these enhancements include (1) creating a forum to discuss the results of key components of the supervisory process and to provide feedback and guidance to examiners, (2) establishing more formalized frameworks for the supervisory process, and (3) developing vetting templates to ensure effective documentation of internal discussions around key decisions and divergent views.

OIG Comment

The actions described by the Director of BS&R appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Finding 2: Reserve Bank Leaders Use Several Techniques to Encourage Employees to Share Views but Do Not Have a Forum to Share Best Practices

We identified several leadership behaviors and processes that appear to be particularly effective in helping to convince employees that it is both safe and worthwhile to share their views; however, those activities have not been shared or widely implemented among the Reserve Banks executing the System's supervision program for large financial institutions. An opportunity exists to identify a forum to share and perpetuate best practices among the Reserve Banks. Consistent use of these behaviors and processes throughout the System should result in greater willingness of supervision employees to share their views.

Some Reserve Banks Use Effective Practices to Increase Employees' Willingness to Share Views but Do Not Share Those Practices

Through our survey and our interviews, we found that certain Reserve Bank leaders and specific supervision teams have implemented practices that appear to increase employees' willingness to share their views. We noted, however, that the sharing among Reserve Banks of some of these effective practices appeared to be infrequent and ad hoc. To the extent that it does happen, we noted that the exchange of best practices occurred when a manager left one Reserve Bank to work for another. We believe that sharing best practices among the Reserve Banks will harmonize the execution of the supervision program and improve its effectiveness by increasing employees' willingness to share their views on supervisory matters throughout the chain of command.

We grouped the best practices we identified into two categories: leadership behaviors and processes. Because we did not visit 6 of the 10 Reserve Banks, we acknowledge that this list of best practices is not exhaustive. The best practices identified below may be employed at the 6 Reserve Banks we did not visit, and there may be additional best practices used by those 6 Reserve Banks that we did not identify during our evaluation.

Leadership Behaviors

- **Explaining the rationale for decisions, particularly when management makes command decisions.** When managers explain the rationale for decisions, they help to prevent employees from filling the silence with their own explanations, which can result in organizational myths.

- **Soliciting input before sharing the leader's view.** Employees are more willing to share when leaders solicit employees' views on a matter before providing their own view.[42] This approach drives participation; minimizes the likelihood that employees will conform to the leader's view; and affords leaders the opportunity to consider feedback that may

42. Table 2 reinforces the importance of leaders actively soliciting employee views to increase willingness to share.

test or challenge their view, which could result in leaders modifying their view on the topic.

- **Giving and receiving clear, actionable, real-time feedback effectively.** Employees who receive clear, actionable, and real-time feedback have a better relationship with their manager and were more willing to share their views. Further, managers who are open to feedback from their employees and embrace constructive criticism or challenge increase the likelihood that employees will speak up or challenge that manager when warranted.

- **Recognizing and rewarding (publicly, if possible) those employees who do speak up.** Employees are more likely to feel comfortable speaking up again if they are publicly acknowledged or rewarded for doing so.

- **Acknowledging that leaders sometimes make mistakes.** One head of supervision communicates informally with employees on topics related to sharing views openly, including relating instances in which she has learned from her own mistakes. When leaders acknowledge that they make mistakes, they (1) reinforce that perfection is not the operational standard or expectation and (2) demonstrate that mistakes can provide learning opportunities.

- **Explaining the criteria for advancement and promotions.** When an employee is not promoted as anticipated, the supervisor can demonstrate commitment to the employee's development by describing what the employee needs to focus on developmentally to advance. Failing to share these criteria or explain why decisions surrounding advancement are made erodes trust and invites organizational myths to fill that void.

- **Modeling a willingness to challenge throughout the chain of command.** Employees are more willing to share their views if their leaders demonstrate a willingness to do the same with their supervisors. The academic literature we reviewed notes that a leader's willingness to challenge throughout the chain of command can encourage others to identify and share issues.[43]

- **Designating contrarians.** Designating a team member to play the role of the contrarian during meetings could lead to a more thorough discussion and analysis of the relevant topics. An interviewee stated that a former team leader encouraged open communication by serving as a contrarian despite the leader's actual thoughts on a specific topic and that this approach made employees sift through alternatives to determine their best argument. According to the academic literature we reviewed, appointing a person to raise issues and concerns can result in employees developing the habit of providing feedback.

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43. Knight, "How to Get Your Employees to Speak Up," p. 3.

Processes

- **Reserve Bank internal vetting practices.** Prior to System-level vettings, vetting sessions occur locally at the Reserve Banks.[44] At Reserve Bank–level vetting sessions, team members present their findings and conclusions from targeted examinations or their proposed annual assessment, rating, and supervisory plan to Reserve Bank managers and officers. Vetting sessions provide an opportunity for interaction among the entire supervisory team and the sharing of views. Processes that foster open communication and encourage employees to share their thoughts and opinions during these meetings are essential. Examples of successful Reserve Bank vetting session processes include the following:

    - FRB San Francisco uses an inclusive approach throughout the vetting process. Employees can attend all early vetting sessions in person and can participate by phone as issues percolate to higher levels. FRB San Francisco employees may also attend vetting sessions for firms they are not supervising. This transparent decisionmaking provides frequent opportunities for employees to learn and to share their views.

    - FRB Cleveland's vetting sessions occur regularly, and all employees are invited to participate in person or over the phone. Employees at this Reserve Bank indicated that it benefits their professional development to listen to how decisions are made, and they felt that if they wanted to say something during the vetting session, they could.

    - FRB Richmond holds vetting sessions to discuss the proposed scope of examinations. One FRB Richmond manager explained that vetting an examination's scope can be as important as vetting the results of the examination.

- **Onboarding.** Customizing the onboarding process for each new hire allows new hires to acclimate more quickly, which can boost their comfort level and confidence. Onboarding processes, such as the one at FRB San Francisco, that incorporate regular check-ins with the new hire's manager can assist in building trust between new employees and their immediate supervisor.

- **Supervisory development program.** FRB New York has a formal development program for new hires who have just received their undergraduate or graduate degree. Through this program, new hires gain knowledge in many areas and are assigned a supervisory development program manager and mentor, which aids in their transition to the Reserve Bank. FRB New York's supervisory development program includes concepts such as the importance of speaking up and explains the various channels through which to do so. This type of instruction may help new employees integrate and feel more comfortable sharing their views.

44. Multiple vetting sessions occur among Reserve Bank employees and officers as Reserve Bank teams develop their proposed supervisory plan and annual rating and assessment to present to the LISCC OC or LBO MG. The presentations to the LISCC OC and the LBO MG constitute System-level vettings. The processes referred to in this section of the report are the Reserve Bank–level vetting sessions.

- **Knowledge transfer and mentoring.** Overlapping a new team member with his or her predecessor smooths the handoff of responsibilities and familiarizes the new team member with the assigned firm and its issues. This process increases the comfort level of employees who are transitioning to a new role. Also, we believe that mentoring programs for new and transferring employees help those employees acclimate more quickly and increase their willingness to share their views.

- **Communications training.** FRB New York provides employees with training focused on collaboration and the sharing of information. The training seeks to help employees communicate supervisory insights and conclusions more effectively and may help to remove a potential impediment for the sharing of views.

- **Skip-level meetings.** Leaders at FRB San Francisco, FRB Richmond, and FRB New York hold skip-level meetings, in which employees meet with their manager's manager. These meetings (1) provide for more frequent interaction across various levels of the organizational hierarchy—not just according to the chain of command; (2) demonstrate to employees that their manager's manager is interested in their viewpoint; and (3) help to build relationships with employees. We believe that skip-level meetings may help individuals be more comfortable escalating issues or concerns directly to a senior leader or speaking in front of their leaders in other forums, such as vetting sessions. These meetings also benefit Reserve Bank management by giving senior managers the opportunity to gain greater insight into employee issues and the effectiveness of junior managers in the chain of command.

- **Disposition of findings forms.** FRB Cleveland, FRB Richmond, and FRB San Francisco employ similar disposition form processes (although they refer to the form by different names) to document differences in opinion that occur regarding examination findings. For example, if an employee on a supervisory team identifies an issue that he or she thinks rises to the level of a matter requiring attention for the supervised institution, the employee indicates that issue in the workpapers and on the form. The examiner in charge then decides whether the issue is serious enough to constitute a matter requiring attention and documents on the form his or her reaction to the employee's severity assessment. This approach makes the feedback transparent for the entire team and conveys the rationale associated with the feedback. Tracing the evolution of potential findings in such a transparent manner allows for productive dissent and open resolution on items for which reasonable differences of opinion are healthy and can be anticipated.

Summary

Reserve Banks and individual supervisory teams have implemented several best practices that improve employees' willingness to share; however, those practices are not routinely shared across the System. Further, there likely are additional best practices not identified by our review that could be shared throughout the System. Developing a forum to share these practices would benefit individual supervisory teams and the System's supervision program more broadly.

Recommendations

We recommend that the Director of BS&R

5. Establish a forum for BS&R and the Reserve Banks to identify and exchange best practices that can increase employees' willingness to share views, identify the practices that merit Systemwide adoption, and ensure the Systemwide adoption of those agreed-upon practices.

6. Encourage the Reserve Banks to work with their human resources departments to establish consistent onboarding practices for large financial institution supervision employees that are tailored to new employees' needs and backgrounds, include a team-specific knowledge transfer process, and incorporate formal mentoring to help new employees integrate into the Reserve Banks' supervision activities.

7. Encourage the Reserve Banks to have officers responsible for supervision and managers on large financial institution supervision teams consider measures to foster more frequent interaction among supervision employees outside the chain of command, to build trust within teams and across the supervision program more broadly.

8. Evaluate whether System management and leadership development programs reinforce the importance of the leadership behaviors and processes outlined in Findings 1 and 2. Encourage the developers of the programs to modify the content based on the results of that evaluation, if necessary. Ensure that Reserve Bank and Board leaders in the supervision program participate in those updated programs, as necessary.

Management's Response

In the response to our draft report, the Director of BS&R notes agreement with all of the report's recommendations and highlights instances in which progress has been made to address specific recommendations. For recommendation 5, the Director of BS&R mentions that the System is implementing several changes that should foster positive team dynamics, including numerous ongoing Reserve Banks initiatives. For recommendation 6, the Director of BS&R indicates that BS&R and the Reserve Banks will work with their respective human resources departments to make onboarding more consistent. For recommendations 7 and 8, the Director of BS&R notes that some Reserve Banks have developed training programs to ensure managers develop core skills necessary to manage and lead employees. The Director also indicates that groups of senior officers participate in programs that teach individuals to engage, influence, and act using emotional intelligence. The programs also strive to teach proactive collaboration and inclusion.

OIG Comment

The actions described by the Director of BS&R appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Finding 3: Unique Challenges at FRB New York Heighten the Importance of Employing Effective Managers and Encouraging Employees to Share Their Views

Our interview results reveal that managers and officers, including Central Points of Contact and SSOs who lead the dedicated teams, play a major role in creating the culture that exists on supervision teams. As a result, individual leadership approaches, including a leader's openness to constructive challenge and willingness to solicit employee viewpoints, directly influence how effectively information flows within a supervision team. Hiring, developing, and retaining effective managers is a challenge for all the Reserve Banks that supervise large financial institutions; however, the challenge is particularly acute for FRB New York for several reasons, including the geographic concentration of LISCC firms in New York, the multiple layers of hierarchy, and the fluidity of its supervision teams. These considerations magnify the importance of FRB New York's talent acquisition and development efforts.

FRB New York Has a Large Number of LISCC Firms and Employees

The concentration of LISCC firms headquartered in the Second District requires that FRB New York have more managers on staff than other Reserve Banks. As of December 31, 2015, FRB New York supervised 12 LISCC firms; FRB Boston supervised 2 LISCC firms, and FRB San Francisco and FRB Richmond each supervised one.[45] The size of FRB New York's large financial institution supervision staff is more than triple the headcount of the large financial institution supervision staff of the next-largest Reserve Bank—489 for FRB New York and 134 for the Federal Reserve Bank of Chicago.

Although we acknowledge some of the potential benefits associated with large organizations, such as economies of scale and diversity of thought, we believe that the sheer volume of large financial institution supervision employees at FRB New York (1) magnifies the importance of the Reserve Bank's hiring, development, and retention efforts and (2) increases the potential for greater variability in the effectiveness of the Reserve Bank's managers in building high-performing teams that foster an open sharing of views.

FRB New York's Supervisory Activities Involve Multiple Layers of Management

FRB New York's supervisory activities for large institutions are hierarchical, with multiple management layers. The hierarchical structure at FRB New York and the number of supervisory teams require a large number of qualified managers, which creates many possible points of management failure.

FRB New York's supervision activities for LISCC firms are divided between dedicated supervision team members and risk specialists. Dedicated supervision team members each have a reporting line within their respective chains of command, with the SSO at the top. Within this

45. As explained in the Background section, as of June 2016, FRB New York supervised 10 LISCC firms.

structure, some supervisory team members have two layers of management between them and the SSO. FRB New York also maintains a large risk-supervision function covering various risk areas, such as credit, market, and liquidity. Each risk area has its own management structure that must be staffed with effective leaders.

Some risk specialists are embedded on the supervisory teams, and recently, FRB New York established the position of Enterprise Risk Officer on a few teams to serve as a first- or second-line manager for the embedded risk specialists. In this case, an embedded risk specialist reports to his or her manager within the Enterprise Risk Supervision group. The embedded risk specialist also reports up the chain of command on the dedicated team to the Enterprise Risk Officer, who reports to the SSO.[46] We believe that the number of managers and layers necessary to staff FRB New York's supervisory activities for LISCC and LBO firms increases the importance of hiring, developing, and retaining effective leaders and managers.

FRB New York Has Fluid Supervisory Teams

The staffing of FRB New York supervisory teams is generally more fluid than the teams at other Reserve Banks; employees explained that rotation requirements contribute to this fluidity.[47] This fluid environment magnifies the need for (1) effective team onboarding practices to acclimate new team members to a new team culture and (2) conscious efforts by the team's leadership to build trust with new team members and assess the effect that departures may have on team dynamics. We learned of one supervisory team that had four different SSOs from 2013 to 2015. We heard from interviewees that when SSOs or employees are assigned to another team, employees have to reestablish themselves and build trust with their new SSO. An interviewee noted that "high turnover is painful" at FRB New York.

The Business Activities of FRB New York's Supervised Institutions Are Complex

The business activities of supervised institutions under FRB New York's jurisdiction are generally more complex than those of LISCC firms and LBOs located in other Districts, and a 2009 report encouraged FRB New York to adopt "more aggressive and skeptical relationship management."[48] The report recommended that FRB New York combat its information disadvantages—the situation in which the supervisory team needs information and explanations from the supervised firm—by placing at the supervised institutions senior relationship managers

46. The Enterprise Risk Officer reports to management in Enterprise Risk Supervision.

47. The Reserve Banks rotate members and leaders of supervisory teams on a periodic basis. This periodic rotation helps to reduce the potential for regulatory capture, or the notion that regulatory agency employees tend to align with the regulated entity over time and do not fulfill the regulatory agency's purpose.

48. David Beim and Christopher McCurdy, "Report on Systemic Risk and Bank Supervision," Discussion Draft: August 18, 2009 (rev 1), p. 19. In 2009, David Beim, a former professor of professional practice at Columbia Business School, interviewed a series of senior FRB New York officials and issued a report to FRB New York that focused on lessons learned from the financial crisis and possible enhancements to the Reserve Bank's supervision activities.

who were “stronger and more independent” than their predecessors.[49] The report suggested that each of these senior employees should be “highly experienced, confident and comfortable taking positions with boards and CEOs of the [bank holding companies]. Indeed, he or she must be able to insist on meeting with the CEO or other top officers of the [bank holding companies].”[50] This recommendation contributed to FRB New York’s decision to create the SSO position.

FRB New York’s transition to SSOs may have had some unintended consequences. Specifically, there may have been a greater emphasis on hiring subject-matter experts than on identifying effective managers. The complexity of the underlying activities at many of the supervised institutions in New York requires managers who (1) have subject-matter expertise, (2) can develop high-performing teams, and (3) can successfully interact with senior leaders at the supervised institutions. One senior official we interviewed confirmed that hiring officials are predisposed to favor subject-matter expertise over management capability. A senior official noted that he is well aware of the variability among FRB New York’s managers.

FRB New York Would Benefit From Acknowledging Supervision Employees Who Speak Up

A greater emphasis on recognizing and acknowledging FRB New York supervision teams and individual employees who share their views may help to send clearer signals to employees about the behaviors that are important to senior leaders. Further, recognizing a team’s or a leader’s success in creating an environment that encourages the open sharing of ideas with supervision colleagues may strengthen the retention of key managers who have successfully encouraged employees to feel comfortable speaking up. One senior official indicated that FRB New York does not do enough to celebrate successes. We heard from another manager that a limited range of options exists to recognize employees at FRB New York.

Manager Performance Competencies Do Not Identify Leadership Behaviors That Could Improve Employees’ Willingness to Share Their Views

As part of the effort to hire, develop, and retain effective managers, we think that emphasizing the leadership and management behaviors outlined in Finding 2—such as soliciting employee input; explaining the rationale for decisions; and providing specific, actionable feedback—might prove effective in driving cultural change. We reviewed the performance competencies for FRB New York managers, and they do include an item that measures whether a manager “elicits alternative points of view from others and reconciles.” In our opinion, this results-based measure in isolation may not be effective because it does not identify the specific leadership behaviors necessary to achieve the desired outcome of eliciting alternative points of view. Additionally, we heard that

49. The individuals who work for large financial institutions can be on the cutting edge of new financial products. In some cases, employees at the large financial institutions have to educate the supervisory team with respect to these recent developments. Therefore, the Reserve Bank is at an information disadvantage—the supervisory team members need information and explanations from the employees at the supervised firms in order to do their jobs effectively and understand emerging risks. Ibid., p. 8.

50. Ibid., p. 19.

some managers may not be held accountable for this competency. Interviewees indicated they feel that team leaders need more supervision and accountability for their actions.

The Management Development Program Should Be Broadened

To develop individuals in manager positions, including team leaders on large financial institution teams, FRB New York created the Management Development Program. This nine-month program for high-performing managers seeks to improve managers' skills, such as their ability to delegate and provide feedback. While we were not in a position to assess the effectiveness of the Management Development Program, we learned that some participants felt that it helped with leadership skills, such as handling difficult conversations. Given that individuals in team leadership positions, including SSOs and Deputy Supervisory Officers, have such a profound effect on the culture of the team and in enabling employees to feel comfortable sharing their views, FRB New York should broaden both the Management Development Program curriculum and the target audience to ensure that the Reserve Bank is developing leaders who can build high-performing teams and make their team members feel comfortable sharing their views.

Summary

Although we believe that the challenges described above make FRB New York's need to hire, develop, and retain effective managers particularly acute, these challenges, and the potential for an ineffective manager to detract from team dynamics, exist at every Reserve Bank. Therefore, our recommendations for this finding have broad applicability for all Reserve Banks.

Recommendation

We recommend that the Director of BS&R

9. Encourage the Reserve Banks to work with their human resources departments to

    a. consider the appropriate balance between leadership, management, and team-building skills and technical supervision skills as key competencies when filling supervisory leadership positions.

    b. develop methods to better identify when managers are inhibiting employees' willingness to share views or are exhibiting behaviors that limit open communication and detract from positive team dynamics.

    c. define the circumstances, if any, in which managers who detract from team dynamics or inhibit employees' willingness to share views should be reassigned or counseled.

Management's Response

In the response to our draft report, the Director of BS&R notes agreement with all of the report's recommendations and highlights instances in which progress has been made to address specific recommendations. The Director of BS&R mentions that some Reserve Banks have created training programs to ensure managers develop core skills necessary to manage and lead employees, including talent development, coaching, and feedback. Additionally, the Director indicates that groups of senior officers participate in programs that teach individuals to engage, influence, and act using emotional intelligence. Training programs also exist for hiring managers to help optimize hiring decisions and identify candidates with diverse perspectives.

OIG Comment

The actions described by the Director of BS&R appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.

Finding 4: Employees Need a Formal Mechanism to Report Divergent Views to System Decisionmakers

Although interviewees indicated that System decisionmakers generally obtain the information they need to make key decisions, there is no formal mechanism for reporting a divergent view. We found that there is a lack of clarity about whether decisionmakers want to be informed of close calls during the annual rating and assessment process, such as when a case for multiple rating outcomes exists. As a result, decisionmakers may not be aware of instances in which team members disagreed or there was a close call about the rating. Highlighting close calls and instances of disagreement between team members would afford the decisionmakers the opportunity to focus on issues that may warrant careful consideration and debate. Additionally, although Reserve Banks have various internal channels for raising a variety of employee concerns, employees expressed concerns regarding whether (1) these channels could be used to discuss supervisory-related issues, (2) these channels are truly independent of management, or (3) any action would be taken in response to concerns raised through these channels.

Supervision Leaders and Employees Indicated That Decisionmakers Generally Obtain the Information They Need to Make Key Decisions

Generally, we heard that System decisionmakers obtain the information they need during the process to develop the annual supervisory plan for LISCC firms and LBOs and the process to finalize the annual rating and assessment for those entities.[51] During the planning process and the annual assessment and rating, the Reserve Bank team develops its message internally within the Reserve Bank, in some cases in collaboration with the respective Board analyst. Once Reserve Bank management approves the message, the Central Point of Contact or the SSO, or another senior member of the team, presents that view to the appropriate System committee. Additionally, information is compiled for decisionmakers by formal means, such as through the LISCC Risk Secretariat, the LBO Risk Coordination Group, or the BS&R Large and Foreign Banking Organization Section. Further, Board analysts assigned to cover specific firms or supervisory topics provide information to System decisionmakers.

Pathways to System Decisionmakers Do Not Require Reporting Close Calls or Divergent Views

The pathways for System decisionmakers to obtain material information from Reserve Banks do not include a mechanism for reporting divergent views, even if one or a few members of a supervision team feel strongly that a Reserve Bank–vetted and –approved message is incorrect. Prior to being delivered, the messages that Reserve Bank teams convey to System committees and decisionmakers are thoroughly vetted internally. Supervision teams convey the applicable message to the System committees in the format requested by the committee. Those templates do not prompt the team to note any dissenting views. Thus, when there is a strong disagreement

51. In general, we could not assess the possible effect or materiality of employee views that are not shared.

among team members or one team member has a divergent view, there is no formal mechanism to provide those views to System committee members and other decisionmakers.

Close calls arise when arguments can be made that a firm's governance, risk management, or financial condition satisfies the criteria for more than one possible rating. Although System committees and decisionmakers can clarify whether they want to be informed of close calls during the annual assessment and rating process, they do not require Reserve Bank teams to describe the debate that preceded their recommended rating. As a result, System committee members do not know which ratings were subject to dispute within the Reserve Bank unless they specifically request that information or the team members tell the committee during the discussion.

We noted that during System committee discussions, committee members typically ask questions about proposed rating upgrades or downgrades, because rating changes could signal that the team made a close call. However, in the event that a team considered an upgrade or downgrade but ultimately decided to maintain the previous rating, there would not be any signal to the committee members that the proposed rating was a close call. For example, we learned of an instance in which supervisory team members presented a case for downgrading the earnings subcomponent rating for an institution; however, the SSO disagreed and made a decision to maintain the rating.[52] Highlighting the close calls and the alternatives discussed would focus the committee members' attention on the decisions that are potentially the most controversial and warrant careful consideration and debate.

Establishing Anonymous Channels for Reporting Concerns Does Not Fully Address Employee Reticence

The four Reserve Banks that we visited—FRB Cleveland, FRB New York, FRB Richmond, and FRB San Francisco—have various internal channels through which employees can raise a variety of concerns, in some cases anonymously, such as ombudsman and ethics offices. While these channels can provide an outlet for employees to share their concerns, they do not address the organizational culture issues and the leadership behaviors that may inhibit the sharing of views. According to one *Harvard Business Review* article, allowing employees to remain anonymous underscores the risks of speaking up and reinforces employees' fears.[53] According to the article, anonymous channels suggest, "It's not safe to share your views openly in this organization. So we've created other channels to get the information we need."

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52. According to the interviewee, the SSO apprised the team of the outcome without adequately explaining the rationale for the result.

53. James R. Detert and Ethan R. Burris, "Can Your Employees Really Speak Freely?" *Harvard Business Review* 94, no. 1 (January 2016): 80–87. *Business Source Elite*, EBSCOhost (accessed March 8, 2016).

Some Employees Identified Reservations About Reporting Divergent Views on Supervisory Matters to Ethics Offices, Ombudsmen, and Human Resources

Some employees understand that the Reserve Banks have certain internal channels, such as ethics offices or ombudsmen, for communicating challenges related to divergent views. Nevertheless, those employees are unsure whether the personnel who staff those channels may access confidential supervisory information. FRB Cleveland, which has an ethics officer and ombudsman, indicated that examiners can bring forward supervisory issues, but the examiner needs to consider whether the ethics officer or ombudsman is authorized to access confidential supervisory information. According to this Reserve Bank, if the ethics officer or ombudsman is not authorized to access confidential supervisory information, the examiner may discuss the concern at a high level, and then the ethics officer or ombudsman can intervene to ensure that the matter receives appropriate attention. This escalation process inserts another potential hurdle to an employee speaking up.

At FRB New York, senior officials identified the Reserve Bank's ethics office and ombudsman as potential channels for employees to share their views. Further, one senior official indicated that during a town hall meeting, employees were informed that they could share views with the ethics office, the ombudsman, and human resources regardless of the nature of their concern. This same official noted that the ethics office has since seen an increase in activity. While FRB New York has taken steps to increase awareness of these channels, some interviewees identified reservations, including whether anything would be done in response to their concern or whether these channels are truly independent.

Recommendations

We recommend that the Director of BS&R

10. Define the situations in which System committees and other relevant System decisionmakers should be made aware of close calls on material supervisory issues and debates that arise during the annual assessment and rating process, and provide an opportunity for individuals who disagree with their Reserve Bank's proposed decisions, findings, or ratings to share their divergent view with the appropriate decisionmaking or advisory body.

11. Encourage the Reserve Banks to

    a. increase employees' awareness of internal channels for reporting concerns.

    b. ensure that an independent process is available to facilitate the resolution of employee concerns that cannot be resolved without discussing confidential supervisory information.

Management's Response

In the response to our draft report, the Director of BS&R notes agreement with all of the report's recommendations and highlights instances in which progress has been made to address specific recommendations. For recommendation 10, the Director of BS&R mentions that the System has initiatives underway to improve communication and feedback practices among examiners, senior management, and other decisionmakers. The Director also indicates that the System is considering a range of enhancements to facilitate the sharing of feedback throughout the supervisory process, such as creating a forum to discuss the results of key components of the supervisory process and developing vetting templates to ensure that internal discussions around key decisions and divergent views are documented more effectively. For recommendation 11, the Director explains that the System is implementing a high-priority initiative that will establish a formal channel within the supervisory process for staff to raise divergent views or concerns related to supervision matters. Reserve Banks are also seeking to increase awareness of the many existing methods available to communicate concerns, which in some cases include channels to human resources or ombudsmen.

OIG Comment

The actions described by the Director of BS&R appear to be responsive to our recommendations. We will follow up to ensure that these recommendations are fully addressed.

Appendix A
Objectives, Scope, and Methodology

In November 2014, the Board requested that the OIG conduct a review related to the Board's supervision of bank holding companies with total assets in excess of $50 billion. The Board refers to these bank holding companies as LBOs or LISCC firms. In its request, the Board suggested that the OIG assess the following objectives:

1. the methods for decisionmakers to obtain all material information necessary to ensure that decisions and supervisory conclusions resulting from the examination of LISCC firms and LBOs are appropriate, supported by the record, and consistent with supervisory policies

2. whether there are channels both within and outside the immediate chain of command for decisionmakers to be aware of employees' divergent views about material issues regarding LISCC firms and LBOs

A copy of the Board's request letter is included as appendix E.

To address our objectives, we focused our review on the supervision of LISSC firms and LBOs.[54] Generally, we reviewed activities from January 2012 to December 2015, although we emphasized more recent events because supervision has evolved significantly since the financial crisis. For our first objective, we focused on the planning process and the annual assessment and rating process for LISCC firms and LBOs because these processes represent key decisions in the overall supervisory process based on input from senior Board officers and because these two processes are common between the two portfolios. Although these two processes result in important decisions related to the supervision of LISCC firms and LBOs, there are other important decisionmaking processes for the supervision of LISCC firms and LBOs, such as CCAR, CLAR, and SRP, which we chose not to assess. For our second objective, we sought to assess the culture within teams responsible for supervising large financial institutions and employee comfort levels in sharing their views. As part of our effort to address this objective, we conducted a survey of all System employees and officers responsible for large financial institution supervision.

We selected a nonrandom sample of four Reserve Banks to visit—Cleveland, New York, Richmond, and San Francisco—that reflect the regional and geographic dispersion of the LISCC and LBO portfolios. We selected FRB New York because it supervises more than 70 percent of the LISCC firms and also has responsibility for several LBOs. We selected FRB Richmond and FRB San Francisco because they each supervise one LISCC firm and multiple LBOs. We selected FRB Cleveland because it supervises multiple LBOs.

54. The Board exercises general supervision over the 12 Federal Reserve Banks located across the United States. Each Federal Reserve Bank serves the District in which it is located. These Districts are (1) Boston, (2) New York, (3) Philadelphia, (4) Cleveland, (5) Richmond, (6) Atlanta, (7) Chicago, (8) St. Louis, (9) Minneapolis, (10) Kansas City, (11) Dallas, and (12) San Francisco. Four Reserve Banks supervise one or more LISCC firms: Boston, New York, Richmond, and San Francisco.

For the three Reserve Banks in our sample that supervise LISCC firms, we selected a nonrandom sample of LISCC firm supervisory teams for our evaluation. FRB San Francisco and FRB Richmond each supervise one LISCC firm, so we included the team that supervises these firms in our LISCC sample. FRB New York supervises 12 LISCC firms. We considered the following attributes, among other factors, when selecting our sample of FRB New York LISCC firm teams: the bank holding company's total assets as of March 2015, the size of the supervisory team, the type of financial institution, and any outstanding supervisory enforcement actions. Because we received our survey results from the vendor prior to our FRB New York visit, unlike our visits to our other sample Reserve Banks, we used those results to inform our sample selection for FRB New York. In total, we included 3 LISCC firm teams from FRB New York in our sample.

To determine which LBOs to include in our LBO supervisory team sample, we considered the following attributes, among other factors: the bank holding company's total assets as of March 2015, the size of the supervisory team, ratings, and any outstanding supervisory enforcement actions. We selected a nonrandom sample of teams responsible for one of two LBOs supervised by FRB Richmond, one of three LBOs supervised by FRB San Francisco, one of five LBOs supervised by FRB New York, and two of five LBOs supervised by FRB Cleveland. Additionally, we selected one Foreign Banking Organization supervised by FRB New York.

We requested from the Reserve Banks a list of examiners, including risk specialists, who were assigned to the LISCC firm and LBO supervisory teams in our sample since January 2012. We selected a nonrandom sample of examiners for interviews, considering attributes such as (1) tenure at the Reserve Bank, (2) job title, (3) commissioned or noncommissioned examiner status, and (4) current or noncurrent examiner status on the examination team. We visited the Reserve Banks in our sample from May 2015 to December 2015, and we scheduled conference calls with individuals who were unavailable during our visits. In addition to examiners, we interviewed the head of supervision and other responsible supervision officers at each Reserve Bank in our sample. At the four Reserve Banks in our sample, we interviewed 28 FRB Cleveland employees, 36 FRB San Francisco employees, 41 FRB Richmond employees, and 93 FRB New York employees. In response to our initial request for interviews, 11 FRB New York employees declined to be interviewed; no other Reserve Bank's employees declined to be interviewed by our office. Two of the 11 FRB New York employees reconsidered and ultimately agreed to be interviewed.

During our initial request to interview FRB New York employees, Reserve Bank management retained a private law firm, and each interviewee was given the opportunity to consult with the firm in advance of our interviews. Reserve Bank management informed FRB New York employees that while the Reserve Bank would cover counsel's expenses, the attorney would serve as the employees' personal representative during their interviews with the OIG. As a result, some FRB New York interviewees consulted with the law firm prior to our interviews. No other Reserve Bank we visited retained a private law firm to represent its employees.

As a general matter, our office seeks to conduct direct evaluation interviews with Reserve Bank employees without the presence of counsel. In extremely limited circumstances, however, we may permit the presence of counsel at an evaluation interview. For this evaluation, our office ultimately agreed to conduct one interview in the presence of FRB New York counsel due to ongoing litigation concerning the subject matter of our evaluation, and we agreed to conduct four interviews with external counsel present because we determined that unique circumstances made it impossible to identify potential replacements or substitutes for those specific interviewees. We also attempted to interview a former FRB New York examiner who filed a civil action for wrongful termination against FRB New York, alleging, in part, that the former examiner was retaliated against for reaching the conclusion that a supervised bank holding company did not have a conflicts-of-interest policy. We made multiple attempts to arrange an interview with the former employee by contacting the former employee's counsel; however, our efforts were ultimately unsuccessful. A federal appellate court affirmed the dismissal of the former examiner's civil action.

The LISCC, the LISCC OC, and the LBO MG are System committees tasked with advising on the oversight of LISCC firms and LBOs. The LISCC OC and LBO MG both have subcommittees that support their activities. To understand how the LISCC OC and LBO MG performed their responsibilities, we interviewed several Board and Reserve Bank employees who were members of the LISCC, the LISCC OC, and the LBO MG, including the Chair of the LISCC OC, the Chair of the LISCC OC Vetting Subcommittee, the Chair of the LISCC OC Capital and Performance Secretariat, the Co-chairs of the LBO MG, and the Co-chairs of the LBO Risk Coordination Group. These interviews included 34 Board employees and officers, including Board analysts and members of the LISCC, the LISCC OC, the LBO MG, and their various subcommittees. We also interviewed officers from FRB Atlanta, FRB Boston, and the Federal Reserve Bank of Chicago who were members of either the LISCC, the LISCC OC, or the LBO MG. In general, we analyzed our results to identify broad themes common to the LISCC and LBO portfolios and did not seek to tailor our results to either portfolio.

We reviewed documentation provided by the Board and the four Reserve Banks we visited regarding the supervision of large financial institutions. Board documents we reviewed included the following:

- Supervision and Regulation Letter 04-18, *Bank Holding Company Rating System*
- Supervision and Regulation Letter 12-17, *Consolidated Supervision Framework for Large Financial Institutions*
- Supervision and Regulation Letter 15-7, *Governance Structure of the LISCC Supervisory Program*
- *Bank Holding Company Supervision Manual*

We also reviewed the charters for the LISCC, the LISCC OC, and the LBO MG as well as LISCC and LBO MG templates and other guidance for supervisory plans and annual ratings and assessments. For each of the Reserve Banks in our sample, we reviewed policies and manuals related to their supervision of large financial institutions and their internal vetting processes for the annual supervisory plans and annual ratings and assessments for LISCC firms and LBOs.

We reviewed sample Reserve Bank supervision officer incentive compensation and performance management programs, as well as the results of the engagement surveys conducted at the Board and the Reserve Banks in our sample.

We reviewed academic literature on the issue of employees feeling safe to speak in the workplace, including the following studies and articles:

- James R. Detert and Ethan R. Burris, "Can Your Employees Really Speak Freely?" *Harvard Business Review* 94, no. 1 (January 2016): 80–87. *Business Source Elite*, EBSCOhost (accessed March 8, 2016).

- James R. Detert, Ethan R. Burris, and David A. Harrison, "Debunking Four Myths about Employee Silence," *Harvard Business Review* 88, no. 6 (June 2010): 26. *Business Source Elite*, EBSCOhost (accessed March 8, 2016).

- James R. Detert and Amy C. Edmondson, *Everyday Failures in Organizational Learning: Explaining the High Threshold for Speaking Up at Work*, 2005.

- James R. Detert and Amy C. Edmondson, "Why Employees Are Afraid to Speak," *Harvard Business Review* 85, no. 5 (May 2007): 23–25. *Business Source Elite*, EBSCOhost (accessed December 18, 2015).

- Daniel Goleman, "The Focused Leader," *Harvard Business Review* 91, no. 12 (December 2013): 50–60. *Business Source Elite*, EBSCOhost (accessed March 31, 2016).

- Rebecca Knight, "How to Get Your Employees to Speak Up," *Harvard Business Review* (October 2014). https://hbr.org/2014/10/how-to-get-your-employees-to-speak-up?cm_sp=Article-_-Links-_-Top%20of%20Page%20Recirculation# (accessed January 11, 2016).

- Maura Thomas, "4 Organizational Mistakes that Plague Modern Knowledge Workers," *Harvard Business Review* (May 2016). https://hbr.org/2016/05/4-organizational-mistakes-that-plague-modern-knowledge-workers (accessed May 31, 2016).

In addition to the interviews we conducted of Board and Reserve Bank employees, we developed a survey tool in conjunction with a vendor and distributed that tool to all employees who supervised LISCC firms and LBOs. Among other things, the survey assessed employees' willingness to share their opinions, including divergent views, with their management and with decisionmakers at the Board. In June 2015, we requested that the Reserve Banks provide us with the names of employees and officers who supervised LISCC firms, LBOs, and other firms with assets greater than $50 billion, such as large foreign banking organizations and large savings and loan holding companies. We also requested the names of risk specialists who spent 50 percent or more of their time on large financial institution supervision.[55]

The survey opened on July 29, 2015, and closed on August 14, 2015. We issued the survey to 1,029 employees at 10 Reserve Banks—Atlanta, Boston, Chicago, Cleveland, Dallas, Minneapolis, New York, Philadelphia, Richmond, and San Francisco. A total of 737 examiners, or 72 percent, of the survey population responded to the survey. Based on the overwhelmingly positive survey responses from FRB Minneapolis survey respondents, we decided to conduct phone interviews of a sample of FRB Minneapolis examiners and officers responsible for supervising the sole LBO in that district to better understand those results. In total, we conducted phone interviews of 8 FRB Minneapolis examiners and officers.

55. In April 2016, an FRB Atlanta official informed us that the list of survey recipients that FRB Atlanta had provided to us included risk specialists who spent more than 15 percent of their time on LBOs. We relied on the accuracy of the information provided by the Reserve Bank and chose to include the data because it revealed issues that we believe warranted inclusion in our report.

We conducted our fieldwork from December 2014 through January 2016. We performed our evaluation in accordance with the *Quality Standards for Inspection and Evaluation*, issued in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

Appendix B
Complete List of Survey Questions, Directions, and Definitions

Table B-1: Complete List of Survey Questions, Directions, and Definitions

Directions	
Please answer the following questions with respect to your current job, manager, department, and organization.	
Definitions	
My manager - my immediate supervisor for matters regarding supervision of large bank holding companies	
Federal Reserve Bank management - all managers and officers within my Federal Reserve Bank's supervision department up to and including the head of supervision	
Federal Reserve System decision makers - Federal Reserve System staff, managers, and officers who are key decision makers for the matters I am assigned to work on, but who otherwise work for the Federal Reserve Board or another Federal Reserve Bank	
5-point Likert-scale items	
1	I am proud to work at this Federal Reserve Bank.
2	More often than not, I am very satisfied to work at this Federal Reserve Bank.
3	It is safe to speak up at this Federal Reserve Bank.
4	I have an effective working relationship with my manager.
5	My manager asks for my input.
6	My manager acts on my input.
7	I feel that my thoughts and opinions, including constructive criticisms, are highly valued by my manager.
8	I feel comfortable expressing my thoughts and opinions, including constructive criticisms, in one on one conversations with my manager.
9	I feel comfortable challenging my manager with my thoughts and opinions, including constructive criticisms.
10	There is good teamwork and cooperation within my team.
11	I feel comfortable raising my thoughts and opinions, including constructive criticisms, during team meetings.
12	I feel comfortable challenging my colleagues with my thoughts and opinions, including constructive criticisms.
13	I feel comfortable challenging Federal Reserve System decision makers with my thoughts and opinions, including constructive criticisms.
14	I feel comfortable raising my thoughts and opinions, including constructive criticisms, in the presence of Federal Reserve Bank management.
15	I feel comfortable challenging Federal Reserve Bank management with my thoughts and opinions, including constructive criticisms.
16	I feel that my thoughts and opinions, including constructive criticisms, are highly valued by Federal Reserve Bank management.
17	Federal Reserve Bank management has communicated the importance and their commitment to receiving thoughts and opinions, including constructive criticisms, from supervision staff.

5-point Likert-scale items—continued	
18	Federal Reserve Bank management has adequately addressed thoughts and opinions, including constructive criticisms, that I have raised in the past.
19	When making supervision decisions, Federal Reserve Bank management is open to a variety of opinions and employee input.
20	Federal Reserve Bank management encourages employees to share their thoughts and opinions, including constructive criticisms, regarding supervision matters.
21	Federal Reserve Bank management communicates the rationale for supervision decisions to staff.
22	Federal Reserve Bank management communicates honestly.
23	I trust Federal Reserve Bank management.
24	There are adequate channels for supervision staff to share their thoughts and opinions, including constructive criticisms, with Federal Reserve Bank management.
25	There are adequate channels for supervision staff to share their thoughts and opinions, including constructive criticisms, with Federal Reserve System decision makers.
26	I feel comfortable using the existing channels to raise my thoughts and opinions, including constructive criticisms.
27	The organization would be more effective if it were easier to share thoughts and opinions, including constructive criticisms.
28	I have sufficient time to form thoughts and opinions on supervision matters.
29	Where there is a close call on a supervision matter, we evaluate the range of options during Federal Reserve Bank vetting sessions.
30	Where there is a close call on a supervision matter, we discuss the range of options with Federal Reserve System decision makers.
37	The LISCC OC establishes clear expectations for participants to share their thoughts and opinions, including constructive criticisms, regarding supervisory matters.
38	The LISCC OC adequately considers supervisory staff's thoughts and opinions, including constructive criticisms, regarding supervisory matters.
39	I am comfortable sharing my thoughts and opinions, including constructive criticisms, with the LISCC OC.
40	I believe that real change will come as a result of this survey.
41	I feel comfortable completing this survey and confident that my anonymity will be protected.
43	The LBOMG establishes clear expectations for participants to share their thoughts and opinions, including constructive criticisms, regarding supervisory matters.
44	The LBOMG adequately considers supervisory staff's thoughts and opinions, including constructive criticisms, regarding supervisory matters.
45	I am comfortable sharing my thoughts and opinions, including constructive criticisms, with the LBOMG.

Pick-list items	
31	Which of the following items is the biggest obstacle to sharing your thoughts and opinions, including constructive criticisms, with Federal Reserve Bank management?
a	I am comfortable sharing my thoughts and opinions with Federal Reserve Bank management.
b	I am not comfortable sharing my thoughts and opinions with Federal Reserve Bank management for fear of retaliation.
c	I am not comfortable sharing my thoughts and opinions with Federal Reserve Bank management because I don't think that they will act on my input.
d	I am not comfortable sharing my thoughts and opinions with Federal Reserve Bank management because I am unsure how to communicate them.
e	I am not comfortable sharing my thoughts and opinions with Federal Reserve Bank management for fear of not being seen as a team player.
f	I am not comfortable sharing my thoughts and opinions with Federal Reserve Bank management until I have complete confidence in my viewpoint.
33	Which of the following items is the biggest obstacle to sharing your thoughts and opinions, including constructive criticisms, with Federal Reserve System decision makers?
a	I am comfortable sharing my thoughts and opinions with Federal Reserve System decision makers.
b	I am not comfortable sharing my thoughts and opinions with other decision makers for fear of retaliation.
c	I am not comfortable sharing my thoughts and opinions with Federal Reserve System decision makers because I don't think that they will act on my input.
d	I am not comfortable sharing my thoughts and opinions with Federal Reserve System decision makers because I am unsure how to communicate them.
e	I am not comfortable sharing my thoughts and opinions with Federal Reserve System decision makers for fear of not being seen as a team player.
f	I am not comfortable my thoughts and opinions with Federal Reserve System decision makers until I have complete confidence in my viewpoint.
35	Choose the item that would most improve your willingness to share your thoughts and opinions, including constructive criticisms, with Federal Reserve Bank management.
a	A better relationship with my manager.
b	A better relationship with my colleagues.
c	A better relationship with Federal Reserve Bank management.
d	A better relationship with Federal Reserve System decision makers.
e	A system allowing for the anonymous sharing of thoughts and opinions.
f	Leaders actively seeking my thoughts and opinions on problems and improvement opportunities.
g	Clearer expectations from Federal Reserve Bank management regarding the importance of sharing thoughts and opinions, including constructive criticisms.
h	Better channels for expressing thoughts and opinions.

Optional write-in items	
32	What additional obstacles exist to sharing your thoughts and opinions, including constructive criticisms, with Federal Reserve Bank management?
34	What additional obstacles exist to sharing your thoughts and opinions, including constructive criticisms, with Federal Reserve System decision makers?
46	Is there anything else you would like to tell us about safe to speak and sharing your thoughts and opinions, including constructive criticisms, in your Federal Reserve Bank or with other Federal Reserve System decision makers?

Source: OIG survey.

Appendix C
Survey Response Rates

Table C-1: Survey Response Rates

Reserve Bank	Number of recipients	Number of respondents	Response rate (percent)
Atlanta	45	36	80
Boston	92	64	70
Chicago	134	98	73
Cleveland	74	60	81
Dallas	15	12	80
Minneapolis	14	13	93
New York	489	318	65
Philadelphia	11	11	100
Richmond	75	53	71
San Francisco	80	72	90
Total	**1,029**	**737**	**72**

Source: OIG analysis of OIG survey results.

Appendix D
Selected Survey Responses for Reserve Bank Respondents Compared to the Reserve Bank Average

Table D-1: Selected Survey Responses for Reserve Bank Respondents Compared to the Reserve Bank Average

Survey question	Atlanta	Boston	Chicago	Cleveland	Dallas	Minneapolis	New York	Philadelphia	Richmond	San Francisco	Reserve Bank average
It is safe to speak up at this Federal Reserve Bank	66.7	65.6	82.7	76.7	75.0	100.0	67.0	90.9	67.9	76.4	71.8
I feel comfortable raising my thoughts and opinions, including constructive criticism, in the presence of Federal Reserve Bank management.	61.1	54.7	67.3	60.0	41.7	92.3	59.4	72.7	66.0	69.4	62.1
When making supervision decisions, Federal Reserve Bank management is open to a variety of opinions and employee input.	55.6	56.3	73.5	65.0	66.7	92.3	62.6	81.8	58.5	70.8	64.7
Federal Reserve Bank management encourages employees to share their thoughts and opinions, including constructive criticisms, regarding supervision matters.	63.9	62.5	85.7	81.7	66.7	92.3	72.3	90.9	86.8	80.6	76.0
Federal Reserve Bank management communicates the rationale for supervision decisions to staff.	55.6	56.3	66.3	58.3	58.3	92.3	52.2	54.5	62.3	70.8	58.5
Federal Reserve Bank management communicates honestly.	52.8	54.7	70.4	53.3	58.3	92.3	55.3	72.7	56.6	69.4	59.4

Source: OIG analysis of OIG survey results.

Appendix E
Request Letter From the Board

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

November 17, 2014

The Honorable Mark Bialek
Inspector General for the
Board of Governors of the Federal Reserve System
and the Consumer Financial Protection Bureau
Washington, D.C. 20551

Dear Mr. Bialek:

After consultation with the Chair and other Board members, we respectfully request that the Office of the Inspector General conduct a review of two matters described below related to the manner in which the Federal Reserve System conducts examinations of large banking organizations (i.e., bank holding companies with total assets in excess of $50 billion).

As you know, the goal of examinations of banking organizations is to understand and be well informed about the policies, procedures, risks, condition and compliance efforts of these organizations, and to ensure that these organizations comply with applicable laws, regulations and policies established by the Federal Reserve Board. To help accomplish this goal, a dedicated supervisory team consisting of examiners and specialists is assigned to each large banking organization. These teams bring together professionals with different and often specialized skills, specific assigned responsibilities, and multiple levels of expertise and experience. These teams both contribute to horizontal supervisory examinations across a number of firms and conduct examinations at a single firm.

100 YEARS
FEDERAL RESERVE SYSTEM

Decision-makers must have access to complete information and to the informed views of members of the examination team in order to reach appropriate decisions and supervisory conclusions regarding the examination of large banking organizations. Given the framework for examination of large banking organizations and the goals of supervision described above, we request that the Office of the Inspector General conduct a review into two important questions:

1) Are there adequate methods for decision-makers to obtain all material information necessary to ensure that decisions and supervisory conclusions resulting from the examination of large banking organizations are appropriate, supported by the record, and consistent with supervisory policies?

2) Are there channels, both within and outside the immediate chain of command, for decision-makers to be aware of divergent views about material issues regarding large banking organizations addressed by the members of the dedicated examination team?

We are available to discuss this request at your convenience.

Sincerely,

Scott G. Alvarez
General Counsel

Michael S. Gibson, Director
Division of Banking Supervision
and Regulation

Appendix F
Management's Response

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

November 4, 2016

Mr. Mark Bialek
Inspector General
Board of Governors
of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mark:

Thank you for the opportunity to comment on your draft report, *Opportunities Exist to Increase Employees' Willingness to Share Their Views Regarding Large Financial Institution Supervision Activities*. We appreciate the effort that the Office of Inspector General (OIG) has put into this report and the recommendations it has provided for improving our supervisory processes.

We agree with the overarching goal of the report, to improve all employees' willingness to share their views on supervisory matters, which can contribute to our mission of promoting a safe, sound, and stable banking and financial system that supports the growth and stability of the U.S. economy. The Federal Reserve System is currently taking steps to support that goal, including implementing a high-priority initiative (HPI), which began in the fourth quarter of 2015 and is dedicated to enhancing the communication of divergent views. The HPI encourages constructive dialogue and rigorous debate to support supervisory decision-making. A primary objective of the HPI is to identify and exchange best practices that encourage the sharing of, and response to, divergent views on supervisory matters from all parts of the Federal Reserve's supervision function.

The HPI is developing a formal independent channel outside of the normal management channel for supervisory staff to raise divergent views or concerns related to supervision matters. The independent channel will be designed to ensure due consideration is given to these views and that these matters are handled appropriately across the System and there is timely feedback and follow-up. We believe the HPI is an important means of ensuring that policies and practices encouraging the exchange of differing views on all supervisory matters are developed and implemented across the Federal Reserve System.

The report makes 11 recommendations designed to increase employees' willingness to share their views and to improve information flows to decision makers regarding the supervision of large financial institutions. We agree with all of the recommendations and have already adopted some and are implementing others. We have grouped our responses into four themes: (1) fostering more effective team dynamics; (2) enhancing leadership development; (3) improving communication; and (4) aligning human resource practices. While our responses are organized by theme, we recognize the need to address each recommendation individually.

1. **Fostering More Effective Team Dynamics** (Recommendations 1, 4, and 5)

We agree with the recommendations and are already implementing several changes that should foster positive team dynamics, collaboration, and the sharing of information. As the report states, employees' willingness to share their views is highly dependent on the leadership and management approaches of individuals in leadership positions on supervisory teams and in System leadership positions. As we previously discussed, the System-wide HPI will help to address these concerns by setting expectations for common practices that foster the exchange of divergent views.

There are a number of initiatives underway at various Reserve Banks that will help address concerns about team dynamics identified in the report. Examples include efforts to (1) integrate multiple views into decision-making processes and output, (2) conduct a full census employee survey to measure whether employees feel they are empowered to share their ideas, (3) transform workspaces into layouts that enable a more collaborative and transparent working environment, (4) implement a variety of opportunities, including town hall forums, small group sessions, skip-level meetings and one-on-one discussions, for staff at all levels to ask questions of or raise concerns to Reserve Bank Supervision senior officers, and (5) recognize and incorporate the benefits of diversity of thought and perspective into the development of supervisory judgments.

2. **Enhancing Leadership Development** (Recommendations 7, 8, and 9.a)

We agree with the recommendations and the need to evaluate existing leadership and management development programs to ensure these programs reinforce the need for leaders to foster an environment in which divergent views are openly shared. In addition, we recognize the need to have infrastructure and processes (such as performance criteria, feedback, compensation, and recognition) that support and facilitate these behaviors.

Some Reserve Banks have already developed training programs to ensure managers develop core skills necessary to manage and lead employees, including talent development, coaching, and feedback. The programs are often mandatory and include guidance to managers about listening to and communicating with their direct reports and about supporting staff development. Additionally, cohorts of senior officers participate in programs that teach individuals to engage, influence, and act using emotional intelligence. The programs also strive to teach proactive collaboration and inclusion; encourage leaders to seek, value, and embrace differing points of view; and help them better balance the dual accountability of being a contributor and a leader. Training programs also exist for hiring managers to help optimize hiring decisions and identify candidates with diverse perspectives.

3. **Improving Communication** (Recommendations 3, 9.b, 9.c, 10, and 11)

We agree with the recommendations and have initiatives underway to improve communication and feedback practices among examiners, senior management, and other decision-makers. The System is actively considering a range of enhancements that are intended to facilitate the sharing of feedback throughout the supervisory process. These enhancements include (1) holding debriefing meetings throughout examinations and at the conclusion of coordinated or horizontal reviews, (2) creating a forum to discuss the results of key components of the supervisory process and to provide feedback and guidance to examiners, (3) establishing more formalized frameworks around key aspects of the supervisory process so that activities are captured in a consistent manner, and (4) developing vetting templates to ensure that internal discussions around key decisions and divergent views are being properly recorded.

As noted above, the System HPI will establish a formal channel within the supervisory process for staff to raise divergent views or concerns related to supervision matters. Reserve Banks are also undertaking efforts to ensure employees are aware of the many existing ways within the Banks to communicate concerns, which in some cases include channels to human resources functions or an Ombudsman.

4. Aligning Human Resource Practices (Recommendations 2 and 6)

We agree with the recommendations and will work with our respective human resources departments to address the concerns. Currently, many Reserve Banks are in the process of updating their own performance assessment processes and some of these updates include (1) adding more frequent performance and development discussions to promote ongoing feedback between managers and employees, (2) implementing development plans for all employees to ensure they understand the growth opportunities available to them and the actions needed to succeed, and (3) developing 360-degree feedback processes to ensure feedback is being received from multiple sources, including peers and supervisors.

We also agree with the need for establishing consistent onboarding practices to ensure proper integration and training of staff. The Reserve Banks have, or are in the process of developing, more formalized onboarding processes, including developing mandatory orientation programs for new hires that will allow them to develop a supervisory perspective that complements their subject matter expertise. Further, Reserve Banks have enhanced their knowledge transfer processes by introducing transition management tools that facilitate the exchange of work and knowledge between employees transitioning into and out of supervisory teams.

Thank you for the opportunity to provide comments on this report. We are committed to addressing the recommendations and taking the steps necessary to foster an open exchange of views across all levels of the supervisory process.

Regards,

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